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THE ROLE OF INSTITUTIONAL INNOVATIONS IN THE  
ECONOMIC DEVELOPMENT OF HONDURAS \*

by

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# THE ROLE OF INSTITUTIONAL INNOVATIONS IN THE ECONOMIC DEVELOPMENT OF HONDURAS

Benjamín Villanueva

## INTRODUCTION

The main focus of this research is an analysis of the historical development of institutions in Honduras from colonial times to the present. The paper is based on the belief that the most strategic factors in economic development rest in a full understanding of the way institutions have developed, in an evaluation of the historical role that these institutions have played, and in the operational analysis of the way these institutions actually work. This allows us to fit the existing institutions in historical perspective and to relate some of the most important single institutional arrangements to the wider field of relationships between the state and the economy. In essence this is a study of pragmatic action as contrasted to ideological comparisons between different institutional systems.

Methodologically, the definition of institutions used throughout the study is that of "collective action in restraint, liberation, and expansion of individual action"<sup>1</sup> with some attempt having been made at emphasizing, for a particular institution, the predominant feature according to the definition.

Even though this definition conceivably includes all institutional systems, we chose those institutions which seemed to be more significant from the economic development standpoint; i.e., modern corporate entities in the agricultural and mining sectors, land tenure institutions in traditional subsistence agriculture, and autonomous government institutions oriented to the agricultural sector.

A study of institutions in the agricultural sector of Honduras was assumed to provide some useful insights into public policy and to promote further understanding of the ways in which public policy could be made more effective. Basically, a conception of public policy is used that refers to the increase in the range of objective opportunities freely available to individuals, and to more

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<sup>1</sup> John R. Commons, Institutional Economics (Madison: The University of Wisconsin Press, 1961), pp. 69-74.

participation in the political and economic system by the people currently excluded. This point of view assumes that the creation of objective opportunities, given the world's actual stock of knowledge, is a real possibility. To create them and to introduce them into the vicious circles and stagnant equilibrium of traditional subsistence agriculture is our most pressing task.

This study is divided into four parts. Part I analyses the economic basis for the development of "cooperative" government in Honduras. Part II examines the consequences of this particular set of relationships between the state and the economy, in the development of the agricultural sector. Part III is a brief examination of government policies in the twentieth century and how they are related to historical developments. Lastly, Part IV summarizes the uses of the modern corporation as a possible instrument of public policy to increase the range of objective opportunities so urgently needed in the Honduran economy.

## I. THE ECONOMIC BASIS OF CORPORATIVE GOVERNMENT IN HONDURAS

Among the powers of the state deriving from its position as a focus of consent and authority in the society, and beyond the use of its powers as participant in the economy, the state may attempt to apply directly political techniques to the mobilization of domestic productivity.<sup>2</sup> These processes and activities are characterized as "corporatistic" and although there are a wide variety of corporate states with identifiable differences in the relationships of the collective organizations and interest groups with the state, this term here represents the type of activities which developed among the interest groups in Honduras and the organized state.

### The Corporate Structure of Colonial Enterprise

Private enterprise and its underlying functional projections into the economic system was the basic matrix within which the Spanish discovery and conquest was accomplished. Considerable evidence supports the hypothesis that the task of the discovery, conquest, and colonization of America, was in essence a process

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<sup>2</sup>This definition is derived from Charles W. Anderson, Politics and Economic Change in Latin America (Princeton, New Jersey: D. Van Nostrand Company, Inc., 1967), pp. 55 and 60.

of individual initiative.<sup>3</sup> State intervention in this adventure-some and risky enterprise was greatly circumscribed by Spain's financial position, almost completely eroded by the religious and imperialistic wars which Spain had decided to maintain in Europe.<sup>4</sup>

The fundamental institutional instrument for the attainment of the conquest-colonization objectives was the equivalent of a corporate franchise, the capitulación. The expeditions to America were financed by merchants and traders after a group of entrepreneurial individuals had gathered together and the corporate franchise had been obtained from the Crown. The discovery-conquest franchises were considered as truly juridical and negotiable instruments, and before the business venture based on them was undertaken, they were generally subject to exchange, sale, and credit collateral use. They performed in effect, the role of a corporate contract.<sup>5</sup>

The corporate structure of this type of enterprise becomes apparent when we look into the details of the contractual arrangement between the state and the entrepreneur. The state conceded the privilege of maximum advantage from the discovery, conquest, and colonization enterprises to the entrepreneurial team. Yet the state preserved sovereign and proprietary rights in newly discovered lands and it also participated in the benefits of the enterprise, receiving a specific share ranging from a low of 10 percent to a high of 50 percent.<sup>6</sup>

The Spanish colonization corporation resulted from two economic necessities: first and foremost, the indispensable requirement to increase the fiscal resources of the Spanish state; and second, the profit-motives of the entrepreneurial team. Fundamental to this type of capital organization--in which both

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<sup>3</sup>One of the most distinguished scholars in the study of the Spanish colonial period has carefully documented this assertion. See José María Ots-Capdequí, Instituciones (España: Salvat Editores, S.A., 1959).

<sup>4</sup>Ibid., p. 6.

<sup>5</sup>See José María Ots-Capdequí, El Régimen de la Tierra en la América Española Durante el Período Colonial (Ciudad Trujillo, República Dominicana: Editora Montalvo, 1946). And for an analytical study of this corporate contract, see his Instituciones, op. cit., pp. 4-82.

<sup>6</sup>Ots-Capdequí, Instituciones, op. cit., p. 13.

political and economic objectives were intermingled--was the limited liability of the individual participant and the general perpetuity of the enterprise.

Thus this particular association between the state--which was the owner of all discovered land--and the entrepreneurial team--which was the authorized user and exploiter of the lands of the state--became consolidated into that great enterprise of conquest and colonization during the late years of the fifteenth and the early years of the sixteenth century. This association accounts for the peculiar effects which the Spanish colonial period would exert on the course of Honduran history.

### Productive Organization: The Nexus Between the State and the Economy

The stated objectives of these private ventures in the colonization activities in Honduras were conditioned in a decisive way by the profit motive. Profit maximization started in Honduras as a principle of organization of human and natural resources, with the Spanish colonizers as the corporate managers.<sup>7</sup>

The basic institutional instrument for the attainment of the colonization objectives was that deeply controversial institution known as the encomienda system. This politico-economic system will not be described here since the reader may refer to the abundant literature on the subject.<sup>8</sup>

Even though both economic and political objectives were pursued by the encomienda system, it is now patently evident that economic objectives predominated throughout the whole colonial period. What has been characterized as mercantilism was "nothing other than state formation (staatsbildung)--but not state formation in itself but simultaneously the building up of state and the economic system--state formation in the modern sense of the word, to make the community that forms the state into an economic society

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<sup>7</sup>For our purposes, the colonial period of Honduras can be divided in two periods: the discovery and conquest activities, which lasted from 1502 to about 1544; and the period of organization and consolidation of the colonial enterprises, which goes from 1544 to about 1821.

<sup>8</sup>See for instance, Silvio Zavala, New Viewpoints on the Spanish Colonization of America (Philadelphia: University of Pennsylvania Press, 1943); and Lesley B. Simpson, The Encomienda in New Spain (California: University of California Press, 1950).

and so to give it increased importance.<sup>9</sup> However, the separation of the Spanish entrepreneurs--and later the whole Spanish bureaucratic government--as the sole structural elements forming the state, very significantly affected the kind of economic system which developed. Labor exploitation and the concentration of wealth and economic and political power into a few hands was one of the most important consequences of the colonial period.<sup>10</sup>

The land of an encomienda unit was not granted to the encomendero; the feudal lord was only the economic and political manager and the largest beneficiary of the enterprise. It was therefore to his own interest and to the interests of the powers at the center to get as much as was possible out of the encomienda system. The obvious device for accomplishing this objective was slavery, or labor exploitation through the compelling instruments of force and economic sanctions.

Eventually, the small privileged minority of colonial times in Honduras came to see private ownership of large tracts of land, rather than management of the encomienda system, as the basis for their own survival. The best located lands were soon concentrated in a few hands, while the peasant culture expanded to the mountains and less fertile lands in a process which started the present traditional subsistence sector of agriculture.

#### Cooperative Government and Concessionary Policies

The newly emerging landowning class was in almost continuous friction with the Spanish aristocracy by the beginning of the nineteenth century. Private interest is a powerful motivating

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<sup>9</sup>Gustav Schmöller, as quoted by Eli F. Heckcher in Mercantilism (London: George Allen and Unwin Ltd., 1962), p. 28.

<sup>10</sup>By the third quarter of the sixteenth century the number of Spaniards in Honduras was estimated at between 375 and 525, of which, from 125 to 175 were feudal lords in charge of the encomienda system. The "rest" of the population consisted of about 225 Indian towns, comprising a total of about 17,000 heads of family, tributarlos, the individuals who were in this way classified for the payment of the colonial taxes. For references to these figures, see Carl L. Johannessen, Savannas of Interior Honduras (Berkeley and Los Angeles: University of California Press, 1963).

force, and if it is backed by effective political and economic power, then it becomes an excellent protective instrument for keeping at a minimum encroachment by the state on private affairs. Livestock exploitation provided the broad economic foundations of power to the emergent Honduran aristocracy. It also provided the political power which accounted for the smooth transition of the governmental apparatus to the emerging Honduras state in the middle of the nineteenth century.<sup>11</sup>

This process of identification between the state and the most important elements in the economy--from the point of view of land ownership--also identified the locus of economic power as residing in the state. It is precisely this identification which has accounted for the turbulent political history of Honduras. Abuses of political power, and self interest in the attainment of economic power through the machinery of the state, can be identified as causal factors in the partisan struggles for power in almost all of the history of Honduras as an independent state.<sup>12</sup>

In summary, "private ownership" of government determined the further economic development policies of the Honduran state. It is doubtful whether or not these policies could be strictly categorized as laissez-faire, since governmental efforts were specifically directed to benefit, in one way or another, the minority who held power within the governmental apparatus. Such actions can be more clearly recognized by examining the agrarian laws and decrees which were enacted from the third quarter of the nineteenth century to about 1960.<sup>13</sup> Similar actions can also be

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<sup>11</sup>The orthodox view holds that the Honduran independence movement was the result of similar historical developments in France, the United States, and other South American countries. However, the historical research of one of Honduras' intellectuals has disclosed the intimate relationship which existed between the ideologists of independence and revenues derived from private property in land. See Filander Días-Chávez, La Revolución Morazanista (Tegucigalpa, D.C., Honduras, 1965).

<sup>12</sup>An exhaustive account of this partisan fight for control of the state can be found in Antonio Batres Jáurequi, La América Central Ante la Historia (Guatemala, D.C., Guatemala, 1949); and also in William S. Stokes, Honduras: A Case Study in Government (Madison, Wisconsin: The University of Wisconsin Press, 1950), pp. 206-227.

<sup>13</sup>Basic sources for analysis of the content of these laws can be found in Antonio R. Vallejo, Guía de Agrimensores, Recopilación de Leyes Agrarias (Tegucigalpa, D.C., Honduras, 1911).

Identified in the concessionary land policies which were pursued as a means to attract foreign capital to the country. These policies consisted of the concession of large tracts of land provided that certain requirements were fulfilled by the recipients. For example, foreign corporations acquired large amounts of land under the condition that a railroad be built to the capital city. Similarly, the Honduran state almost went bankrupt pursuing policies of railroad construction by foreign corporations.<sup>14</sup>

### The Corporate Structure of Export Enterprise

Honduras' economic development has basically depended on primary export products. In 1889, the value of silver exports amounted to 54.2 percent of total export value, banana exports amounted to about 24 percent; at the present time these values have changed to about 3.5 percent and 45 percent respectively.<sup>15</sup>

The conception of the corporate state--implicit in the state's economic policies--and the further necessity for both capital and managerial resources, facilitated the concession of large amounts of land to both American and British mining and fruit corporations. The practical "invasion" of the export sector by the modern foreign corporations, which took place from the middle of the nineteenth century up to and including the present time, can be ascribed to the high profitability of export production and to the particular way in which economic development through corporate organizations was envisaged by the Honduran government.

Presently, one of the most important mining corporations in Honduras is the New York and Honduras Rosario Mining Company. From 1882 to 1916, this corporation produced about \$23 million worth of bullion and paid 205 dividends to its foreign stockholders amounting to \$4.19 million.<sup>16</sup>

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<sup>14</sup>For a good account of the consequences of these policies, see Frederic M. Halsey, Investments in Latin America (U.S. Bureau of Commerce, Washington, D.C.: Government Printing Office, 1918), pp. 420-423.

<sup>15</sup>See Antonio R. Vallejo, Primer Anuario Estadístico (Tegucigalpa, Honduras, 1889); and Naciones Unidas, El Desarrollo Económico de Honduras, E/CN.12/549 (Diciembre 1960).

<sup>16</sup>For more information on the New York and Honduras Rosario Mining Co., see F.M. Halsey, op. cit., p. 426; and for a description of its present condition see The Value Line Investment Survey (New York: Arnold Bernhard and Co., December 8, 1967).

Two of the most important institutional structures in Honduras are in the banana sector: the United Fruit Company--now listed in the New York Stock Exchange; and the Standard Fruit and Steamship Company--traded over the counter in the United States.

As an institutional innovation, the modern corporation has played a decisive role in changing conventional conceptions of property and "free enterprise." Some understanding of the new conceptions is very important in studying alternative policy proposals in the export sector.<sup>17</sup>

In terms of institutional innovations in the export sector, we are mainly interested here in what Berle and Means call the beneficial-ownership of the export corporations as a means to energize the process of domestic economic development. Their concept of "beneficial ownership" in the modern corporation refers to a shift in the physical control of the instruments of production. Control has been surrendered in ever growing degree to centralized groups who manage property in bulk, resulting in the dissolution of the old atom of ownership into its component parts, control and beneficial ownership.

Table I shows the United Fruit Company, operating in Honduras, Guatemala, Costa Rica, Panamá, Ecuador, and Colombia, with sales spread about half in the United States and half in Western Europe, as a potential economic instrument for the pursuance of a public purpose in the countries affected.

On the average, the United Fruit Company has paid dividends amounting to \$2.92 per share per year, and the actual number of common shares on March 31, 1967 was 7,742,210. For the years illustrated in Table I, the average operating profit amounted to \$97.3 million per year; the average total yearly revenue amounted to \$342 million and the average yearly working capital amounted to \$47.4 million. Public revenues in Honduras generated by income and export taxes from the banana corporations have fluctuated from a high of \$2.1 million in 1953 to a low of \$0.15 million in 1961,

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<sup>17</sup>Space does not allow a really complete examination of these conceptions. See Adolf A. Berle and Gardiner C. Means, The Modern Corporation and Private Property (New York: The MacMillan Company, 1932); Adolf A. Berle, Power Without Property (New York: Harcourt Brace and Company, 1959); and John R. Commons, Legal Foundations of Capitalism (Madison, Wisconsin: The University of Wisconsin Press, 1961).

Table I. United Fruit Company, Per Share Statistics. Total Operating Profit, Revenues, and Working Capital, 1927-66.

Year	Average Price (per share)	Earnings (per share)	Dividends (per share)	Yield (per share)
1927	\$ 131.75	\$ 7.84	\$ 5.50	4.17%
1928	139.75	8.24	5.50	3.94
1929	128.75	6.78	4.00	3.11
1930	75.75	4.24	4.00	5.28
1931	42.62	2.32	4.00	9.38
1932	21.36	1.97	2.50	11.73
1933	45.62	3.18	2.00	4.38
1934	68.00	4.15	2.75	4.04
1935	76.62	3.56	3.00	3.91
1936	76.75	4.88	4.25	5.54
1937	69.36	4.08	4.00	5.77
1938	58.75	3.55	3.00	5.11
1939	78.75	4.87	4.00	5.08
1940	72.84	5.12	4.00	5.48
	<u>Operating Profit<sup>a</sup></u>			<u>Working Capital<sup>c</sup></u>
1950	\$ 115.00	\$ 7.53	\$ 4.50	\$ 62.3
1951	101.00	5.79	4.50	54.5
1952	81.00	4.32	4.00	32.7
1953	88.00	5.07	3.50	31.8
1954	100.00	3.58	3.00	55.4
1955	99.00	3.82	3.00	62.2

(continued)

Table I. (Continued)

Year	Total Revenues <sup>d</sup>	Earnings (per share)	Dividends (per share)	Total Working Capital <sup>c</sup>
1957	\$ 342.00	\$ 3.59	\$ 3.00	\$ 44.6
1958	324.00	2.60	3.00	47.5
1959	313.00	1.39	1.50	43.9
1960	304.00	0.25	0.63	38.3
1961	311.00	1.03	0.50	50.6
				<u>Price Range</u>
1963	\$ 330.00	\$ 0.06	\$ 0.60	\$ 20.00 - 30.12
1964	333.00	0.09	0.60	16.84 - 24.36
1965	382.00	2.17	0.15	16.50 - 33.36
1966	440.00	3.13	0.75	24.25 - 36.75

Number of common shares by March 31, 1967: 7,742,210. Annual growth rates: Revenues--7.3%; Earnings--35.4%; Dividends--5.9%.

Source: Moody's Stock Survey, August 19, 1940; March 14, 1955; March 26, 1962; and April 17, 1967.

<sup>a</sup> On the basis of yearly average market price.

<sup>b</sup> Operating profit (in millions of U.S. dollars) is the amount of gross revenues remaining after all costs and expenses other than those of a nonoperating nature, such as interest, minority provisions, and income taxes.

<sup>c</sup> Working capital (in millions of U.S. dollars) is the excess of current assets over current liabilities.

<sup>d</sup> This figure is the total amount (in millions of U.S. dollars) of gross revenues, gross sales, or equivalent item of income available.

corresponding to 8.6 percent and 0.4 percent of total public revenues, respectively.<sup>18</sup>

### Center and Periphery In International Trade

From a historical context it would seem that at least for the cases of bananas and silver--and also for the special corporate relationship between the state and the economy in coffee exports--the corporate form of capital organization has been one of the most important factors determining the effectiveness of export production in Honduras.

However, since these corporate enterprises are oriented to the markets at the center--and since laissez-faire development policy rests on a minimum of state intervention in the economy--export production naturally became an almost self-sufficient sector, isolated from the domestic economy of the country. Minimization of costs and a steady increase in market demands were the two basic pursuits of these enterprises for long-run profit maximization. The first brought about a cheap labor policy from the plantation complex and the importation of capital equipment endowed with cost-decreasing characteristics. The second originated a self-sufficient enclave within the national economy whose only concern was the produce and capital markets in the developed centers.

Since most of the export business of the corporate enterprises originated in the United States and other highly industrialized countries, it is plausible to maintain that the Prebisch argument of center and periphery has an added institutional content.<sup>19</sup> The

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<sup>18</sup> See Evaluación del Plan Nacional de Desarrollo Económico y Social de Honduras, 1965-1969, (Unión Panamericana, Washington, D.C., August 1966), p. 145. Basic information on the activities of the United Fruit Company can be found in Charles D. Kepner, Jr. and Jay H. Southill, The Banana Empire: A Case of Economic Imperialism (The Vanguard Press, New York, 1963); and Stacy May and Galo Plaza, The United Fruit Company in Latin America, Seventh Case Study in a NPA Series (1958).

<sup>19</sup> The Prebisch thesis can be found in Raul Prebisch, "The Economic Development of Latin America and Its Principal Problems," Economic Bulletin for Latin America (February 1962); and "Commercial Policy in the Underdeveloped Countries," American Economic Review (Papers and Proceedings) (May 1959), pp. 251-255.

present survival of the nineteenth century scheme of international division of labor--whereby the periphery of the world economic system produced food and raw materials for the great industrial centers--was not only the result of economic efficiency through the mechanism of comparative advantage, but was also determined by the institutional structure of export production and by the laissez-faire policies pursued in this case by the Honduran government. Export diversification, as a means of coping with the fluctuations in world demand and declining terms of trade, and export expansion as a way to cope with balance of payments difficulties, may require heavy investments and the development of internal skills and technical and managerial abilities which at the present time only the foreign-owned corporations command in adequate proportions.

The large corporate structure--which in fact is not the typical firm of the economists' perfectly competitive model--permeates practically the whole structure of international trade in the Honduran economy. Perhaps economic policy would be more rewarding if it were based on pragmatic analysis of institutional differences rather than on the classical pattern of international division of labor. The latter approach tends to hide some of the really significant factors in the ceteris paribus clause, or else to relegate such factors to a secondary place by the particular assumptions that the classical model and its modern variations usually incorporate in the analysis.

Institutional analysis is particularly important when considering the possibilities of nationalization of the foreign corporations. If superior technology and management are more readily available and more efficiently used if they proceed from the industrial centers, then deep consideration has to be given to the preservation of the foreign technostructure, while the benefits derived from profits, dividends, and other intangible categories of "beneficial ownership," plus possible control, are put in the hands of national governments. In the case of the United Fruit Company, this means some concerted effort at multinational action in an effort to devise efficient procedures of nationalization. A more careful study of the capitalist institutions, especially as related to the exchange markets and to the multiplicity of investment and financing devices available in the industrial centers--particularly the United States--would be a first step. Obviously, the variety of capitalistic instruments that are now available for financing development projects cannot be examined here. However, and by way of illustration only, we can point to the possibilities of an issue of bonds by a multinational holding company whereby--with the complement of international banking institutions--the shares of these corporations can be acquired in a profitable manner. Undoubtedly, much more attention should be directed to the foreign corporations in the export sector of Honduras. Research should be

focused on potential institutional innovations within the present system in order to pursue in a more dynamic fashion those public purposes desirable for economic development and growth.

We have examined some of these categories for the export sector of Honduras and seen how they are related to a historical process of corporative government. We will now proceed to analyze these relationships in another significant economic sector, the traditional subsistence sector of agriculture.

## II. THE INSTITUTIONAL BASIS OF TRADITIONAL SUBSISTENCE AGRICULTURE

As previously noted, the particular "corporative" relationships between the state and the economy in Honduras, facilitated economic policies in which the private purpose usually predominated over the public purpose. In the domestic sector, the historical expansion of minifundia units in the traditional subsistence sector of agriculture can also be traced to the lack of a system of public institutions designed to cope with the potential problems of concentrated economic and political power. A study of the set of antecedent institutions which has developed in the region could prove highly useful for successful institutional innovations oriented to this sector. Only by knowing where and how to proceed for gradual improvements in the traditional subsistence sector, can we be more certain that some of the economizing described by cost-benefit analysis can be successfully exploited.

### Institutional Systems in Traditional Agriculture

The variable property relationships in land deserve more detailed analytical study in order to comprehend the special system of state and economy which has developed in Honduras over the centuries. For purposes of classification, traditional subsistence agriculture can be arbitrarily defined as that system of technological and social relationships which has developed in a particular

community or region, forming land units of less than one hectare up to about 10 hectares.<sup>20</sup>

Almost all of the legal enactments of colonial times were either regulatory measures dealing with physical delimitation of acreage concessions, grants, and sales, or productive measures dealing with specific uses to which the land should be put. The inefficacy of these legal enactments is now quite apparent--the institutional systems in traditional subsistence agriculture still retain their peculiar pre-colonial character. In fact, the type of economic relationships between landlords and peasants and between peasants and the state have not changed significantly in the last three hundred years, from either a quantitative or a qualitative point of view.

Obviously, those citizens who had ready access to the newly created state organization had an effective advantage in securing the best concessions from the state. Traditional subsistence farmers, due to several technical and sociological reasons, lacked access to the state bureaucracy and could not obtain and consolidate legal rights to their land.

This historical dualism between individuals who had ready access to the state and those who did not has now developed into a real economic, political, and sociological dualism. Such a dualism, it will be argued here, has its roots in this process of land concentration and the resulting concentration of political and economic power. Land access for those peasants included in the economy, but excluded from government participation, have

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<sup>20</sup> This does not mean that all farming units included within these defined limitations are "traditional subsistence" farms, for there are a small proportion of farms within this category which could be classified as "modern" or at least in the transitional stage. However, it is also true that most of traditional subsistence agriculture, as conventionally defined, is found within these limits. This definition is roughly in accordance with a previous University of Honduras survey in which the classification used was called "sub-family farms," identified those farms on which income was less than consumption expenditures. The size of farm to which this concept applied had an average acreage of 4.2 hectares and a size range from 2.2 hectares to 10.1 hectares. See Tenencia de la Tierra y Condiciones del Trabajo Agrícola, Monografía No. 1, Instituto de Investigaciones Económicas y Sociales (Tegucigalpa, Honduras: Universidad de Honduras, 1961).

become contractual relationships between landlord and peasant, or between the local government and the peasant (as in the ejido system).<sup>21</sup> The contract is essentially exploitative in character; the peasant agrees to use the land and to share the products of his effort with his presumed legal superior.

In Table II, the relative proportions of the different systems of land exploitation in Honduras, whose headings are self descriptive, clearly reflect the nature of the economic system which developed in Honduras.

Table II. Distribution of Farming Units by Institutional Systems and Total Acreage Per System, 1952.

Institution	Number of Farms	Percent	Total Hectares	Percent
All Systems	156,135	100.0	2,507,404	100.0
Full Property Rights	33,289	21.3	1,158,764	46.2
Ejido, Corporative System	52,947	33.9	616,871	24.6
<u>Private Contract</u>				
Rented	13,473	8.6	77,544	3.1
Sharecropping	6,192	4.0	12,301	0.5
Mixed	6,423	4.1	13,596	0.5
Occupants <sup>a</sup>	17,143	11.0	133,561	5.3
Undefined	26,668	17.0	494,909	19.7

Source: Primer Censo Estadístico, 1952 (Tegucigalpa, D.C., Honduras: Dirección General de Estadística y Censos, 1954).

<sup>a</sup>Occupants refers basically to "squatters."

The economic policies which the Honduran government has pursued for the benefit of the traditional subsistence sector are examined next.

<sup>21</sup>This does not mean that those who fully consolidated their land rights were making a more efficient use of the land acquired. It only means that they entered into the market economy with the decided advantage of full ownership rights, which enabled them to actually ration the land to the individuals belonging to the excluded class, the peasants.

Improvements In Technical Production Versus Improvements In Bargaining Power

The investigating bodies of the policy-making structure of the Honduran government, not finding any significant correlation between land tenure arrangements and the nature of the agricultural economy, have put this factor aside and shifted to analysis of the correlation between size of farm and the structure of production.<sup>22</sup> Abandonment of consideration of contractual relationships and concentration on technical conditions have determined the nature of the agrarian reform policies which Honduras has pursued since 1962. The technical conditions of production are intimately connected to size of farm, and therefore the policies to improve these technical conditions were oriented to an improvement in the distribution of inefficiently used land, particularly the colonization of public lands.

Tables III and IV illustrate the tremendous importance of traditional subsistence agriculture in the structure of the Honduran agricultural system.

In any analysis of the relationships between the state and the economy, the percentage of the population included in the economy but excluded from the state should be a starting point, before any public policy recommendations are made. "Exclusion" here refers to the lack of effective participation in the most significant policy-making structures in the Honduran state. This, of course, can only be judged in terms of the consequences of public action, rather than in terms of votes cast for a political candidate. Votes are a successful mechanism for expressing agreement or disagreement regarding economic policies, but they clearly are not enough for eliciting governmental action on its public responsibilities. One of the main differences between modern industrial democracies and the "democracies" of underdeveloped countries resides in the nature of the mechanisms provided for the expression and execution of public purposes.

As previously noted, traditional subsistence agriculture accounts for about 75 percent of all the farming units in the country. It also provides employment opportunities to 40 percent of the total population (58 percent of the rural population), and

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<sup>22</sup>The best example of this can be found in the exhaustive OAS study of the agrarian structure of Honduras prior to the enactment of the Agrarian Reform Law in 1962. See Informe Oficial (Washington, D.C.: Unión Panamericana, 1960).

Table III. Honduras: Percentage Distribution of Agricultural Systems By Size of Farm and Number of Farming Units, 1952.<sup>a</sup>

	All Farms	Full Property Rights	Ejido, Cooperative System	Private Rented	Contractual Share-cropping System	Mixed	Occupants
<b>Traditional Subsistence Agriculture</b>							
Less than 1 hectare	9.9	7.0	6.4	26.5	27.4	31.3	11.7
From 1 to 4.9 hectares	47.1	35.7	43.2	61.0	68.4	63.2	52.5
From 5 to 9.9 hectares	18.0	18.6	22.5	6.6	3.1	4.0	17.3
Cumulative Percentage	75.0	61.3	72.1	94.1	98.9	98.5	81.5
<b>Rest of Agriculture</b>							
From 10 to 19.9 hectares	11.9	14.8	15.2	2.9	0.8	1.5	9.8
From 20 to 49.9 hectares	8.8	14.0	9.7	2.0	0.3	-	6.9
From 50 to 99.9 hectares	2.5	5.0	2.1	0.5	-	-	1.3
From 100 to 199.9 hectares	1.0	2.3	0.5	0.2	-	-	0.3
From 200 to 499.9 hectares	0.5	1.5	0.2	0.1	-	-	0.1
From 500 to 999.9 hectares	0.1	0.6	-	0.1	-	-	-
From 1,000 to 2,499.9 hectares	0.1	0.3	-	-	-	-	-
2,500 hectares and more	-	0.2	-	-	-	-	-
Cumulative Percentage	25.0	38.7	27.9	5.9	1.1	1.5	18.5
Total Number of Farms	156,135	33,289	52,947	13,473	6,192	6,423	17,143
Percentage	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Primer Censo Agropecuario, 1952, op. cit.

<sup>a</sup>"Undefined" system not included.

Table IV. Honduras: Number of Farming Units According to Institutional System and Size of Farming Unit.<sup>a</sup>

	All Farms	Full Ownership Rights	Ejido, Corporative System	Private Contractual System			Occupants
				Rented	Share-cropping	Mixed	
<b>Traditional Subsistence Agriculture</b>							
Less than 1 hectare	15,394	2,330	3,407	3,570	1,697	2,000	2,006
From 1 to 4.9 hectares	73,615	11,884	22,873	8,219	4,235	4,066	9,000
From 5 to 9.9 hectares	28,092	6,182	11,913	889	192	257	2,966
Subtotal	117,101	20,396	38,193	12,678	6,124	6,323	13,972
<b>Rest of Agriculture</b>							
From 10 to 19.9 hectares	18,620	4,927	8,048	391	50	96	1,680
From 20 to 49.9 hectares	13,410	4,890	5,136	269	18	4	1,183
From 50 to 99.9 hectares	3,903	1,665	1,112	67	-	-	223
From 100 to 199.9 hectares	1,561	830	265	27	-	-	51
From 200 to 499.9 hectares	780	500	106	13	-	-	22
From 500 to 999.9 hectares	156	33	57	12	-	-	3
From 1,000 to 2,499 hectares	156	16	-	9	-	-	-
More than 2,500 hectares	40	11	-	-	-	-	-
Subtotal	38,626	12,893	14,754	1,795	68	100	3,171
Total	155,727	33,289	52,947	13,473	6,192	6,423	17,143

Source: Figures derived from percentages in Primer Censo Agropecuario, 1952; op. cit.

<sup>a</sup>Totals slightly altered due to some necessary estimations from census discrepancies.  
 "Undefined" system not included.

contributes 23.3 percent of total agricultural production and 42 percent of total livestock production. Forty-four percent of all the food consumed in Honduras comes from the traditional sector and 56 percent of the total agricultural labor force is employed in this sector.<sup>23</sup>

Tables V and VI illustrate the extent to which land concentration has affected the amount of land available to traditional subsistence agriculture. These figures point up the harsh economic and political reality behind increasing land fragmentation in traditional subsistence agriculture. They are indicative of the extent to which the historical concentration of economic and political power in a few hands has produced limitations on the bargaining opportunities of the peasant class. From the public policy standpoint, they also show strategic points for the development of countervailing power. I believe that a strong correlation exists between the amounts of property, be it either physical or incorporeal, and bargaining power. Increased bargaining power for the peasant class is essential to the incorporation of this sector as an effective participant class in the state. But there is considerable experimental proof that agrarian reform alone cannot accomplish this objective, at least not as it is envisaged by the agrarian reform law of Honduras, which emphasizes technical conditions. Agrarian reform is a necessary prerequisite to sound economic development, but it alone is not sufficient for a public policy oriented to traditional subsistence agriculture.

The private contractual system of land exploitation has been one of the most dynamic forces in the evolution of customary land rights. The peasant has learned that the private contract between him and the landlord assures a certain degree of security of expectations and he therefore acquires an additional advantage--no matter how meager it would appear to us--in his productive efforts. As the education of the peasant increases, written longer term contracts become a necessity and an available alternative.<sup>24</sup> Among

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<sup>23</sup>These figures are derived from the University of Honduras survey, Tenencia de la Tierra y Condiciones del Trabajo Agrícola, op. cit., pp. 75-79.

<sup>24</sup>The field survey of OAS Mission 105 to Honduras showed that a large proportion of the contracts were only verbal agreements, and that these predominated on the smaller farms up to nine hectares in size. Contracts of very short duration were also abundant, generally running less than one year and only for one harvest. There was also a strong correlation between the qualitative aspect of the contract (either verbal or written) and its maturity, so that 90 percent of written contracts were for periods of more than one year. Characteristically, and as a reflection of the peasant culture, written contracts accounted for less than one-third of all contracts.

Table V. Honduras: Acreage of Farms by Institutional System and According to Size, 1952.<sup>a</sup>

	All Farms	Full Ownership Rights	Ejido, Corporative System	Private Contractual System		Occupants	
				Rented	Share-cropping Mixed		
<b>Traditional-Subsistence Agriculture</b>							
Less than 1 hectare	9,991	1,475	2,178	2,334	1,126	1,338	1,210
From 1 to 4.9 hectares	192,241	32,963	64,109	17,299	8,237	8,248	26,390
From 5 to 9.9 hectares	201,554	44,769	85,562	5,936	1,489	1,714	24,308
Subtotal	403,786	79,307	151,849	25,579	10,852	11,300	51,908
<b>Rest of Agriculture</b>							
From 10 to 19.9 hectares	259,213	70,268	111,338	5,297	645	1,250	25,974
From 20 to 49.9 hectares	417,317	144,586	152,881	7,924	503	-	41,215
From 50 to 99.9 hectares	265,929	114,321	74,627	5,805	161	-	18,491
From 100 to 199.9 hectares	207,726	107,269	38,886	4,299	140	-	9,525
From 200 to 499.9 hectares	244,129	153,907	27,606	5,559	-	-	7,015
From 500 to 999.9 hectares	193,844	134,416	10,509	9,852	-	-	2,333
From 1,000 to 2,499.9 hectares	183,977	130,786	9,371	2,433	-	-	1,214
2,500 hectares or more	331,483	224,908	39,804	10,806	-	-	5,774
Subtotal	2,103,618	980,361	465,022	51,965	1,449	1,250	111,541
Total	2,507,404	1,059,668	616,871	77,544	12,301	12,550	163,449

Source: Primer Censo Agropecuario, 1952, op. cit.

<sup>a</sup>"Undefined" system not included.

Table VI. Honduras: Acreage Controls of Land by the Different Institutional Systems in Agriculture, 1952 (Percentages).<sup>a</sup>

	All Farms	Full Ownership Rights	Ejido, Corporative System	Private Contractual System			Mixed Occupants
				Rented	Share-cropping		
<b>Traditional-Subsistence Agriculture</b>							
Less than 1 hectare	0.4	0.1	0.4	3.0	9.2	10.7	0.8
From 1 to 4.9 hectares	7.7	2.8	10.4	22.3	67.0	65.7	16.1
From 5 to 9.9 hectares	8.0	3.9	13.9	7.7	12.1	13.6	14.8
Cumulative Percentage	<u>16.1</u>	<u>6.8</u>	<u>24.7</u>	<u>33.0</u>	<u>88.3</u>	<u>90.0</u>	<u>31.7</u>
<b>Rest of Agriculture</b>							
From 10 to 19.9 hectares	10.3	6.0	18.0	6.8	5.2	10.0	15.9
From 20 to 49.9 hectares	16.6	12.5	24.8	10.2	4.1	-	25.3
From 50 to 99.9 hectares	10.6	9.9	12.1	7.5	1.3	-	11.3
From 100 to 199.9 hectares	8.3	9.2	6.3	5.5	1.1	-	5.8
From 200 to 499.9 hectares	9.7	13.3	4.5	7.2	-	-	4.3
From 500 to 999.9 hectares	7.7	11.6	1.7	12.7	-	-	1.4
From 1,000 to 2,499.9 hectares	7.3	11.3	1.5	3.1	-	-	0.8
2,500 hectares or more	13.2	19.4	6.4	13.9	-	-	3.5
Cumulative Percentage	<u>83.9</u>	<u>93.2</u>	<u>75.3</u>	<u>67.0</u>	<u>11.7</u>	<u>10.0</u>	<u>68.3</u>

Source: Primer Censo Agropecuario, 1952, op. cit.

<sup>a</sup>"Undefined" system not included.

possible institutional innovations within the private contractual system, the standardization of the contract form and the legal provision of flexibility in contractual arrangements, especially regarding maturity, negotiability and other terms, might prove to be productive alternatives.

The ejido corporative system of land ownership does not seem to perform any useful function in terms of bargaining transactions. It is just a remnant of now obsolete colonial institutions. Since proprietary rights in land are institutionally recognized by the village community, a complete transition to full ownership complemented with auxiliary services would likely bring some added bargaining and technological improvements. Some further suggestions for the organization of this system following the guidelines of corporate institutions are made in Part IV of this study.

#### Economic Power and Unlimited Supplies of Labor

As shown in Table VII, about 56 percent of the total labor force in agriculture was living in traditional subsistence agriculture in 1952. The absolute number of people living in this sector has actually increased, and will continue to increase as long as population grows at the present rates. The second agricultural census of Honduras--from which only partial information was available at the time of writing--contains some interesting information about this problem. Table VIII shows changes in the number of farming units in the traditional subsistence sector in three size classes from 1952 to 1966.

The absolute number of traditional subsistence plots has--according to the census figures--increased from 117,101 units to about 147,553 units, a 26 percent increase over a 13 year period. Obviously, a limit will be reached in terms of opportunities on the land--opportunities which in most cases are purely survival opportunities--if this process continues in the future as it has up to the present time.

This analysis provokes the formulation of a major public purpose of economic development policy: to increase the range of objective opportunities both in and outside of agriculture at a rate fast enough to at least stop the process of expansion of the survival systems described above. The solution to such a problematic situation, if there is such a thing as "a solution," would seem to be related to the reorganization of labor under voluntary agreements into more efficient institutional concerns, and to the

Table VII. Honduras: Percentage Distribution of the Agricultural Labor Force (Male Adults) According to Farm Size, 1952.

Size of Farm	Area- Percent of Total	Labor Force- Percent of Total
<u>Traditional Subsistence</u>		
<u>Agriculture</u>		
Less than 1 hectare	0.4	5.4
From 1 to 4.9 hectares	7.7	34.0
From 5 to 9.9 hectares	8.0	16.6
Cumulative Percentage	<u>16.1</u>	<u>56.0</u>
<u>Rest of Agriculture</u>		
From 10 to 19.9 hectares	10.3	13.6
From 20 to 49.9 hectares	16.6	12.2
From 50 to 99.9 hectares	10.6	4.6
From 100 to 199.9 hectares	8.3	2.2
From 200 to 499.9 hectares	9.7	3.2
From 500 to 999.9 hectares	7.7	3.1
From 1,000 to 2,499.9 hectares	7.3	1.9
More than 2,500 hectares	13.2	2.7
Cumulative Percentage	<u>83.6</u>	<u>43.5</u>

Source: Primer Censo Agropecuario, 1952, op. cit.

procedures whereby abuses of economic and political power are checked. The solution could proceed through the organization of decentralized bodies of collective action, whereby both technological innovations and countervailing power are brought into the traditional subsistence sector.

**Table VIII. Honduras: Expansion of the Traditional Subsistence Sector of Agriculture, 1952 to 1966.**

Size of Farming Unit <sup>c</sup>	Number of Farming Units		Difference 1966-1952	Percent Change 1966-1952
	1952 <sup>a</sup>	1966 <sup>b</sup>		
Farms of less than one hectare	15,394	26,719	11,325	+ 73.5
From 1 to 4.9 hectares	73,615	57,409	- 16,202	- 22.0
From 5 to 9.9 hectares	28,092	63,425	35,333	+ 125.7
<b>Total</b>	<b>117,101</b>	<b>147,553</b>	<b>+ 30,452</b>	<b>+ 26.0</b>

<sup>a</sup>Data derived from Primer Censo Agropecuario, 1952, op. cit.

<sup>b</sup>Data derived from Cifras Preliminares del Segundo Censo Nacional Agropecuario, 1965-66 (Tegucigalpa, D.C., Honduras: Dirección General de Estadística y Censos, 1967).

<sup>c</sup>The three size categories used in the 1966 census were: farms of about 0.64 hectares; farms from 1.28 to about 6.4 hectares; and farms from 6.4 to 12.1 hectares.

#### Volitional Action Versus Profit Maximization in Traditional Agriculture

The conception of public policy used throughout the study is rooted in the idea that the factors which affect individual choice are the most significant variables. Public policy could be oriented towards affecting these factors. Among the approaches to economic science, the institutional approach seems to be most directly concerned with individual choice and with the policy implications arising from this formulation.

This conception assumes that individuals have limited purposes clearly circumscribed by existential situations such as individual abilities and objective opportunities. Departure from the simplified assumptions of economic theory presumably provides a more comprehensive framework for the evaluation of policy instruments and policy objectives.

The applicability of some economic concepts to the field of development policy seems ambiguous. This ambiguity, it is argued here, basically springs from the particular conception of individual purposes, i.e., the particular direction to which individual choices are oriented. If we accept the economic postulate of rationality (Individuals as utility or profit maximizers), the policy implications resulting from these simplified assumptions are either going to be extremely narrow in the case of profit maximization, or so general as to be non-testable in the case of utility maximization.

For further empirical research on individual behavior, the leads offered in a theory of volitional action developed by John R. Commons seem more productive in relation to public policy than alternative economic approaches. Some of the policy implications of one distinguished study on traditional agriculture within the standard microeconomic approach, Theodore W. Schultz' Transforming Traditional Agriculture, are summarized below.

According to the empirical evidence of Professor Schultz, no productive factor in traditional agriculture remains unemployed and each laborer who wishes and who is capable of doing some useful work is employed. He states, "the principal implication is, of course, that no appreciable increase in agricultural production is to be had by reallocating the factors of production at the disposal of farmers who are bound by traditional agriculture." Then, "if there is no evidence that an improvement in economic output could be obtained by altering the present allocations, as long as the village relies on traditional resources and technology . . . the crucial feature of traditional agriculture becomes the low rate of return to investment in agricultural factors of the type that farmers have been using for generations . . . and that in order to transform this type of agriculture, a more profitable set of factors will have to be developed and supplied. To develop and supply such factors and to learn how to use them efficiently is a matter of investment in both human and material capital."<sup>25</sup>

From the point of view of the policy maker, who has to view the world not only from an economic perspective but also from all the other intangible aspects of politics, sociology, and historical tradition, this policy recommendation would appear to be an easy way out. It would also seem to have strong connotations of laissez-faire, unless "investment in human capital" is extended to include all forms of collective action and organization.

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<sup>25</sup> T. W. Schultz, Transforming Traditional Agriculture (New Haven and London: Yale University Press, 1965), p. 40.

Recognizing the simple postulate of volitional action that individuals have wills of their own, and that depending on their own abilities they choose available opportunities, a whole conception of the relationships between the policy maker and alternative procedures of collective action begins to take shape. Now the apparatus of the state can be used not only to provide the market incentives suggested by Professor Schultz, but also to stimulate the formation of new institutional concerns in which willing participation is the rule, and to design efficient procedures for the successful resolution of conflicts.

In institutional innovations, not only market relationships but also the legal rules and customary procedures in traditional agriculture must be given due consideration. From a purely economic perspective, the introduction of profitable technological innovations and the restructuring of market systems are necessary prerequisites for successful development. Microeconomic theory has much to offer in this regard. It is true that "the rise in the economic value of human agents makes new demands on institutions, that some political and legal institutions are especially subject to these demands, that these institutions lag in adjusting to the new demands and that these lags are the key to important public problems, and that economic theory is a necessary analytical tool in classifying and solving these problems."<sup>26</sup>

But it is also true that economic development policy is clearly concerned with increasing "the economic value of man," however it may be defined, and that such a process is not going to occur by the automatic adjustments of the market mechanism. Economic development is a process deliberately pursued by the policy makers in the less developed countries. The process of institutional innovations is not necessarily one of adjusting the increasing demands for institutional change to potential supplies of institutions "until the rates of return represented by these services reach equality," but rather it is essentially a problem of identifying and resolving conflicts of interest in such a way that continuous progress is made possible. Such a process requires the recognition that human beings, no matter what their economic value, have wills of their own, and that the most significant problem in institutional innovations is that of increasing the range of choices of objective opportunities available to individuals.

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<sup>26</sup> T.W. Schultz, Institutions and the Rising Economic Value of Man, Lecture, American Agricultural Economics Association Meeting, August 19, 1968.

### III. ECONOMIC DEVELOPMENT POLICIES IN THE TWENTIETH CENTURY

Increasing the range of real opportunities has implicitly been the aim of the Honduran government's economic development policies during the last 20 years. However, there is some doubt as to the efficacy of these policies in traditional subsistence agriculture. Part of this inefficacy can be ascribed to particular economic conceptions, such as the role of monetary and credit policy in the economic system. Part of it is also due to administrative and political factors that operate within the government bureaucracy. Obviously a clearer understanding of these problems and processes is required in evaluating alternative policy proposals.

#### Laissez-Faire and Monetary Policies

Not until the early 1950s were economic development policies as such explicitly undertaken by the Honduran government. This is not to imply that previous "corporatistic" relationships between the state and the economy could not be classified as economic development policies. However, these policies implicitly originated in the belief that it was the responsibility of the economy and not the state to achieve economic growth objectives through individual initiative.

A remarkable shift in economic development conceptions occurred after 1950, for now the state and the economy were considered complementary and not competitive elements in the process of economic development. In 1950 the first really effective institutions were created to deal with the typical problems of underdevelopment. The Central Bank of Honduras and the National Development Bank were created to concentrate the legal tender power in the hands of the state, and to control through qualitative controls on credit the flow of capital to the perceived strategic sectors of the economy. These banks resulted from a need to assure a stabilized price level, to control the international value of the national currency, and to stimulate the production of strategic agricultural export products.

This need in turn derived from an increasing dependency on international trade as a source of revenues. Agricultural exports from national producers were becoming increasingly important in the structure of agricultural production: coffee, cotton, and livestock were now at the top in the productive structure of domestic capital. The stimulation of the capitalistic sector of agriculture was therefore conceived as the main strategy for the development of the national economy. Managerial and economic resources were only available to this particular sector; therefore, it was able to absorb and to use productively the credit resources of the National Development Bank.

For economic assistance to the traditional subsistence sector, the Credit Assistance Program to the Small Farmer--within the National Development Bank--is designed to facilitate credit for those farmers who farm up to 20 hectares of good quality lands, and up to 30 hectares of inferior quality lands. These credits go hand in hand with technical assistance and are specifically designed to increase productive efficiency on the farm.<sup>27</sup> The results of this program have not been very significant. The number of small farmers who submit to all the necessary credit requirements from the Bank--and this includes the possession of a valid title to land--is very small and the availability of extension agents extremely limited.

International institutions created after World War II--mainly the International Bank for Reconstruction and Development and the International Monetary Fund--have played an important role in the design of "orthodox" economic policies to deal with problems of short-term imbalance in international trade, and became powerful factors in bringing pressures to bear on the government of Honduras.<sup>28</sup>

In brief, governmental action towards solving some of the problems of long-term international imbalance and long-term domestic economic stagnation has been concentrated on regulating a set of financial variables in the hope that the "market mechanism" would take care of the rest.

#### Institutional Innovations and Public Policy

The governmental decree of March 6, 1961, created the National Agrarian Institute as an autonomous entity with a juridical personality, to be regulated by the same decree and by the bylaws which

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<sup>27</sup> Each farmer is entitled to a maximum of \$3,200 to be used in the following manner:

- |   |         |
|---|---------|
| a) Agricultural development   | \$1,500 |
| b) Construction and Improvements of Rural Housing                   | 1,200   |
| c) Storage, Conservation, Transformation, and Transport of Products | 500     |

See Banco Nacional de Fomento, Memoria, 1963 (Tegucigalpa, Honduras).

<sup>28</sup> See Richard N. Gardner, Sterling Dollar Diplomacy, Anglo-American collaboration in the Reconstruction of Multilateral Trade (Oxford: Clarendon Press, 1956). See also, on the "monetarist"- "structuralist" controversy Albert O. Hirschman (ed.), Latin American Issues, Essays and Comments (New York: The Twentieth Century Fund, 1961).

the Institute would enact. The Agrarian Reform Law was simultaneously being prepared.<sup>29</sup>

The creation of the National Agrarian Institute as another administrative agency of the state was not too different from earlier attempts at correcting deficiencies in the market structures of the country. The institute was basically designed to comply with newly acquired international responsibilities, and was also the result of an increasing awareness of structural bottlenecks in the agricultural sector for the achievement of economic development objectives.

Existing agrarian structures in Honduras were assumed to be the basic factors causing the low productivity and the lack of response to economic incentives in the agricultural sector, and therefore the basic bottlenecks which had to be tackled before economic development could begin. The general report on agrarian reform and agricultural development was presented to the national government in April 1963, about eight months after the agrarian reform law was enacted, and it stressed land redistribution, "integral" agrarian reform, and planned colonization activities in the eastern part of the country.<sup>30</sup>

Although the National Agrarian Institute was created with the avowed purpose of solving the problem of land concentration and breaking landowners' economic and political power, tangential socio-political forces in Honduras have converted this institution into a conservative element dealing mostly with conventional problems of land colonization and agricultural development. No attempt has been made to use the apparatus of the state for a direct attack on the problems of transformation and modernization of traditional agriculture.

In the case of extension-education activities, the general ideology underlying the program was derived from U.S. models.<sup>31</sup> Early attempts at stimulating traditional subsistence farmers failed and the agency redirected its efforts towards the more modern capitalistic farming units. This shift in policy resulted from

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<sup>29</sup>On January 29, 1962, the preliminary draft of the agrarian reform law, which was finished in a rather short time by a few specialists imported from abroad, was presented to the National Agrarian Institute. The National Congress passed the final agrarian reform law by September 29, 1962.

<sup>30</sup>See OAS, Informe Oficial, op. cit.

<sup>31</sup>In 1951 an agreement was signed between the U.S. government and the government of Honduras to initiate a program of agricultural extension, leading to the creation of the Technical Interamerican Service of Agricultural Cooperation, under the general dependency of the Ministry of Agriculture.

the need in the national economy to increase the production of basic grains as rapidly as possible, to make the most efficient utilization of scarce economic and technical resources in the production of agricultural products, and to coordinate the agricultural extension services with the credit activities of the National Development Bank and the 'agrarian reform' activities of the National Agrarian Institute.<sup>32</sup>

### Economic Development Through National Planning

"Coordination" of governmental institutions in their economic activities had become a key word in institutional innovations within the Honduran economy by the middle of the 1950s. As the complexity of the state's functions increased with the growth process, new administrative agencies were required to assure an optimum use of scarce human and capital resources. By February 1955, the National Economic Council--integrated by the ministries of Economics, Natural Resources and Development, the Central Bank of Honduras, and the National Development Bank, plus two representatives of the "private sector" of the economy--was created to channel the development efforts of the government into more effective alternatives.<sup>33</sup>

By October 1965, this planning council was given one of the most important responsibilities, from the technical point of view, in the furtherance of economic development objectives. The name was changed to National Superior Planning Council and its functions extended to the fields of advisor and consultant to the Executive and Legislative powers of the state. With the higher rank of a Ministry of the government, its primary objective was to formulate integral plans of social and economic development of the country.<sup>34</sup>

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<sup>32</sup> See Armando J. Valle, Nuevo Enfoque de Extensión Agrícola en Honduras (Tegucigalpa, Honduras: STICA, Mayo 1963), mimeo.

<sup>33</sup> In the formative years, the National Economic Council depended on the technical assistance of international institutions, the most important of which was the International Bank for Reconstruction and Development. The activities of the first years were basically research and data gathering to facilitate the elaboration of further projects. See Consejo Nacional de Economía, Resumen del Plan Nacional de Desarrollo Económico y Social de Honduras, 1965-69 (Tegucigalpa, Honduras, Septiembre 1965).

<sup>34</sup> See Ley del Consejo Superior de Planificación Económica, Decreto No. 30, 7 de Octubre de 1965.

This institution is in fact the meeting place for the several interest and pressure groups within the Honduran economy including the other administrative institutions, which usually act as the most powerful groups in the government. It serves as a body for the reasonable resolution of conflicting interests in development projects.<sup>35</sup>

Whereas before the market mechanism was supposed to bring an optimum solution to the problem of allocation of resources, at the present time political action seems to be the basis for the reasonable resolution of conflicts arising from economic development policies. Political action refers to the process by which decisions are reached in solving public policy issues. As will be apparent, the particular results of economic development projects coming from the National Planning Council would be the end product of the interactions between the interest groups and the administrative bureaucracy.

If powerful interest groups have historically affected governmental action for their own behalf, there is also reason to believe that at the present time such activity has increased proportionately with the increase in the complexity of economic structures in the country. The needs or interests of the non-participant sector of the economy (essentially the traditional subsistence sector of agriculture) were envisaged only in terms of land colonization.<sup>36</sup>

Given all of the political and administrative factors shaping the particular development policies of the Honduran government, of which "the bureaucratic phenomenon" seems especially significant,<sup>37</sup> is there a possibility of pursuing a public purpose short of revolutionary upheaval? I think it is possible and that progressive action could be undertaken in terms of organized efforts at collective

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<sup>35</sup>As a coordinating organization it has the power to centralize the flow of information from other governmental entities and to assure adequate complementarity in governmental actions. As a pragmatic institutional concern it does not have the power to interfere in private enterprise activities, or for that matter, to dictate policy prescriptions to the private sector of the economy.

<sup>36</sup>See Plan Nacional de Desarrollo Económico y Social de Honduras, 1965-69 (Tegucigalpa, Honduras: Consejo Superior de Planificación Económica).

<sup>37</sup>See Michel Crozier, The Bureaucratic Phenomenon (Chicago, Illinois: University of Chicago Press, 1964).

endeavors. The nature and potentialities of collective action, however, need to be examined more carefully, from both the quantitative-empirical point of view and the analytical-conceptual standpoint.

#### IV. ECONOMIC DEVELOPMENT THROUGH GOING CONCERNS

I have previously suggested that a possibility for increased labor productivity and for increased per capita income resides in a reorganization of labor, under voluntary agreements--contracts if you will--into some kind of collective endeavor. Unless the implications of "collective action" are stripped of their ideological basis, no productive effort towards understanding the potentialities of human association is possible. This discussion will skip the standardized arguments of "individualism" versus "collectivism" and concentrate instead on some existing forms of collective action and their implications.

##### Size of Farm and Institutional Efficiency

In a very fundamental sense, "agrarian reform" seems the very base of the programs of agricultural development in Honduras, and in general these programs are considered prerequisites to a sound program of general economic development.<sup>38</sup> These reform programs or proposals usually have their basic objectives mixed in different combinations depending upon political and historical circumstances. They are: 1) turning ownership and management of the farm to those who actually 'till the soil;' 2) dividing up large holdings into smaller, more evenly distributed holdings; and 3) combining small

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<sup>38</sup> Not that "agrarian reform objectives" have been pursued in the sense of increasing the range of choices available to peasant farmers in traditional agriculture as a means to incorporate them as participants in the ongoing system of state and economy. These programs, up to the present time, have been basically designed to increase agricultural productivity and to colonize new lands. However, institutional change in the land tenure systems in Honduras will remain a problem which sooner or later will have to be faced.

operational units into larger group units, i.e., "cooperative farms," "collective farms," "paysannat," "state farms."<sup>39</sup>

Whenever land reform programs are debated, disagreements about the economic advantages of small versus large farms appear, influencing the type of land organization which is recommended. "Policy measures such as subdivision of large farms or establishment of cooperative farms, are partly justified on the basis of arguments advocating or opposing small scale organization in agriculture."<sup>40</sup>

It is extremely difficult to make predictions, but it is prediction about economies of size in agriculture that we are interested in. Information that proceeds from existing small and large scale farms ". . . cannot be used directly to judge the economies of size in agriculture."<sup>41</sup> The factors that influence economic efficiency in

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<sup>39</sup>Erven J. Long, "The Economic Basis of Land Reform in Underdeveloped Economies," Land Economics, Vol. 37, IV 2, May 1961, p. 113.

<sup>40</sup>Don Kanel, "Size of Farm and Economic Development," Indian Journal of Agricultural Economics, Vol. XXII, No. 2 (April-June 1967), p. 26. The author provides an excellent analysis of some empirical findings in Indian agriculture and a very good bibliography. Kanel concludes that "the organization of farm firms is multi-dimensional and complex. Differences in such measures as output per acre, net return per man-day, and ratio of the values of output and inputs can arise in several ways. It is important to identify the conditions responsible for the differences in the above measures before concluding much about the comparative efficiency of farms of different size . . .". And furthermore, ". . . the temptation of rapid economic development by direct control of productive decisions carries the price of making mistakes on a larger scale and difficulties in supervising labor. As long as large scale farming does not possess inherent long-run cost advantage, and farm operations are difficult to supervise, it is probably better to avoid the risk of large scale management and to concentrate public effort in research, provision of information, and improvement in other agencies serving farm people," pp. 41 and 43.

<sup>41</sup>Ibid., p. 36. "To determine such economies, data are needed from farms which are free to reorganize to achieve the least-cost resource combinations for any level of output. The argument above implies that small farms are not free to recombine resources. Their organization is more a consequence of limited off-farm opportunities than an example of how to produce small outputs at low costs."

the farm unit are very complex and such "economies of scale" would be determined by the contribution to the production and marketing process made by management and labor, and by the bargaining opportunities which a farm enterprise develops.

In the framework of public policy we are mainly interested in the possible attainable levels of economic efficiency, probably a little bit more than in the relative efficiency of allocation of resources. Unfortunately, when this research was undertaken in Honduras, a clear idea of the importance of this concept had not emerged, so no enlightening information about the relative economic efficiency of factors of production in the different concerns investigated was obtained. What follows, then, is a brief examination of some institutional factors which probably determine a higher level of efficiency at the farm level, and some suggestions for further research on this interesting topic.

The concerns analyzed were mainly agro-industrial enterprises organized under slightly different forms of corporate association.<sup>42</sup> A brief survey of income levels around an area with similar ecological environment in San Pedro Sula revealed that for farm units of similar size, the ones participating in the corporate undertaking had incomes averaging about five times as large as those of non-participating farming units.<sup>43</sup> Probably such higher income levels resulted from the high intensity of capital being invested in these farm units and from improved marketing channels. Talks with the farmer participants revealed that capital intensification and technological innovations in the farm unit were undertaken because of the stimulus provided by the corporation.

In a sense I am suggesting that there was a factor--an "x factor" or an "institutional" factor--which could possibly account for

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<sup>42</sup> I interviewed an industrial concern producing concentrated foods (Fábrica de Alimentos Concentrados, Alcón, S.A., in San Pedro Sula) which has contractual arrangements with medium-sized units producing yellow corn. A concern producing starch and related products for the Central American market (Almidones de Centro-America, S.A. de C.V.) has also entered similar contractual arrangements with farmer cultivators of white corn. A similar undertaking was being completed in a new corporation which would produce canned fruits and vegetables for the Central American market (Choloma Industrial, S.A. de C.V.).

<sup>43</sup> The agro-industrial corporation which produces and distributes cigarettes and related tobacco products in the Honduran market--Tabacalera Hondureña, S.A.

Improved motivation within the farm units for participation with the corporation, and for introduction of technological change. Harvey Leibenstein, in "Allocative Efficiency vs. X-Efficiency," suggests that microeconomic theory focuses on allocative efficiency to the exclusion of other types of efficiencies that are much more significant in many instances and that "improvement in 'non-allocative efficiency' is an important aspect of the process of growth."<sup>44</sup>

A hypothesis probably worth investigating is that the factors which account for increased efficiency of a non-allocative kind can be found in the working rules which tie the participant members to the going concern. Once these working rules had been thoroughly analyzed for a particular institution, perhaps we can derive policy guidelines for further agricultural organizations.

#### Institutional Theory and the Modern Corporation

The study of institutions requires an examination of the relationships between the state and the economic units in a particular country, as a way to isolate the factors which account for either "restraint" or "liberation and expansion" of individual action. While microeconomic theory examines the effects of pursuing a profit maximizing objective, institutional theory attempts to analyze the economic firm as an organization, a voluntary association of persons for the pursuance of a predetermined objective. Obviously, the laws and regulations which govern the transactions in any concern are determined by the political functions of the state and by the voluntary agreements which individuals make during the collective endeavor.

In the case of the corporations investigated, the contractual agreements which the farmer-participants have entered allow them a higher degree of freedom in decision-making than alternative forms of collective action, such as the cooperatives recently organized in the Honduran agricultural sector.<sup>45</sup> There are also some grounds for

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<sup>44</sup>The American Economic Review, Vol. LVI (June 1966), p. 392.

<sup>45</sup> Visits to about 10 cooperatives in Honduras, and talks with farmer participants, cooperative officials, and extension agents convinced me that there are multiple factors which diminish incentives within the cooperative enterprise, but that the lack of real freedom in decision making regarding production, marketing, and distribution of the product, as well as the distribution of the proceeds from agricultural activity, account for a large part of 'non-allocative inefficiency' at the farm level and at the cooperative level.

arguing that the type of managerial function which develops within the corporate organization approaches more closely the conventional conception of "competitive capitalism" than the type of management provided by cooperative organizations. I do not imply a value judgment as to the "goodness" of competitive capitalism as such, but rather suggest that the organization which rewards efforts and provides incentives for modernization and change is likely to be more efficient and flexible than one which does not.<sup>46</sup>

A cursory examination of the particular institutional arrangements in the foreign corporations operating in the export sector of Honduras would show that, with the exception of stockholders and management, domestic labor is not organized with rewards and incentives in mind, even though some changes in this direction are being brought forward through the pressure of organized labor unions. The type of changes happening within the United Fruit Company--the concession or sale of banana plantations as smaller units to local management is one of the most important--point to the desirability of analyzing the factor or factors which cause increased motivational efficiency. Institutional arrangements seem to be of primary importance. For change and development, "motivational efficiency" and other types of "non-allocative efficiencies," need to be given careful consideration as complementary efforts to studies of economic efficiency, such as the ones about "economies of size" in agriculture which have played such an important role in clarifying the requirements for efficiency in resource use.

In the case of collective action, the arrangement which analytically seems to provide more degrees of freedom in choosing market alternatives is the contractual agreement with a business concern. The corporate organizations operating in the agricultural sector of Honduras have developed sophisticated techniques

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<sup>46</sup>The studies made of modern corporation in industrial society all tend to support this idea. In particular, see Robert A. Gordon, Business Leadership in the Large Corporation (Berkeley: University of California Press, 1966); Edward S. Mason (ed.), The Corporation in Modern Society (Cambridge, Massachusetts: Harvard University Press, 1959); and John R. Commons, "Marx Today: Capitalism and Socialism," The Atlantic Monthly (November 1925).

to incorporate the productive efforts of the participant farmers into the going concern. They have done this in a way that has gained the confidence of the farmers regarding the market for their products and the ready availability of capital and technological inputs. Some of the farmer participants in the tobacco corporation have reinvested their profits in livestock production and in other lines of agricultural activities, also with the help of the corporation.

Results like these have not been attained by cooperative enterprises in Honduras. The reasons for their failure are very complex and vary from a lack of business skills on the management team to a lack of experimentation with new product lines. Lack of demand for agricultural products cannot be rigorously regarded as an explanatory variable. Lack of economic incentives of the kind provided in the corporate contract do seem to play a decisive role however.

In summary, a variety of institutional arrangements in the agricultural sector of Honduras provide an experimental ground for observing different processes and results. From the most primitive, as in the ejido corporate system, to the most modern, as in the cases of the agro-industrial corporations, and in the intermediate stages such as the private contractual arrangements in traditional agriculture, a wealth of information is available regarding the requirements for effective institutional innovations in other sectors. This situation is particularly relevant to agrarian reform activities designed to increase efficiency in land use and income distribution. If land is going to be expropriated for a public purpose, we need a clear idea of how to energize the peoples of traditional agriculture for participation in more efficient concerns. The idea must grow from the long history of experimental developments in the country itself, rather than from wholesale importation from advanced countries. The field for further research is wide and open.

#### The Possibilities of Development Through Going Concerns

Is it possible to reorganize the traditional subsistence sector of agriculture in Honduras following some of the conceptual guidelines provided by existing concerns in the country? Is it possible to develop an educational program whereby entrepreneurs-- or a "technostructure"--could be prepared to take this responsibility and to allocate productively the possible benefits derived from organized productive efforts? Is it possible to energize the peoples of traditional agriculture in such a way that participation in a going concern becomes the spark that starts the engine of development? Is it possible to use the powers of the state for public purposes?

Historical analysis provides a perspective within which to conceptualize the institutional innovations likely to be successful in the country. With the present interrelationships of the state and the economy in Honduras, a type of collective action that might be a successful instrument of public policy is the modern corporate institution. The use of such a policy instrument is not limited to the agricultural sector, since the modern corporation is the typical form of industrial production in advanced western societies. However, the use of the "capitalist's surplus" arising from corporate organizations is of fundamental importance in the design of a development program. This in turn is closely correlated with the type of financing undertaken in the organization or nationalization of a going concern. International financing of these enterprises should be designed so that capital formation is assured within the developing country itself. National economic planning and the development of a skillful team of business management specialists seem necessary prerequisites for successful operation.

Obviously, pursuance of development objectives by use of the corporate form of collective action as a policy instrument remains only one of the tools available to the economist. The corporate form should not be substituted for reforms in the institutional system, or used as an instrument to perpetrate the concentration of political and economic power. The primary objective of collective action in Honduras should be to create and to introduce objective opportunities into the poverty areas of the country, and to move the peoples of this sector into effective participation in the political and economic system.

The possibilities are there. Some of the questions posed at the beginning of this section would undoubtedly remain unanswered while experimentation with collective action goes on. However, a whole field for inquiry and for the development of scientific judgments is opened for the social scientist.