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LAND TENURE REFORM AND AGRICULTURAL DEVELOPMENT  
IN LATIN AMERICA

BY

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All views, interpretations, recommendations and conclusions expressed in this paper are those of the author and not necessarily those of the supporting or cooperating organizations.

# LAND TENURE REFORM AND AGRICULTURAL DEVELOPMENT

## IN LATIN AMERICA\*

Peter Dörner\*\*

### I

Much of Latin American development has been achieved through a process of exploitation--of land, mineral resources, and, most significantly, people. Great inequalities in resource ownership and income distribution, the low level of literacy, skills, health and social development, especially among the rural population, support this conclusion. The mass of rural people of Latin America labor and produce goods which they cannot retain, and very few investments are made in their behalf. Thus the paradox of large capital cities and commercial centers with all the manifestations of modernity, with the mass of people disconnected from the benefits of economic citizenship.

Exploitation of natural resources (including people) during the developmental process is not an uncommon experience among nations. But unless the fruits of this exploitation are utilized in creating a productive potential capable of perpetuating an adequate growth rate, the resulting stagnation is extremely difficult to overcome.

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Economic development, at least in early stages, requires a production surplus in agriculture to feed the non-farm workers building the roads, the shops, and the factories. The nature of the devices used to siphon off this surplus varies in accordance with the economic and political organization. But this squeeze on agriculture cannot continue indefinitely. It must soon be accompanied by off-setting public investments. In the U.S., this return-flow of investments included public subsidies for the construction of transportation networks, land grants for the establishment of agricultural colleges, federal financial support for agricultural experiment stations and extension services, building a system of rural credit institutions, direct payments for soil conservation practices, price support programs, etc. All were part of government policy aimed at achieving increased agricultural production and helping to re-dress the distortions in the distribution of income and opportunity which accompany development.

In Latin America this reverse process of public investment and re-dress has been neglected. With land and political power concentrated in the hands of relatively few people, the squeeze on agriculture did not affect the resource owners. The squeeze was on the landless, uneducated peasants who had little voice in economic and political affairs. Public investments that were made favored the resource owners and not the masses of rural poor. While conditions have changed somewhat, the above sketch continues to characterize large areas of rural Latin America. It is not simple matter to correct the neglect of several centuries. The peasants are not stupid and lazy. They are unschooled, poor, unorganized, and neglected.

Although individuals enjoyed few rights, these class-structured systems offered security at low levels of living to the vast majority of people in years past. It was security based not on public procedures but on the personal judgment and goodwill of the benefactor. But tensions in Latin American rural sectors are rising because fewer people than formerly can be provided with this security, and it is less assured even for those who are tied in with this traditional system. Larger populations, higher rates of population increase, and aspirations for a better life on the part of these increasing numbers are major new conditions for which these traditional systems have no adequate response.

Without strong rural organizations pressuring for change, there is little incentive for a re-distribution and a widening of opportunities. People in power do not, without good reason, initiate action which deprives them of special privileges. The basic dilemma is this: a major investment program in human and material resources creating an opportunity-oriented system reduces the short-run advantage and privilege of the favored group, whereas a system built on inequality and privilege appears inconsistent with economic development.

Under circumstances of great inequality and lack of opportunities, private property, freedom of contract, and competition frequently accentuate the inequality. The result is laissez faire with a vengeance. It is not surprising that many of the underprivileged respond to the suggestion that the root evil is capitalism, frequently equated with foreign

Investment and monopoly. There is nothing inherently evil in foreign investments or oligopolistic market structures if political and economic institutions exist to make them responsible and responsive to public needs. But there is no assurance of performance in the public interest in the absence of such institutions.

We err in assuming that performance is the same whenever we use the same words in describing an economic and political system. We continue to be burdened with those rigid 18th century dichotomies which tend to place all questions of economic and political organization in a moral context. The gap between the either-or is so large with no admission of shades of grey that one must be good and the other bad. But democracy does mean something different in the Latin American context than it does in the U.S. The institution of private property does lead to different consequences. And so on.

Institutional forms and systems such as democracy, private property, free enterprise, and competition have consequences far different in an open, free, mobile society with alternatives widely recognized and available than they do in a closed, class-structured, immobile society with alternatives greatly restricted. Performance of these institutions will vary with the shades of variation in these conditions.

Latin American legislation and legal codes frequently appear inconsistent with existing conditions. One is not too surprised to find a discrepancy between the law "on the books" and its particular interpretation and application at the local level. These discrepancies are common in all systems. It is surprising that much legislation seems to assume an

egalitarian society free from major coercive elements. To equate this assumption with the reality leads to misinterpretation of the problems. The discrepancies may not even come to the attention of a somewhat isolated and sheltered urban bureaucracy since feedback is restricted by the coercive structure of power.\*

Reform of the land tenure system may appear to violate some of our values with respect to such institutions as private property, freedom of enterprise, and competition. But distributive reforms are not inconsistent with these institutions. Quite the contrary, these institutions do not perform in the public interest until there is a more widespread distribution of power and opportunity. While my faith does not carry me as far as that of some large landowners who argue that private property is a God-given right the expropriation of which leads to the destruction of the family and indeed civilization itself, I do concur in the logic of their argument which should lead them to suggest its wider distribution since it obviously cannot perform these important functions if most families are without it.

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\* Manifestations of inequality are certainly not absent in the U.S. as the civil rights struggles and demonstrations well illustrate. The best that can be said about the deplorable situation of rural and urban slums in a U.S.-Latin American comparison is that the proportion of underprivileged in the population is reversed (25-75 vs 75-25). This permits us, but not in good conscience, to treat ours as a fringe problem. But in some Latin American countries where upwards of 75 percent of the population is in this underprivileged category, it cannot be overlooked as a central issue in development.

There are interrelations between the rate of economic development (available opportunities) and the land tenure system. Under conditions of rapid industrial growth with employers searching for laborers, the economic state and condition of agricultural workers would soon improve-- they would have new alternatives, greater opportunities for education and development of new skills, more bargaining power, etc. The response of rural employers to their workers would then have to be quite different from what it is today. This would alter the terms and conditions of tenure. But in the absence of changing economic alternatives, tenure systems are characterized by personal dominance of the landlord over those in inferior tenure status. Where the alternatives in the labor market are the major factor in determining the terms of tenure arrangements, personal influence of a landlord and a tenant are secondary.

In view of these interrelations and the urgent need for increased economic growth to meet the demands of rapidly growing populations, some have proposed a crash-program of industrialization, pulling people in from rural areas to the cities where birth rates can more easily be checked, and relying on the increased demand for farm products to provide the incentive for a return flow of capital into agriculture which would serve to re-organize the farm sector into large, efficient, mechanized labor-extensive units.

Considerable reliance for labor absorption is placed on the fact that industrial plants are not used to capacity. Adding another shift to bring all plants to capacity operation would be the first step. But the scale

of industrialization in many of the Latin American countries is such that even running all existing plants at full capacity would not likely absorb the unemployed (or grossly underemployed) now living in or on the fringes of the large cities, much less withdraw any excess population from the countryside. Although the proportion is declining, Latin American rural populations continue to grow in absolute numbers.

It is doubtful whether poor, illiterate peasants can be absorbed successfully into the industrial and cultural life of the cities at a rate faster than the substantial farm-city migrations of recent years without creating insurmountable problems in the urban areas. In the U.S., with much greater urban influences in the rural sectors over a long period of time, the inability to absorb unskilled labor has resulted in major pockets of poverty in rural areas and a large segment of unemployables living in large city slums.

Gunnar Myrdal has reminded us that frequently industrialization in its early stages actually displaces people. Where industrialization implies a rationalization of more labor-intensive methods, the new industries will outcompete craft and traditional production, and the net effect on labor demand will be negative. Thus industrialization may release more labor than it employs.

In a system where a large proportion of the population is engaged in agriculture (40-60 percent or more), a non-progressive agriculture can serve as a drag on economic development. It is only as the productivity in agriculture advances that industrial expansion can continue. The record of agricultural output has not been all bad over the past decade (1954-1965). Although there are major exceptions, with some countries

falling far behind, food production per capita for Latin America as a whole remained more or less constant.

These figures, however, do not tell us how the income generated by this agricultural production has been distributed among landowners and farm workers. And the distribution of income is a key determinant in the developmental process. On the one hand, incomes can be so equally distributed that all current production is consumed--no savings, no investment, no development. Some inequality in distribution is necessary and is, of course, inevitable. So long as the people receiving the high incomes save and convert these savings into productive capital through investment, development can take place. But the great income inequalities in most Latin American countries provide neither the demand stimulus that would occur if greater equality existed, nor the supply stimulus that would result from investment of the savings by the high income recipients.

The British economist, Nicholas Kaldor, concluded from a Chilean study that if luxury consumption could be reduced to a more modest proportion of the income of property owners, the proportion of savings in the national income could be considerably raised without lowering the standard of living of the mass of the population. Other estimates show that net investment in Chile would have been doubled in 1955 had the personal incomes of the 10,000 large rural estate owners been invested.

The impact of a more productive agriculture on general economic development depends in great part on the distribution of this production, and the consumption-investment patterns of the high income recipients. So long as the basic agricultural resources are owned and controlled by a small group which collects most of the income without making major

productive investments, the stimulus cannot be too great. Under these circumstances, extension of the domestic market required to support industrialization cannot be realized. Even the establishment of a more productive agriculture will not assure general economic development rates sufficiently high to meet the demands of a rapidly growing population. The amount and kinds of investments that this increased agricultural production generates and the income distribution patterns are key elements.

#### IV

A number of analysts have recently reminded us of the requirements of agricultural development. The formulations differ somewhat, but all emphasize the strategic importance of agricultural research capable of providing a constant supply of profitable production innovations, two-way communication between experiment stations and farmers bringing new knowledge to farmers and bringing farm problems requiring solutions back to the researchers, a well organized system for distributing production inputs to farmers (seed, fertilizer, etc.), incentive prices, and service agencies to aid farmers in production and marketing such as credit, marketing cooperatives, etc.

It is well to be reminded of these basic requirements. And they are reminders. They define the well known but strategic elements in the development of agriculture in the U.S. and other advanced countries.

Similarly, Rostow's "national market" concept is a reminder of one of the basic principles enunciated by Adam Smith almost 200 years ago. There is little to argue with these points.

Yet these formulations beg the important question: Is it possible to implement these requirements within the present institutional structure of which land tenure is a significant part? As Erven Long once said, in the absence of fundamental institutional changes throughout these societies, agricultural science will continue to preach its sermons to an empty house. A great effort has been made in attempting to establish cooperatives, extension services, and supervised credit programs. But the results have been, almost without exception, disappointing failures. When the mass of farmers have no resources, no secure claims on the income from their use, no decision-making authority, and no experience in collective action, these results are not surprising.

Attention lately has been given to price ratios of farm inputs and outputs, the contention being that prices received by farmers are low relative to input costs. Consequently there is said to be little incentive to adopt new practices, to use more fertilizers, etc. While I do not deny the importance of price incentives, the validity of the argument for higher producer prices is far from clear. There are wide variations, within every Latin American country, in land use intensity and farming profitability within any farm size group, all operating under similar cost-price relations. If it is possible, as it is, to make a reasonably good profit in farming, why do not more of the large farms increase their investments to realize these profits? One answer might be that such investments on a large scale throughout a nation's agriculture are viewed as endangering present positions of power. The greater technical complexities of modern farming, especially in livestock production, require better educated workers. Initially this means higher taxes to build schools and train teachers;

In the longer run it means managing a labor force more aware of the economic possibilities and likely to insist on a larger share of the increased produce. These prospects could be viewed as a threat by present holders of land.

But perhaps of greater significance is the fact that those in control of most of the land resources have alternative investment possibilities. With low labor costs and low taxes, even extensive land use can provide substantial earnings from a large farm. And it may be much simpler and more lucrative to invest in urban real estate than to invest in farming. This raises the basic question of whether or not those with the ability and alternative to invest in urban sectors should do so, at the same time turning over the rights to land to those individuals without such ability and alternatives but with the willingness to invest in agriculture even at relatively low returns. It appears inconsistent with economic develop-

ment to have farm prices sufficiently high to make investments in agriculture more attractive than in industry. There is a contradiction in the requirements for economic development. Investments in agriculture must be made and agricultural productivity must increase and at the same time the terms of trade must be kept somewhat unfavorable to agriculture.

It is almost universally true that monetary returns to investments in domestic agriculture are somewhat lower than in other sectors. Consequently, people who are willing to invest in agriculture even at a slightly lower return than might be possible in other sectors must get control of the land resources. With decision-making authority over land use, and with the fruits of these decisions accruing to those that make them, there is an incentive to utilize available labor more effectively in the

construction of farm capital--land clearing, drainage, irrigation works, fencing, accumulation of livestock inventories, etc.

Reasoning from U.S. experience without due attention to differences in procedures and institutional arrangements in other countries can lead to wide error in prediction. The conventional agricultural policy prescriptions so widely accepted in the U.S.--research, extension, credit, price supports, cooperatives, etc.--have different consequences when they are introduced into a system of gross inequality in resource ownership and income distribution. Some of these measures may simply make present inequalities more pronounced; others become meaningless slogans incapable of taking root in the existing social-cultural setting. In those cases where the basic system of property rights and the social structure have been altered (e.g., Mexico, Bolivia, Venezuela) there is increasing evidence that such policy measures then become strategic in the further development of agriculture.

Underlying much of our development theory and planning is the implicit assumption that the energizing force in the development process is provided primarily by the top echelons of administrators through the investment plans and projects they direct. However, systems based solely upon authority without enlisting the informed self-interest of the farmer have not worked well. Where wealth and power are a monopoly of a small minority of the population the masses are excluded from all incentives to improvement.

Releasing and fostering the creative human energies of the masses is strategic to any developmental effort. While exploitive measures can carry development to a certain stage, eventually it is the mass of common men

and women who must provide the energy, the markets and the creative drive to keep the process going. But this requires effective economic and political citizenship much more widespread than exists at present in much of rural Latin America. These are some of the basic issues underlying reform and, consequently, economic development.

Distributive reforms appear to be a strategic aspect of policies for development in most Latin American countries. Of course research in the biological and social sciences is required. But there is sufficient evidence that many of the research results available are not being utilized and applied. It is possible that though the knowledge exists, the inputs are not available. Here again, these inputs are available to some and could be available to many large farmers with an interest in agriculture. If there existed an energetic group of entrepreneurs pressuring for them, they might now be more widely available. Conceivably, credit is lacking for the purchase of these inputs. Yet, when one notes the high personal consumption levels among large farmers and the fact that most of the credit allocated to the agricultural sector goes to the large farms, but not always for farm investments, this too becomes a weak argument. It may also be that the marketing system is not well developed. Here again, the large farmer certainly has the advantage of establishing direct connections with wholesalers, exporters, etc.

There is obviously some validity to all these frequently heard complaints. In all cases these deficiencies are much more restrictive for the small farmer than for the large one. And the large landowners must ask themselves, "Who has been in charge all these years? Why have these

elementary services not been developed more adequately?" They will know the answer.\*

Major migrations from rural areas to the capital cities under conditions of widespread unemployment in these cities is a measure of the failure of the agricultural sector in these countries, not a measure of its success. In countries with a flexible opportunity structure, agriculture serves as a haven, a refuge from the impersonal market forces. Agriculture should release people to industry only as they are needed and can profitably be absorbed. Students of the Mexican reform experience agree that one of its major contributions was the creation of conditions in the rural sector which made it possible for this sector to hold people, thus providing sufficient time for the government to undertake an investment program for development.

Thus the rationale for distributive land reform can be classified as follows:

1) Greater social and economic justice, a re-dress of power, wealth and opportunity to achieve greater equality within the society, wider participation and stability in the countryside giving governments a chance to launch investment programs.

\* This is not to indict individual landowners or even large owners as a group. Activities of U.S. companies in certain periods tended also to produce the above-mentioned results. Delineating historical causes is not my purpose. Suffice it to say that the system which evolved and now exists contains the rigidities outlined, and the people in power have to re-evaluate past positions if the required changes are to be introduced.

2) Greater ability on the part of governments to apply a squeeze on agriculture resulting in new governmental revenues (revenues which presently go to resource owners and which governments find impossible to extract) and at the same time giving the mass of farm people more purchasing power to buy goods that support local industry (in other words, a greater supply and demand response from agriculture).

3) Increased incentives for agricultural producers through improved markets and incomes, greater availability of consumer goods, clear titles to land, improved tenancy arrangements and share contracts, etc.

4) Providing a general re-orientation in the institutional arrangements which provide a development impetus and create a new vitality within a society.

Admittedly these are ideals hoped for, but they cannot materialize without a great effort in many other areas. Land reform offers no panacea, no simple solution to the momentous difficulties of economic development. Perhaps the situation in most Latin American countries is not yet considered so urgent as to require such drastic measures. But once the urgency is fully registered it may be too late to transform the system through peaceful and orderly processes. Likewise there are dangers in distributive reforms accompanied as they will be, almost inevitably, with some confiscatory measures. Care need be exercised that confidence and security of expectations of potential investors, including the expropriated landowners, is not destroyed. But there is no risk-free solution.

VI

Proposals for indirect measures to accomplish the same results as distributive land reforms are frequently advocated. The major ones are tax reforms, and minimum wage legislation and tenancy reforms.

Viewed abstractly, progressive income taxation can be used for income redistribution just as progressive land taxes (increasing with size of holding) can lead to land redistribution. But the fact remains that progressive taxation as an effective vehicle for income redistribution has been successfully used only in highly developed countries.

The public imagination is not to be captured by tax reforms. Although agrarian reforms can have the enthusiastic support of the peasants, tax reform invariably produces intense opposition without garnering offsetting support. Politically, taxes are never popular, even among the potential beneficiaries.

In addition to problems of enforcement and lack of support, increased land taxes, although obviously required, have many other weaknesses insofar as realizing distributive land reform objectives are concerned. Landowners may require more work of their laborers without more pay and release workers to make up the increased tax bill thus adding to the social problems. Some advocates of increased land taxes anticipate that many of the extensively operated large farms would be sold to entrepreneurs who would use the land more intensively. But there is no large buyers' market for these huge estates. If there is progressivity of taxes by size of unit, paper subdivisions can be employed to circumvent the intent of the law. And even if actual subdivision does take place, very few

(if any) farm laborers will have the financial capacity to obtain a farm. Finally, such a tax law on the books may provide the rationale for opposing other reform measures.

Some of the same weaknesses are inherent in improved wage legislation and tenancy reforms. Unless there are strong rural labor (or tenant) organizations, such enforcement is difficult. Indeed such regulations have caused landowners to withdraw lands from commercial use or to substitute machines for men, so that rural work opportunities are reduced and the economic status of the peasant is worsened. These measures must be viewed as supplementary to but not as substitutes for distributive land reforms.

All the specific agricultural policy measures frequently recommended (research, extension, credit, cooperatives, incentive prices, etc.) may be inadequate to get the system moving in new directions. None of them make contact with the basic issue of concentrated economic and political power. This issue can only be confronted by developing an alternative source of power to challenge the position of those in whom this power now resides. Research from Mexico, Bolivia and Venezuela yields consistent and supporting evidence for this view. Confidence and self-respect among the underprivileged rural people can only be built through organizations which provide them with a vehicle for expressing their needs and desires and releasing their creative energies.

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