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INSTITUTIONAL ASPECTS OF AGRICULTURAL DEVELOPMENT POLICY

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INSTITUTIONAL ASPECTS OF AGRICULTURAL DEVELOPMENT POLICY

Kenneth H. Parsons

The development of economic institutions is an integral part of the modernization of agriculture. We propose in this paper to discuss a few key policy issues in institutional design and innovation as well as aspects of agricultural development. 17 Attention is directed centrally to the problem of agricultural development in the less developed countries.

I. The Problem

The modernization of agriculture is a never ending task, with a baffling number of dimensions, of which the formation of institutions is only one. As we understand the problem of institutional policy, the general terms of resolution are to be found in the development process; consequently the problems of institutional innovation need to be formulated within the context of agricultural development. For such a perspective, a general conceptualization of the agricultural development process is essential.

We accept the current views and terminology that agricultural development consists of the transformation or modernization of an antecedent traditional or subsistence agriculture. Such an acceptance recognizes both, (a) that people living from the land have over the

centuries devised some sort of subsistence economy--their survival testifies to that; and (b) that such subsistence-survival economies, being essentially pre-state, pre-investment, pre-market and pre-scientific, were devised without benefit of economists or scientists or capital equipment beyond home-made tools. Even so, such systems are comprehensive social systems adapted to the ecological conditions and vary according to the character of the natural environment.

All systems of agricultural economy, whatever the degree of current modernization, have at some time passed through this subsistence-traditional stage of development. If so, then all agricultural systems can be conceptualized on a continuum from traditional to modern, which continuum has an historical dimension even though the different systems of agriculture have moved toward modernization at different rates and from differing temporal bases. The subsistence-traditional bases of our own agricultural economy lie far back in our European and Indian antecedents.

The modernization of agriculture, being a most complex process, can be initiated from any one of several directions. Each approach has its own advocates. But there comes a moment in the agricultural development of any country, and this is quite early in the process, when the institutional system of a country must be comprehended as a whole. For economic policies, the central concern is the system of state and economy, although the social systems of family, community, clan, voluntary association, educational organization, etc., are never unimportant. We would, however, emphasize the system of state and economy as crucial for

the simple reason that in the development process the powers of the state and the productivity of the economy become the dominant influences--at least in the long stretch from poverty to near affluence.

Consequently in the selective emphasis necessary to say anything of consequence in a few pages about so vast a process and in order to deal with issues of public policy we shall concentrate our attention upon the problems of devising a going system of state and economy as a matrix for the modernization of agriculture. In terms of institutions, this leads to an emphasis upon the legal and economic.

II. On Institutional Situations In the Less Developed Countries

Economic development is basically a national enterprise, even though there are compelling arguments, of both necessity and justice, for international cooperation with and assistance to the less advanced and emerging nation-states. To get perspective on the problems of national development, in this United Nations age, we need to move back in our thinking to the time of the First World War. This is the watershed point in time. For a century preceding this great catastrophe, the world was European centered: in trade, finance, science, and intellectual achievements. At about the same time, there occurred the Mexican Revolution, the Russian Revolution which gave communism a great beachhead, and the beginnings of the dissolution of the empires of the 19th and earlier centuries. The Second World War virtually completed the process of dismembering empires, followed in our day by a great surge of nationalism with the creation, re-creation or energizing of the several scores of countries in the non-European world.

But history being what it is, interlaced with natural necessity, and the present situations in the underdeveloped world can be understood only by some reference to the European influence of preceding centuries. This is particularly true for the pattern of institutions and the problems of institutional policy in the agricultural development of the less developed countries.

The truly great influence of Europe upon the rest of the world, say, for the past 500 years, is unquestionably intellectual, philosophical and scientific. The most dramatic and even obvious means of spreading of such influence was no doubt colonization, colonialism, and the pulling of distant lands into the orbit of European trade and finance. But there were other influences deeply at work--from Europe and from the United States too, the latter as a new Europe on virgin soil. Missionaries took elementary education and medical services to the most distant lands. When Japan moved to modernize they brought in German constitutional lawyers, French engineers and American agricultural scientists. Similarly, legal scholars undertook to modernize and codify the legal systems of the Ottoman empire by adoption of the Napoleonic code.

In general terms, then, one of the truly key questions, or key sets of questions, for understanding the present situations in the less developed countries around the world, is the simple one, what was the European influence in recent centuries? To be sure, such influence was not everything.

Probably we were the most fortunate of the lot--we of European rather than indigenous descent. Here our forefathers took as guides the key ideas from the European enlightenment and fashioned a new system

of state and economy, upon a continent made vacant by pushing the natives aside. The ideas took root and flourished exceedingly, having been freed from the constraining influences of class, lords, guilds, and prelates. The outcome in the United States was an integrated system of state and economy with universal suffrage at least for white men throughout our history, including the benefits of representative government, an independent judiciary, public order and security of person and property--at least to tolerable levels of performance at least.

Our Latin-American cousins were not so fortunate. Even where the natives were pushed aside and a European system instituted, as in the southern countries of South America, the political and institutional heritage was feudal--with the intellectual tradition not having been deeply modified by the Reformation and the Renaissance. Where the Indian population survived in great numbers, as in the Highland area of Latin America, dual societies came into being--with a European-oriented elite, and the nameless masses descended from the indigenous people. A similar institutional dualism is found in other parts of the underdeveloped world, as consequences of attempts to provide an institutional base for islands of cash crop production as well as through attempts to establish more general systems of administration.

III. Institutional Policy Issues from the Perspective of the Citizen

We consider the problems of institutional innovation first from the perspective of the individual participant, and then from the viewpoint of the economy as a whole.

As economists view the economic substance of transformations needed to achieve agricultural development, they emphasize the kind of changes required to achieve more efficient production through mobility of resources, the introduction of technology and the incorporation of capital, production specialization, the modification of income distribution, etc. Consequently, we may accept as one set of criteria for institutional policy the support of such substantive achievements. A second general criterion is that institutions must form a system.

One widely followed policy for the modernization of agriculture has been the establishment of enclaves of export agriculture. This has been achieved, usually, by pushing aside the traditional agriculture and developing a modern agriculture which was an integral part of a world market economy, but not of the national economy. Interrelations with the national economy were restricted largely to hiring labor from the traditional agriculture. As we know from much contemporary history this policy leads to troublesome dualisms, and in effect makes a nation dependent upon traditional agriculture for its food supply. However, the institutional problems of development in this approach may be quite simple -- just import the working rules and the sanctioning authority for the enclave agriculture.

At another extreme we have the revolutionary Communist-Marxian ideology. In this view the whole institutional system of traditional subsistence agriculture is to be smashed, together with whatever property rights have been achieved. This is supposed, according to the propaganda, to produce a clean slate upon which the ideal system can be built. In actual practice such revolutions have brought great chaos to the countryside, brooded over by bewildered and confused peasants.

We are interested here in noting such approaches principally to set them aside, so as to define more precisely the nature of the problem of transforming the institutions of a traditional agriculture as a part of the process of modernization.

Institutional transformation was achieved in Western Europe, the United States and Japan, as a part of the development of a national agriculture. The process was no doubt made easier in these countries by the fact that a market orientation of agriculture was achieved largely by the selective expansion of crops already being produced. The cultivators produced more and sold the surplus to their cousins who were in nonfarming occupations. In the presently underdeveloped countries the market orientation of agriculture has been mostly in export crops, many of which are not indigenous to the areas.

In subsistence agriculture economic opportunities are natural opportunities, with land as the principal component. The institutions by which land is used are customary working rules; such rules are designed to insure survival of the group, not to facilitate the progress of individuals. As a corollary, land is neither sold nor mortgaged. It passes from generation to generation by inheritance. Hundreds of millions of people still live in approximately this sort of agricultural economy. Increases in population and soil deterioration are combining in our time to make survival by this method extremely precarious.

In general, people trapped in the poverty of a deteriorating subsistence agriculture may seek escape through wage employment elsewhere, perhaps remaining as part-time farmers, or more importantly they may develop an inadequate subsistence unit into a genuine farm firm. Among

the requirements in the achievement of the latter is a shift from an agriculture resting upon an exploitation of nature to an investment-oriented agriculture. Such a modernization both depersonalizes economic relations and changes the expectations regarding future time. In a traditional system time is seemingly viewed as an anticipation of a mere repetition of the past. In an investment economy time presents genuine problems.

In the Anglo-American tradition, this shift in time perspective was achieved by expanding our conception of property from physical objects held for exclusive personal use to the capitalized value of the prospective imputed income. ³, p. 11-36⁷ The depersonalization of economic relations has been aptly characterized by Arthur Lewis as learning to deal fairly with strangers. ⁵, p. 115⁷ The essence of the institutional changes required for depersonalization is making contracts and debts negotiable and land more freely alienable. ³, p. 240-254⁷ At the moment of break-over from an exploitative to an investment-oriented agriculture, there is almost certainly an institutional crisis in agriculture, with customary arrangements becoming increasingly inadequate. The most perplexing questions undoubtedly concern the degree to which land is to be made an object of purchase and sale. Where societies are largely individualized, as in say Nicaragua and Paraguay, and there is as yet unoccupied land, customary rights to the ownership of land can be, and are being currently, established by clearing the jungle and occupying the land. There are procedures, approximately equivalent to our homestead law, by which the customary claims can be converted into legally sanctioned properties. However, in actual fact such conversion

proceedings are likely to be difficult and expensive, and it is not unusual that there is a conflict over preemption, with the settler being ordered off land he has already cleared upon the claim that someone already holds a higher, i.e., legally sanctioned, title to the land.

More difficult issues are now being confronted in Africa particularly where the space is filling up and society is less individualized than in the western hemisphere. A shift to legally sanctioned property held by individual African owners is being made, for example, in the Kikuyu highland area of Kenya. Here settlements were traditionally scattered and customary tenure claims attached to identifiable pieces of land. In the transformation, not only are the tracts of individual owners identified and recognized by the state as property, but the scattered tracts are exchanged so that the holdings of one individual can be consolidated. In this area one now sees African farmers owning small to medium sized individual farms, and the countryside has a European or American appearance. 47

One of the customary rights which had to be eliminated to achieve individually held fee simple property rights was that of redemption of land by relatives. This practice, which is quite general in Africa, is clearly an aspect of the transition from traditional to modern. A redemption right becomes operative when land is transferred outside the family, in a rudimentary sale. By tradition any (close) relative or descendent of the person who disposes of land to a non-relative can redeem the land so transferred at any time by returning to the purchaser, or his heirs or assigns, the original sum paid. This has meant that where land was so transferred the surest way to lose land by redemption

was to improve it. In Kenya the right of redemption was made subject to a statute of limitation. Such a limitation was absolutely essential for investment in the lands exchanged in the consolidation program.

The individualization of legal ownership has not proceeded as far, where tree crops are important and the family or clan unit controls the land. But here too, as in southern Nigeria and Ghana, agriculture is approaching the critical break-over point to legally sanctioned titles. In principle land is neither sold nor mortgaged but there is a practice of "loaning" land against an advance of funds--in principle a bailor-bailee relationship--against which a right of redemption runs.

The problem of converting customary ownership of land into legally sanctioned negotiable property in this part of Africa is complicated enormously by the closely interdependent family or clan system. Societies are not individualized as are our own. It seems likely that if land now being made valuable by the increase of population, economic growth and the market orientation of agriculture were to be converted wholesale from customary to negotiable property that the land ownership would become assimilated to social rank, as has happened in much of the once tribal society in the Middle East. There the result was a marked concentration of landed wealth in the hands of a few eminent persons.

One possible way of modernizing the property structure of agriculture but yet avoiding the prospective concentration of wealth, which has been discussed somewhat, is the formation of village or family associations (perhaps as cooperatives) which would hold formal title to the land, with the relations to commodity and credit markets being handled by the leaders of the community. In such an arrangement, the village economy would be

essentially one firm with internal working rules which would serve as the institutional equivalent for individual participants of property and contract arrangements in our individualized farm economy. It is out of a search for some such new form of group economy, that the roots of African socialism are to be found.

IV. Institutional Policy In National Perspective

The primary tasks of institutional policy in economic development are to design systems of state and economy and to make them into going concerns. Once this has been achieved marginal adjustments can be made in the system. By analogy, and in generic terms, these stages might be distinguished as the constitutional and amendment phases.

The imperatives for institutional policy in agricultural development grow from the fact that the traditional systems of agricultural institutions, by whatever name, lack the capacity to serve as a major instrument for agricultural development policy. We judge this is true also generally of the dual systems of institutions in the less developed countries. We would not argue that no gains in output can be made by programs for capital intensification, improved varieties, fertilization, the expansion of cash crops, and more. But unless a comprehensive system of institutions is established in which the powers of the state and of the economic system supplement and mutually support each other, so that the people are energized by expectations of progress in a reasonably dependable public order, not only will the gains in technical agriculture be nullified in a few decades but technical progress without institutional reconstruction will likely intensify pressures for revolutions. This is a judgment, of course.

As implied above, it is impossible to separate the state from the economy, except analytically. Not only is public economic policy in general based upon the exercise of the powers of the state in economic affairs, the sanctions of the sovereign powers of the state are depended upon to enforce the major working rules of the economy. It is through public procedures that property rights are established and enforced; it is the sheriff and the courts to whom we turn for remedial action on contracts. In fact the differences which distinguish totalitarian systems from what we call democratic capitalism are conceptions of the role of government in the economic system, particularly the nature of the working rules and kinds of transactions permitted.

In the emerging countries today the question of whether or not agricultural land should be privately owned is a major policy issue. The question comes differently now than a few centuries back when our own system was taking shape. Now, all of the great policy issues in development are influenced by ideological considerations. The communists believing that the state can do no wrong, and observing that property is power, decree that the state shall own the agricultural land. Our ancestors by contrast were impressed by the shortcomings of the despotic state, and in effect they devised the rules of property as a means of implementing freedom. This liberal philosophy of implementing liberty with property took the practical form in this country of a land policy of widely diffused private ownership of land, subsequently supplemented by the extensive systems of educational credit, marketing and service institutions familiar to us all.

Although policy questions of land ownership rest ultimately upon consideration of political philosophy, the design of the system of state and economy is made operational in terms of working rules. In the Anglo-American tradition we tend to place major reliance upon general working rules in economic affairs, which define the limits within which voluntary discretion is permitted. This is what we mean by liberty and opportunity. In our tradition, as we move toward specifying the terms of particular acts we specify what is to be avoided. In totalitarian systems, by contrast, principle reliance is placed upon working rules which define specific performances. The society which places major reliance upon rules which define the terms of specific performance embraces a duty state. A society which relies principally upon working rules which define only avoidances specifically leaves room for freedom and opportunity. In fact the deep reliance which a free economy places upon induced or willing participation in the economy, rather than coerced participation, requires that opportunities be made objective and accessible to persons according to their abilities and capacities. In an occupation, an opportunity is occupied.

It is, I believe, of the most profound importance that individual liberty and objective opportunities have a common historical root in the Anglo-American tradition. They were established together. Both were made objectively secure, in the procedural sense, by working rules which reduced the power of absolute prerogative and restricted the zone of arbitrary power of the Crown. In Commons' dramatic phrases, the limiting of the scope of authoritative arbitrary action which the Crown was permitted to take

created an "indefinite residuum"--an "orbit where the will is free." 13; p. 221. The liberties of free men in this "indefinite residuum," have matured into political citizenship as people have come to share in the exercise of sovereignty. Correlatively, out of this same indefinite residuum come objective opportunities which have become the bases of property rights.

Perhaps the simplest way to comment on this vast issue as posed in the less developed areas of the world is to seek historical perspective on the European influence of recent centuries in these areas. Almost everywhere some sort of parliamentary system was undertaken. Economic development prior to World War II, both fostered and was fostered by the establishment of property rights in land, creditor-debtor relationships and so on. But the systems were not inclusive and comprehensive and they did not work well. A very high proportion of these feeble starts at parliamentary government have been obliterated by communist revolutions or taken over by military coups. When gross disorder is avoided we see again in the exercise of power government by absolute prerogative. Whatever objective freedom and opportunity there may be rests upon forbearance in the exercise of power by those who control the state, rather than upon constitutional procedures restricting the scope of the power of prerogative. At best under such conditions property and citizenship are privileges, not rights. But the struggle of humanity for freedom and rightful status in state and economy seems destined to go on and on, and such privileges may be converted into secure rights, as happened in our own tradition.

Some 400 years ago Sir Thomas Smith, secretary to Queen Elizabeth, visualized England as a Commonwealth. Although his little book--The Commonwealth of England 16--is scarcely known in this country, it now

seems to me that our national policies have been guided in a largely in-
articulated way by the insights which Sir Thomas formulated. The essence
of this conception was that persons as members of the Commonwealth had
rightful status as participants in both state and economy. At that time,
only land owners were included in the Commonwealth, the rest of the people
were excluded, mostly as a low rascal sort of people. During our national
history, we have been groping our way toward policies which recognize that
the overall purpose of public policy should be to make accessible both
economic citizenship and political citizenship to every person able and
willing to participate in the Commonwealth. The current civil rights
movements and anti-poverty programs are simply the latest public recognition
of the need to include the excluded. Some such conception of rightful
participation in a Commonwealth, of including the excluded, seems to me
to be the "inarticulate major premise" of much of the groping, revolutionary
ferment in the underdeveloped world today. The Ideal of Commonwealth
might well serve there also as a basic guide to institutional policy.

Footnotes

- [1] For related comments see my: "Land Reform and Economic Development," Introduction to Land Tenure, Parsons, Penn and Raup (eds.), Wisconsin, 1956; "Agrarian Reform Policy as Field of Research," in Agrarian Reform and Economic Growth in Developing Countries, USDA-ERS, 1962; "The Tenure of Farms, Motivation and Productivity," U. N. Conference on Science and Technology for the Less Developed Countries, Geneva, 1963, U. S. Papers, Volume III; "The Institutional Basis of a Progress Approach to Economic Development," in publication by University of Texas-
- [2] Commons, John R., Institutional Economics.
- [3] Commons, John R., Legal Foundations, Wisconsin, 1956.
- [4] Huxley, Elspeth, A New Earth, Chatto and Windus, 1960.
- [5] Lewis, Arthur, The Theory of Economic Growth, Irwin, 1955.
- [6] Smith, Sir Thomas, The Commonwealth of England. (158), 1906.

DISCUSSION: INSTITUTIONAL ASPECTS OF AGRICULTURAL DEVELOPMENT POLICY

Douglas D. Caton

Integration of the economic and technical aspects of transitional agriculture creates, in each case, an economic system having unique institutional characteristics. This is so because of the interdependence and interrelationship of the "blend" of will, incentives, skill, and decision and competence of the human resource, technical inputs, and physical resource capacities. Thus, says Dr. Parsons, the transition process from traditional to modern agriculture is a "systems" problem requiring the integration of state and economy at the local, state, and national levels. In addition to emphasizing that "the institutional system of a country must be comprehended as a whole," Dr. Parsons reinforces the systems concept of institutionalizing the transitional process of agriculture by stating "the problems of institutional innovation need to be formulated within the context of agricultural development and, if this is so, then all agricultural systems can be conceptualized on a time continuum from traditional to modernization. Hence, in modern jargon, institution building is a "systems problem."

Corollaries to Dr. Parsons' requirement of a "system of state and economy" for economic policies on institutions, of concentrating attention on a national "matrix" for the modernization of agriculture, and the general criterion that institutions must "form a system," are to be found in other dissertations characterizing the nature of the limitations confronting agricultural progress in the less developed countries. Among

these are: "...increasing agricultural production in developing countries ...is a complex and many-faceted problem. (Therefore) It is impossible to pick out one single key to the situation... One has always, in every country, to deal with a wide variety of circumstances...^{1/} or improved seeds, fertilizer, and pesticides have substantive potential to increase yields but institutional capabilities are needed to transform all of these into sustained agricultural economic growth. Put more directly, the proposition underlying the whole of Dr. Parsons' reasoning on the role of institutions in agricultural development, i.e., to maximize the appropriate role of agriculture, is as he argues, "gains in technical agriculture (will) be nullified...without institutional reconstruction," can be restated as: economic underdevelopment is, fundamentally, the reality of institutional underdevelopment. This proposition is well supported in Dr. Parsons' paper.

Also, a major proposition of the paper is that for countries to make economic progress they must fundamentally alter their institutional structure. As Dr. Parsons points out, this proposition cannot be stated as a categorical imperative because it is relative, varying from country to country; nevertheless, it is clear that institutions developed around a traditional agriculture are usually ill equipped to build and to provide the support and integration required for a modern, sustaining, and self-generating type of agricultural development. In this regard, it is equally clear that a country's institutional needs must be weighed in terms of the existing problems and the problems that will be created. This, as Dr.

^{1/} Bell, David E., Responsibilities of Government in the Support of Food Production and Distribution, National Academy of Sciences, April, 1966, p.8.

Parsons states, requires that institutional planning be done from the perspective of institutional history. The institutional programming implications of this perspective is that the impediments to change must be identified and, in addition, we must continuously identify the impediments to change generated by the transitional process.

While the emphasis in the paper is primarily on the institutional aspects of agricultural development, the concern is with the total concept of rural development; namely, the alteration and organization of the components of a society, i.e., culture, society, economy, and policy into a systematic and enduring institutional framework which will support self-sustaining growth. However, it is difficult to anticipate rapid advances in self-sustaining agricultural growth occurring unless the alteration in policies and in institutions provides for reaching and motivating the farmer with science, technology, and incentives.

Thus, Dr. Parsons' paper might have been strengthened by a specific illustration, such as might have been done using Taiwan as an example, on how the development and use of institutions, simple in form but integrated in concept, created the basic matrix for organizing and motivating farmers, extending science and technology, providing roads and markets, providing leadership, and establishing methods of comparing alternatives for sound economic decisions.