AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D. C. 20523

BIBLIOGRAPHIC INPUT SHEET

FOR AID USE ONLY
BATCH #16

1. SUBJECT CLASSIFICATION

A. PRIMARY
Agriculture

AE10-0000-G516

B. SECONDARY
Agricultural economics--Chile

2. TITLE AND SUBTITLE
Issues in land reform: the Chilean case

3. AUTHOR(S)
Dorner,Peter

4. DOCUMENT DATE
1965

5. NUMBER OF PAGES
17p.

6. ARC NUMBER
ARC CI301.35.D713

7. REFERENCE ORGANIZATION NAME AND ADDRESS
Wis.

8. SUPPLEMENTARY NOTES *(Sponsoring Organization, Publishers, Availability)*
(In Land Tenure Center discussion paper no.5)

9. ABSTRACT

10. CONTROL NUMBER
PN-RAA-870

11. PRICE OF DOCUMENT

12. DESCRIPTORS
Chile
Land reform

13. PROJECT NUMBER

14. CONTRACT NUMBER
Repas-3 Res.

15. TYPE OF DOCUMENT

AID 590-1 (4-74)

Issues in Land Reform
The Chilean Case

Discussion
Paper 5
August, 1965

LAND TENURE CENTER University of Wisconsin
Madison

Foreword

THIS PAPER is a discussion of some of the issues involved in a land reform program for Chile. I say "some" since it is virtually impossible to include in this discussion all the ramifications of land reform. For example, a redistribution of water rights and development of better service and produce markets are important problems which I have not included in this discussion. Likewise I have said very little about the present agrarian reform law. My purpose is to demonstrate the need for some basic reforms, and the means that need to be developed to accomplish them.

I offer this as an LTC discussion paper, not a research document. Many of the statements are opinions arrived at by discussing these issues with others and from personal observations. My purpose was not to be critical of Chilean or U.S. policy for the mere sake of criticism, but rather to understand the nature of the problems that must be faced.

I wish to acknowledge the help received from my colleague, William Thiesenhusen, in the preparation of parts of this paper. Likewise I am indebted to Felipe Paul and Juan Carlos Collarte who did the farm interviewing. Felipe Paul did most of the tabulating in analyzing the case farms. However, I alone assume full responsibility for any errors or misstatements.

Peter Dorner
January, 1964

Issues in Land Reform The Chilean Case

Peter Dorner*

The Setting

Nestled between the snow-capped Andes on the east and the coastal range on the west is Chile's Central Valley. This is beautiful country with a mild, Mediterranean-type climate. In the spring, which begins in September, the countryside is green. The air is filled with the pleasant aroma of orange and lemon blossoms, and flowers of all shades and descriptions provide a spectacular panorama of natural beauty. As the season progresses and temperatures rise, most plant life is dependent on irrigation since normally there is little rain after the month of September.

On the surface this scenic beauty gives the appearance of tranquility and high productivity. It has some features similar to those of the fertile valleys of California—a mild climate, beautiful mountains, vineyards, citrus groves, elaborate irrigation works. But hidden beneath this deceptive veil are many contrasts deeply rooted in custom and tradition. Most outstanding to an observer from the U.S. is the great contrast between rich and poor, master and servant, upper class and lower class. And these differences arise not out of innate capacities—they are a matter of birth. As George Orwell said, some are born a lot more equal than others.

In recent years, many problems of the Chilean economy have come into clearer focus. Chileans and others have been analyzing the agriculture and the economy because they have not been performing well. Inflation has plagued the economy for nearly a century, but it has become nearly unmanageable in recent years.[1] During the 1950's, population has grown at an annual rate of about 2.5 percent. While the economy as a whole has been growing at a slow rate, the sluggishness of the agricultural sector has been even greater:

> Between 1945 and 1959, Chile imported farm and livestock products for $1,220,000,000 of which $790,000,000 corresponded to food products that could have been produced domestically.[2]

And these imports have been increasing, rising from $16 million in 1945 to over $100 million net of exports in the last several years.[3] The combination of inflation, rapid population growth, and a lagging economy, especially agriculture, has led to an actual decline in the consumption per capita since the mid 1950's.[4]

Underlying these statistics on agricultural performance is the system of organization within agriculture.

The Agricultural System

It is well to point out here that Chile is a long (north to south) country. In the present discussion, emphasis is placed on the Central Valley, or more accurately the central zone, comprising approximately the middle third of the country. But in terms of the agricultural resources and potential, as well as population distribution, this central section dominates the economy. The northern section is desert country, while the southern third contains the beautiful forests and lake country of Chile. This southern section has great potential (as does some of the north with proper irrigation developments). But in terms of present circumstances, Chile looks to this vital central third for increased agricultural production. It is also in this central section that the traditional agricultural system is most clearly defined.

This central section contains over 76 percent of the irrigated farm land in Chile, indicating its overwhelming importance in a country where irrigation is critical for crop production. Less than 9 percent of the farms contain over 74 percent of the irrigated land. Over 70 percent of the land is in farms of more than one thousand hectares.[5] This gives the general picture of

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* Professor of Agricultural Economics, Land Tenure Center, University of Wisconsin, and recently returned from two years at the Instituto de Economía, Universidad de Chile, Santiago, Chile. There he engaged in a two-year study of land tenure, productivity and agrarian reform, financed through a USAID Contract with the University of Wisconsin, which in 1962 established the Land Tenure Center. The Chilean project, in cooperation with the Instituto, is aimed at providing professional training and research in land economics, and at developing a store of knowledge in this field.

[1] Albert O. Hirschman, *Journeys Toward Progress* (New York: Twentieth Century Fund, 1963). Average annual price rise in the decade 1950-60 was 36 percent, reaching a high of 84 percent in 1955. (Hirschman, p. 160.) See Hirschman's chapter III, "Inflation in Chile."

[2] República de Chile, Corporación de Fomento de la Producción, *National Economic Development Program, 1961-1970,* January, 1961, p. 16. (Mimeographed.)

[3] *Ibid.*

[4] *Ibid.*, p. 45.

[5] República de Chile, Ministerio de Agricultura, Departamento de Economía Agraria, *Documentación básica general sobre tenencia de la tierra en Chile y materias afines* (2d ed.; Santiago, Chile, 1962). One hectare = 2.471 acres.

the concentration of land ownership. In general, the agricultural system is composed of a relatively small number of very large farms, and a large number of very small farms. Chile ranks near the top of Latin American countries in terms of land ownership concentration.[6]

What are the general features of this agricultural system? The traditional pattern on the large farms, called *latifundios,* is to have from ten to one hundred or more families living on the *fundo,* the number of families depending on the size of the farm and whether or not much day-labor is hired from the outside. These agricultural workers living on the farms are called *inquilinos.* In many cases, there is substantial labor hired from outside the *fundo.* These may be workers without land, or they may live on the small farms, the *minifundios,* in the vicinity. In Chile, over 73 percent of all families gainfully employed in agriculture either own no land or own units of less than five hectares.[7]

The owner of a large farm frequently lives in the city and is engaged in some other line of business or governmental activity. He often maintains a nice residence on the farm and may live there with his family in the summer.

Management of the farm is in the hands of an administrator and several sub-administrators. Except in those cases where the owner actually resides permanently on the farm, the administrator is the only contact between the owner and the workers. Although there are notable exceptions, land on these large farms is ordinarily exploited less intensively and efficiently than it might be. Prestige, power, and a position in the upper class is assured by the fact of ownership, irrespective of the quality of management of the farm enterprise.

Income distribution follows the same pattern as land distribution. In 1954, the working-class (87.2 percent) of Chilean agriculture received 34 percent of the total agricultural income while the upper-class (12.4 percent) received over 65 percent. In terms of 1960 escudos, average income was 331 and 4,492 respectively.[8]

In one study of the *inquilinos* in Chile, it was concluded that the small cash wage, even if spent almost entirely on food, would be insufficient for maintaining an adequate diet.[9] As Sternberg points out,

> While the *inquilino* has been the basis of the traditional form of agricultural labor in Chile, his position today can be considered as more advantageous than that of the day laborers, migrants, and other unskilled farmworkers who make up the majority of the landless laborers.[10]

The reason for the more advantageous position of the *inquilino* (as against day laborers and migrants) is that the *inquilino* is provided with a house (albeit of poor quality), usually a ration of land, along with other *regalías* (gifts or payments in kind). Also, there is an informal (though not legally binding) commitment on the part of the owner, the *patrón,* to keep his *inquilinos* on the farm and provide for them. They are "his people." The day laborer operates on the basis of "catch as catch can." Although day laborers may receive slightly higher cash wages than the *inquilinos* in addition to some meals and payment in kind, farm owners feel no particular obligation to them and they are hired and released at the will of the owner (or administrator) in line with the work requirements of the farm.

The origins of this system date back to the Spanish conquest. This history is well documented and will not be discussed here.[11] Of greater value to our understanding this system is to analyze several cases as they operate at the present time. The three cases analyzed here are a sub-sample of a larger sample of farms studied throughout the central zone of Chile. Our purpose in the larger sample was to locate large farms in the central zone that would represent the entire spectrum of arrangements with respect to composition of the labor force, income distribution, and productivity.[12] The farms analyzed below are not representative in the "random sample" sense which would permit generalization of averages for all large farms in the central zone. However, they are, in our judgment, typical or modal farms in the sense that a number of other farms have similar systems.

[6] *La creación de nuevas unidades agrícolas,* Informe del Segundo Seminario Latino-americano sobre Problemas de la Tierra (Santiago, Chile; FAO, 1961), cited by Solon Barraclough, *Agrarian Structure and Education in Latin America,* p. 29. (Mimeographed.) See also Marvin J. Sternberg, "Chilean Land Tenure and Land Reform" (unpublished Ph.D. thesis, University of California, 1962), p. 36.

[7] Barraclough, *op. cit.,* p. 30.

[8] Sternberg, *op. cit.,* p. 56. (A middle class in Chilean agriculture is calculated as consisting of .4 percent and receiving .4 percent of the income.)

[9] República de Chile, Ministerio de Agricultura, Departamento de Economia Agraria, *Aspectos económicos y sociales del inquilinaje en San Vicente de Tagua-Tagua,* (Santiago, 1960) p. v. (Hereafter cited as *Inquilinaje.*)

[10] Sternberg, *op. cit.,* pp. 59-60.

[11] For example, see George McCutchen McBride, *Chile: Land and Society* ("Research Series No. 19; New York: American Geographical Society, 1936), especially chapter IV. See also CIDA report on Chile, in process of publication.

[12] See J. Carlos Collarte, "Análasis de una alterniva de los sistemas de tenencia de tierras de Chile" (thesis, Facultad de Agronomia, Universidad de Chile, Santiago, Chile).

Analysis of Cases

Case Farm A—This farm is located in one of the southern provinces of the central zone. The farm is owned by two sisters who live in Santiago. They inherited the farm in 1948. At present, a thirty-two-year-old son of one of them is the administrator of the farm. This young man lives on the farm about nine months of each year. He has not had professional training in agriculture.

This farm has some of the best soils in the area, and consists of 412 hectares. With the exception of land in roads, building sites, fences, etc., this land is all potentially irrigable. However, the administrator reported that only about 180 hectares could be adequately irrigated with the water rights on the farm.[13] In the 1962-63 crop year, about 150 hectares were actually irrigated (including the *inquilino* plots). The remainder of the land is in old pasture, some of which is used for grazing livestock of this farm, while some is leased to a neighbor for grazing purposes. The major crops in this past year were sugar beets, sunflowers (an oil seed crop), barley, and some beans. Livestock on the farm consists of sixty beef cows and young stock plus eight horses.

The labor force consists of twelve men (internal or permanent work force) who live with their families on the farm, and approximately forty man years of labor hired from outside the farm.[14] The majority of this outside labor is employed on the 50 hectares of sugar beets, and is heavily concentrated in the months of November and December. The internal work force includes the administrator, three *mayordomos* (or foremen, two tractor drivers, and six *inquilinos*. Over fifty man years of work would appear to be an unusually high amount of labor. But the mechanization on this farm is very low, with an investment of only about 600 *escudos* per worker.[15] Furthermore, the crops grown are labor intensive and require much hand labor.

Workers income is made up of a variety of payments in kind and in cash. Rates also vary with class of worker. For example, the *mayordomo* in charge of sugar beets received E° 600 per year, the tractor drivers slightly less, while the *inquilinos* received less than 300 per year. In terms of present exchange rates, *inquilinos'* daily cash salary is a little more than 25 cents per day. The day laborers, outside workers and migrants, received about 50 cents per day, but they received very little payment in kind. And, as mentioned before, their employment and thus their income is uncertain, varying with the season.

In addition to the cash wage, the internal workers have a house to live in, they receive a food ration which is given on the basis of number of days worked, they are permitted to work a piece of land and grow crops for themselves, they are entitled to graze some livestock on the pasture land of the farm, and they receive an additional payment in kind (usually corn, wheat, barley, etc.) which they can consume directly, feed to their livestock, or sell for cash. On this particular farm in the year studied (1962-63 account year which runs from May to May) there was a bonus paid at the end of the year which amounted to about E° 65 to 70 per worker. The day laborers receive, in addition to their cash wages, only a food ration for the days worked.

This is the income received from the farm. But there is also a family allowance paid by the social security system. A family head receives a monthly payment for each dependent (wife and children). These rates keep changing and are adjusted for the continuing inflation, but it is likely that a man with a wife and four dependent children would receive between E° 20 and 25 per month under this allowance.

It is difficult to arrive at an annual income figure for the workers since so many of the items are expressed only in physical terms or in terms of certain rights. But in making what we considered to be a liberal money interpretation of these items, and excluding the higher paid administrative staff, the internal workers on this farm received approximately E° 300 in cash (excluding the family allowance) and about E° 600 in kind—or one-third cash and two-thirds in kind. Including the day laborers, cash income increases to slightly over E° 400 and in kind decreases to about 200 or a reversal of the percentages two-thirds cash, one-third in kind).[16]

Total investment on this farm was reported at E° 357,159 with land representing E° 253,859. Gross income was E° 104,545. Operating costs for the year (including all cash costs, plus de-

[13] This depends somewhat on the type of crop grown. This farm had 50 hectares of sugar beets, a crop requiring a great deal of water throughout the growing season.

[14] Some of these may also be grown sons of the internal workers.

[15] At the time of this writing (January, 1964), the exchange rate was 3 escudos to the dollar.

[16] As indicated, day laborers receive a higher cash wage but less in kind. It should also be pointed out that the forty man years equivalent of day labor involved more than forty men. The highest number, in December, was 120 workers.

preciation but excluding the salary of the administrator) were E° 63,378, leaving a net income of E° 41,167. The administrator got 10 percent of this, or E° 4,117, leaving E° 37,050 for the owners. This represents disposable income for the owners, or a return on total investment of over 10 percent. [17]

Gross income associated with each man year of labor was approximately E° 2,000, whereas cash payment per man year was about E° 400 (about 20 percent). Net income associated with each man year of labor (in this calculation net income *includes* all wages paid) was approximately E° 1,200. Thus we have average cash income per worker representing about one-third of net income associated with one man year of labor.

Gross income per hectare irrigable was E° 254, and per hectare actually irrigated in the year studied E° 697. Corresponding figures for net income are E° 90 and E° 247.

Before analyzing further and commenting on the significance of these measures, it will be well to describe the other cases, after which comparisons can be made.

Case Farm B: This farm is also located in one of the southern provinces of the central zone. The owner lives on the farm most of the time, but also maintains a house in Santiago where he lives several months each year. This man purchased his farm seventeen years ago. He has had professional training and holds the *Ingeniero Agrónomo* degree. His chief administrator is an agricultural technician. [18]

The soils on this farm are slightly inferior to those on Case Farm A, but this is one of the most productive and well managed farms in the central zone. There are 533 hectares in this farm, 493 of which are flat irrigable land. The administrator reports no water problems; thus the entire farm is well cropped and irrigated year after year. In the 1962-63 crop year, 472 hectares were under irrigation.[19] In addition, some pasture land was rented from a neighboring farm. The major crops in this past year were certified grass and clover seed crops, strawberries, and several other highly lucrative horticultural crops. Livestock on the farm consists of 480 head of beef cattle and young stock. The seed crops furnish pasture for part of the year, and part of the year cattle are grazed on the land rented in the vicinity.

The labor force consists of eighteen men (internal or permanent work force) who live with their families on the farm, and approximately fifty man years of labor hired from outside the farm.[20] This outside labor is employed largely on the strawberries and other horticultural crops. The internal work force includes the administrator, a sub-administrator, two *mayordomos,* six tractor drivers, and eight *inquilinos.* Given the size of operations on this farm, the labor requirements are much lower than on Farm A. However, as indicated by the number of *tractoristas* (six on this farm compared with two on Farm A), this farm is more highly mechanized. Farm A has a machinery investment per worker of E° 600, whereas the corresponding figure on this farm is over E° 1900.

As in Case A, workers' income is made up of a variety of payments in kind and in cash. Again there is a complicated wage structure. For example, the chief administrator receives E° 3,000 plus 1 percent of gross plus 2 percent of net (for a total of about E° 12,000 for the year). The sub-administrator receives E° 1,200 in cash plus ½ percent of gross (about E° 3,000 total). The *mayordomos* are paid by the month (E° 60 and E° 45 per month). The tractor drivers receive about 1 escudo per day, while the cash wage of the *inquilinos* was 650 pesos per day or slightly under E° 230 for the year. At present exchange rates, this amounts to about 22 cents per day. The outside day laborers received about 25 cents per day. (1 escudo = 1000 pesos = about 33 1/3 cents at present exchange rate.)

With the exception of the administrators, all workers are paid a smaller cash wage on this farm than on Farm A. Furthermore, the *regalías* are lower. For example, the *inquilinos* have no rights to grazing of livestock, nor do they receive an additional payment in kind as did those on Farm A. They are given a house,[21] a food ration, and about ¾ hectare of land. Thus in spite of much higher production and a more efficient operation, the *inquilinos* and the day laborers on this farm are in an inferior economic position to those of Farm A.

In making an interpretation of the value of the items expressed only in physical terms, and excluding the two administrators, we find that

[17] Actually, cash costs included interest paid of E° 7,500. Adding this item back in (37,050 plus 7,500) gives a return on total investment of 12.5 percent.

[18] With professional training in agriculture but at a lower level than the *Ingeniero Agrónomo.*

[19] The discrepancy between 472 and 493 is accounted for by building sites, roads, irrigation ditches, etc. Also not included in the 472 are 6 hectares given to *inquilinos.*

[20] Again, some of these are grown sons of the internal workers.

[21] Those seen were in very poor condition.

the internal workers on this farm received about E° 325 in cash (excluding the family allowance) and about E° 175 in kind—or two-thirds cash and one-third in kind. [22] Including the day laborers, cash income drops to slightly under E° 300 per year and payment in kind to E° 111 or approximately 73 percent cash and 27 percent in kind for the total work force.

Total investment on this farm was reported at E° 710,000 with land representing E° 430,000. Gross income was E° 364,585. Operating cost for the year (including all cash costs, plus depreciation but excluding the percentage shares of the two administrators' salaries) was E° 99,925, leaving a net income of E° 264,460. The percentage shares of the two administrators was E° 10,762, leaving E° 253,698 for the owner. This represents disposable income for the owner, or a return on total investment of 36 percent.[23] More accurately in this case with the owner living on the place and participating in the management, this represents payment to the owner for his time plus payment for his investment.

Gross income associated with each man year of labor was approximately E° 5,400, whereas cash payment per man year was about 300 (slightly less than 6 percent). Net income associated with each man year of labor (in this calculation net income *includes* all wages paid except those of the two administrators) was about E° 4,100. Thus average cash income paid to workers represents slightly more than 8 percent of net income associated with one man year of labor.

Gross income per hectare irrigable was E° 740 and E° 772 per hectare actually irrigated in the year studied. Corresponding figures for net income are E° 514 and E° 537 respectively.

Case Farm C: This farm is located near Santiago. The owner lives on the farm part of the year, but retains a full time residence in Santiago where his children go to school. The father of the present owner owns at least one other large *fundo* several provinces south of Santiago. This farm, Case Farm C, was given to the son about a decade ago. Both the present owner and the chief administrator hold the *Ingeniero Agrónomo* degree.

The farm consists of approximately 1700 hectares, 500 of which are owned and another 1200 rented. A swift flowing river with plenty of water flows through this land, and water shortages practically never occur. This is all good land, although about one-third of it requires a relatively long rotation. The other two-thirds can be cropped quite intensively year after year. In the year 1962-63, 1525 hectares were actually irrigated. The remaining 175 were in roads, river bed, irrigation canals, housing sites, etc. The major crops in this past year were wheat, corn, alfalfa, peach and plum orchard (26 hectares) and vineyards (52 hectares). Although all yields on this farm are high in relation to provincial averages, income in the future will be considerably increased as the fruit trees develop full productive capacity. This is a young orchard.

Livestock on the farm consists of 200 head of dairy cattle, and over 600 head of beef cattle of varying ages. The dairy herd is not at peak of production. It is a young herd consisting mainly of heifers and young cows. The owner is planning on major expansion of this enterprise.

It is well to point out that the owner of this farm was extremely cooperative and was genuinely interested in having us study his business. He turned over to us his complete accounting records, and his accountant was at our disposal to help us interpret the records. But as will be evident, this is such a gigantic business operation with so complicated a system of wage payments and accounting procedures, that we had to settle for rather general categories of information, and in some cases, averages.

The labor force on this farm consists of approximately 179 men. Nine of these are in the administrative class (chief administrator, three representatives of the *patrón*, chief of dairying, cashier, warehouseman, chauffeur, and a chief of section). There are no specialized tractor-drivers. These are recruited from among the *inquilinos*, and they receive slightly higher wages when so employed. There are 104 *inquilino* families and 66 additional workers called *voluntarios obligados*. These 66 men live in the houses of the 104 *inquilinos* and are frequently members of the *inquilino* family (grown sons, fathers, cousins, etc.). Thus the entire labor force on this farm is internal to the farm. In terms of mechanization, this farm compares well with Farm B, having machinery investment per worker of E° 1,789.

As in the other two cases, workers' income is

[22] Even excluding the two administrators, the apparent higher cash payment per worker is due to the higher wages of the *mayordomos* on this farm in comparison to Farm A, and the larger number of *tractoristas*. This raises the average. As indicated previously, the *inquilinos* received only about E° 230 cash per year.

[23] Actually, cash costs included interest paid of E° 1140. Adding this item back in (253,698 plus 1,140) does not materially change the percentage return on investment.

made up of a variety of payments in kind and in cash. But in addition, this farm has a profit sharing plan. This is an extremely complicated system, and only the broad outlines of it will be given here.[24] Even the owner admits that the *inquilinos* cannot understand it, and they have to accept on faith that they are sharing "something" fifty-fifty. From net farm income (which for this calculation includes cash and in-kind wages paid) is subtracted a return on total investment. The remainder is split fifty-fifty, but all payments previously made to the workers are counted against their 50 percent share. Thus the incentive in the system is that their participation in profits increases as net income goes up (assuming interest on investment and wage costs constant).

In the past year, the total value of the workers' participation in profits calculated by the above formula was slightly over E° 39,000. This is not evenly distributed among all workers, however. A committee elected by the workers rates each worker, placing each one on a list. In terms of the profit share, each day of labor for workers on List 1 is multiplied by two; that of workers on List 2 is multiplied by one; that of workers on List 3 is multiplied by zero, meaning of course that they receive no share in the profits. The value of the profit share is divided by total number of days so calculated, and each worker is then paid a bonus at the end of the year in accordance with the number of days to which he is entitled. In this past year, 50 percent of the workers were on List 1, 30 percent on List 2, and 10 percent on List 3. To appear on List 3 in consecutive years is ground for dismissal from the farm.

In addition to this rather complicated profit sharing plan, the wage structure itself is complex. For example, the chief administrator receives 10 percent of net income plus his payments in kind. The other eight people on the administrative staff receive monthly wages ranging from E° 60 to E° 150 plus varying bonuses and income percentage (e.g., the chief of dairying receives 2 percent of gross dairy sales; the cashier receives 2 percent of net, etc.). The 170 workers, *inquilinos* and others average about E° .75 per day (about 23 cents at present exchange rates). But this is an estimated average since many of them do piece work, that is, they are paid for a specific job.

In making an evaluation of items expressed only in physical terms, excluding the administrative personnel), we find that the 170 workers on this farm averaged about E° 500 in cash (including the profit share) and about E° 300 in kind—or 62.5 percent cash and 37.5 percent in kind.

It is quite obvious that the workers on this farm, on the average, are in a superior financial position to those on either of the other two farms. In addition to a better wage, worker houses on this farm were better in appearance than those on any of the other farms visited. Also, the owner provides a school, but here he receives a state subsidy of two-thirds of the cost. However, the education provided is not very good, and the owner admitted that a few bright ones who wish to go further than the three to four years provided here usually cannot make the grade in the school in the near-by town.

Total investment for this farm is listed on the accounts at E° 1,400,795, with land listed at E° 161,169 (only for the 500 hectares owned). Gross income was E° 691,057. Operating costs for the year (including all cash costs, plus depreciation, plus all profit shares of workers and administrative staff) were E° 595,366. Thus the disposable net income to the owner is E° 95,691. Including interest actually paid of E° 5,437, this represents a return on total investment of about 7 percent.

However, in this case we know that the income is understated. First, there are several cost items charged to the farm which are not legitimate charges: cost of household servants, complete maintenance of *patrón's* yard and swimming pool, etc. But more important is the understatement of at least one major income item. A substantial part of the income on this farm was in the form of increased inventories, primarily corn in the warehouses which had not been sold before the close of the accounting year. This was valued at only about two-thirds market value, a difference sufficient to raise net income by about E° 75,000. Even with this understatement, it is evident that this farmer is doing quite well.

Gross income associated with each man year of labor was E° 3,861, whereas cash payment per man year (excluding administrative staff) was about E° 500 (approximately 13 percent). Net income associated with each man year of labor (in this calculation net income *includes* all wages and profit shares paid to the 170 workers but excludes salaries of administrative staff) was about E° 1,060. Thus average cash income paid to workers represents almost 50 percent of net income associated with one man year of labor.

[24] A forthcoming study will analyze this and several other income sharing plans in great detail.

Thus, in spite of all the complicated formulations with respect to wage structures and profit shares, on this farm, it works out surprisingly close to a fifty-fifty sharing of net income between owner and workers.

Gross income per hectare irrigable was E° 406 and per hectare actually irrigated in the year studied E° 453. Corresponding figures for net income are E° 56 and E° 63 respectively.

In these three cases we see some of the contrasts among large farms in Chilean agriculture. Not represented here is the very large *fundo* with extensive pasture operations which exists but which we have not been able to investigate up to this point.

Case A is quite typical of the traditional system. Its unrealized productive potential is quite large. Mechanization is at a low level, and worker incomes are about average in comparison to those shown by other studies. The owners are not getting rich with this operation, but income provided is sufficient for a good level of living in the city and maintaining the farm at its present level.

Case B is perhaps as near to having realized its full productive potential as any farm in Chile. It is highly mechanized and intensively operated. But in spite of these achievements, workers' incomes are the lowest of the three farms. This operation appears to be exploiting its labor, and the owner is reaping a fantastically high profit. This farm could maintain a larger labor force at double the salary and still be a highly profitable business for the owner.

Case C is also quite well mechanized and has high productivity. This farm is in the process of development and net income can be expected to increase over the next several years. A young orchard is just beginning to get into full production. The dairy operation is in process of formation, and the owner has plans to build an elaborate center with milking parlor and loose housing which will hold 300 milking cows when completed. But even though this farm is in the developmental process, the workers' level of living is the highest of any of the three farms studied. This owner appears to be maintaining more workers than needed at present, but this will undoubtedly change as several of the abovementioned enterprises come into full production. In response to a question, the owner indicated that he did not expect to increase the size of his labor force. Additional labor saving investments will offset any increase in future labor requirements.

The Need for Reform

The preceding analysis is open to some criticism. First is the problem of reliability of data obtained by the interview technique. There may be an overstatement of some items and understatement of others. Evaluations made in the office may not always correspond to actual values experienced in the country. But even allowing for substantial errors, conclusions based on the general magnitudes of these figures and the relationship between categories compared would not be materially altered.

Second, are the case farms representative? In comparing these farms with census data, it would seem that these farms were more highly productive than the average. In other words, it seems that we do not have included in our sample of cases farms with very extensive operations and low productivity. On the other hand, in terms of the major emphasis in this analysis, income levels and distribution, it is unlikely that the workers would enjoy a higher income on these extensively-operated farms. If income and living levels for workers are low on these farms with higher productivity, we are unlikely to find the reverse pattern on farms with low productivity.

Third, two of these farms place heavy reliance on workers hired from outside the farm. Is this typical? There is no way of knowing precisely, but there is evidence that the number of *inquilinos* in the total agricultural labor force has been declining. For example, in 1930, *inquilinos* numbered 104,469 out of a total active population in agriculture of 506,341 or 20.6 percent of the active population. By 1955, the latest census figures available, *inquilinos* numbered 82,344 out of a total active population in agriculture of 671, 930, or only 12.2 percent.[25]

The work cited above (*Inquilinaje*) is a study of over 90 *inquilinos* in O'Higgins Province, a characteristic agricultural region of the central zone. Conclusions from this study state that workers' income was inadequate to maintain a suitable diet even if practically all of this income were devoted to the purchase of food. Forty percent of the *inquilinos* were illiterate. Housing was very poor and over crowded, with sanitary facilities practically non-existent.[26] Although evidence on this point is not available, it would appear that the conditions of the small *minifundistas*, the day laborers, and migrants are even worse. The rural population numbers

[25] *Inquilinaje, op. cit.*, p. 3.

[26] Seventy-four percent had inadequate housing as judged by criteria established by the Dirección General de Trabajo.

over 2.5 million, or more than 34 percent of the total population.[27] From all indications, a very large majority of these people live at or near the subsistence level and are not a functional part of the market economy. If we add to these the increasing number living under similar circumstances in the cities and towns, one can see the magnitude of the problem. A modern economy can ill afford to isolate and keep at the margin of economic participation so large a sector of the population. With a rapid rate of increase in population, the pressures for development *and reform* will intensify.

The need for reform in the land tenure and income distribution systems should appear quite evident. Part of such a reform may be achieved through increased productivity—a relatively painless and non-controversial approach. However, unless there are new rules applied to the way in which this increased productivity is distributed, there is no assurance that the working classes will benefit. The fact remains, as pointed out by the cases here studied and as shown by other studies, that there are substantial amounts of income within the country that could be used for investment in economic development and for improved incomes of the workers, but at present these incomes are used for neither of these purposes.

The following quotations from a study by Nicholas Kaldor bear on this point:

> . . . 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.
>
> . . . whether we choose the United States or the United Kingdom as the basis of comparison, it is evident that the share of profits in the national income of Chile is relatively high. Normally this indicates a high share of savings and investments in the national income since in all countries the ploughing-back of profits provides the main source of business investment. In the case of Chile, however, this has not been the case. The share of investment in the gross national income, measured by any standard, has remained remarkably low whilst the share of personal consumption was unusually high. The extremely low estimates of national savings, despite high ratios of both profits and dividends to the national income, are thus to be explained by the high propensity to consume of the capitalist classes. Whilst the share of dividends in profits has been very high, and the rise in dividends over the last 15 years (1940-1954) equalled or excelled the rise in profits, the personal expenditure of the recipients tended to exceed their dividend income.[28]

Kaldor's conclusions were drawn from aggregates in the national accounts. Sternberg set out to evaluate Kaldor's findings by studying the investment and consumption patterns of twenty large landholders. Some of the more important findings from his study are shown in the following table.[29]

Income and Expenditures: Twenty Household Units
(1960; in Escudos)*

	Total	*Average*	*Percentage*
Gross Personal Income	897,300	45,865	100.0
Derived from Agriculture	807,400	40,370	(90.2)
From Other Sources	89,900	4,495	(9.8)
Personal Taxes	46,600	2,330	5.1
Disposable Income	850,700	42,535	94.9
Consumption Expenditures	712,200	35,610	79.5
Personal Investments	119,400	5,970	13.3
Personal Savings	19,100	955	2.1

*In 1960, the escudo-dollar exchange rate was approximately 1:1 (author's note).

We offer these additional statistics in support of the contention that the relative magnitudes of the data shown by the cases are supported by other studies. The need for change in this land tenure-income distribution structure is evident. The problem is how to achieve it.

Past and Present Efforts at Reform

Chile has a relatively long history of experience in land reform. As early as 1928, the Caja de

[27] Barraclough, *loc. cit.*

[28] Nicholas Kaldor, "Economic Problems of Chile," manuscript in the Economic Commission for Latin America Library, Santiago, cited by Sternberg, *op. cit.*, chapter IV. This article was reproduced as "Problemas economicos de Chile," *Trimestre Economico*, XXVI (April-June, 1959), 170-221.

[29] Sternberg, *op. cit.*, Table 25, p. 83.

Colonización Agrícola was created. Its purpose was to establish agricultural settlements. The land for such colonies was to be purchased, but there was provision whereby the president of the republic could order expropriation within certain limitations.[30] This issue of expropriation was very controversial then, as it is now. However, it is worth noting the conclusion of one Chilean author:

> I am not in favor of confiscation of property, I am not in favor of violent measures; but I have observed that history is inexorable in its progress and knows no mercy. The Chilean landholders face the alternative of turning over voluntarily and without compensation a part of their lands or of losing those lands completely—the days of the *latifundio* are numbered.[31]

This was written in 1932. Since that time many changes have taken place in Chile. The economy is more urbanized, more jobs are available in the cities, population has increased substantially, etc. But the *latifundio* and the general system of organization in agriculture have not been changed. The Caja was not very influential in bringing about basic changes. Its volume of operations was extremely limited. Between 1929 and 1958, only 3253 *colonos* and their families received parcels of land. This represents less than 1 percent of the agricultural families of Chile over a period of thirty years of operation.

In addition to the insignificant achievements measured quantitatively, the Caja's operations have been criticized on other grounds.[32] The selection of candidates has been criticized in that few *inquilinos* or other agricultural workers could meet the tests of experience and capital requirements. Thus many of the parcels were given to former administrative personnel from farms or to people with some professional training. Another major criticism was that the method of figuring expected income led to the allotment of parcels that were too large for one-family operation, and these new owners simply replaced previous *patrones*, operating with substantial hired labor whose economic condition was little improved over the former system.

The Caja went out of existence with the passage of the new Agrarian Reform Law of November, 1961.[33] La Corporación de la Reforma Agraria (CORA) replaces the Caja under the new law. It is difficult to evaluate achievements under this new legislation only one year after it was passed. It calls for a re-organization of agencies and establishment of new ones. It consists of over 100 distinct articles that seem to permit all the necessary action by government to carry out a full-scale reform. Some land distribution is in process on a few government owned farms, and several areas have been designated for study to carry out reforms. But at present, one cannot say that any major effort of land reform is underway in Chile.

Government efforts at land reform do not give the entire picture. In recent years some efforts have been made by the Catholic church and by some private individuals. The church experiments are not important from the standpoint of area since the church owns a relatively small amount of land in Chile. They may be important in terms of demonstrating a workable technique of land reform.[34]

One of these church experiments is near Santiago and consists of about 160 hectares of irrigated land. A cooperative was formed by the *inquilinos* formerly on this farm. The land is now farmed under several distinct systems of operation. About one-third is farmed as a cooperative venture, the proceeds of which go to meet the overhead expenses and the amortization quota. Another third is operated as individual private plots by the cooperative members. The remaining third is in pasture which is used in common. Any member can graze up to six cows on this common pasture, but pays a fee to the cooperative on the seventh to tenth cows with a present maximum of ten cows per member.

The cooperative consists of sixteen *inquilinos*[35], ten of whom were on the place before the experiment and six who were brought in from the outside. There are many complicated arrangements under this system and at this time we cannot evaluate its likely success. The cooperative manager, himself a former *inquilino* on a neighboring farm, did make a rather significan comment. He drew two circles, one above the other, with a series of horizontal lines in each.

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[30] McBride, *op. cit.*, p. 270.

[31] Carlos Keller, *Un pais al garete* (1932), pp. 124-125, cited by McBride, *op. cit.*, p. 277.

[32] For an excellent summary analysis of the Caja, see the CIDA Report on Chile. This report is in process of publication.

[33] Ley N° 15020.

[34] The objective of one of our research undertakings in Chile is to study in detail these church experiments to see how they are established, how well they function, their likelihood of success, and the prospects of utilizing this model for land reform on a broader scale.

[35] Some wives and older sons are also members in order to meet the minimum of twenty members required by Chilean law.

These circles, he said, represent the way things are in Chile. There are two classes, and it is impossible to move from the lower to the upper. Before our cooperative, we might rise in this (lower) circle if we worked hard, but we could never break through this wall and become landowners. Under this new system, if we work hard, the land can be ours and this wall can crumble.

The cooperative at this place has been in existence only a year and one-half. Some other church lands are being reorganized under similar or slightly different arrangements. In no case is there more than a year and one-half to two years of experience under the new systems.

In addition to this experimentation by the church, some private landowners are modifying their system of income distribution (as pointed out in Case C). Some farmers have turned their land over to share-croppers (*medieros* as they are known in Chile). Share-cropping is in itself not a new development; some farms have had such *medieros* for many years. Although our evidence on this point is not complete, it does appear that this is on the increase, and we located a number of farms where all the land was operated in this manner. Perhaps the greatest significance of this development is that it permits the *inquilinos* (*medieros*) to acquire managerial experience.

A more recent development is the case of profit-sharing plans. Although there is some variation in plans, the general feature is that a percentage share (or a determined residual) of the farm income is distributed at the end of the year as a bonus or incentive payment. This is not distributed uniformly, but is based on the rating that the individual worker receives. This rating is determined by a committee of *inquilinos*, usually elected by secret ballot with all voting-age workers entitled to vote in this election of a committee.

Some of these experiments have been going on for as long as five years, but most of them were begun in the last two or three years. After several trips through the provinces of the central zone, it is our estimation that there are no more than seventy-five of these income sharing plans at present. Most of these farms are located in three provinces.

In terms of the magnitude of the task of land reform, given the present mal-distribution of income and landownership, one must conclude that very little has actually been accomplished. And the efforts that have been and are being made, both governmental and other[36], fail to get at the real problem which, as the cooperative manager on the church experiment pointed out, is a division of rural society into two distinct classes without prospects for vertical mobility.

The Inherent Problem of Class Structure

That the agricultural system is firmly committed to this two-class structure cannot be denied. It is visible, and it can be felt and heard in travelling about the country and talking to the people. And it is well documented.[37] As indicated in an earlier section, this class division dates back to the large land grants which from the beginning divided the society into a small group of aristocrats and a great mass of servile workers. Even to this day this division seems to carry over with respect to attitudes held toward manual labor.[38]

With only 30 percent of the population in agriculture and with the landowning upper class comprising but a small fraction of this population, the question arises: Why cannot the 70 percent from the cities exert their dominance and set policy to overcome the present lag in agricultural production, introduce greater equalization into the distribution of income, and stimulate economic development? While it is true that the class structure originated in the historical institutions related to land, today it permeates the entire society.

Although there is a substantial middle class in the cities (according to occupations normally identified with the middle class: salaried workers, professionals and semi-professionals, small businessmen, government workers, etc.), its members do not seem to act as if they had a common, identified interest as a class. And there seems to be virtually no identification between

[36] With the possible exception of some of the church experiments which we plan to study and evaluate in detail.

[37] See McBride, *op. cit.* One of the better bibliographies quoting and listing the views of Chilean authors on this issue of class structure is contained in the article by Frederick B. Pike and Donald W. Bray, "A Vista of Catastrophe: the Future of United States-Chilean Relations," *The Review of Politics*, XXII No. 3 (July, 1960). See also William L. Schurz, *Latin America* (3rd ed.; New York: E. P. Dutton & Co., 1963) especially Part VII, "The Way of Life."

[38] In an unpublished manuscript by T. Lynn Smith, University of Florida, entitled "Values Held by People in Latin America Which Affect Technical Cooperation," Professor Smith points out: "Throughout Latin America work with the hands, manual labor of almost any type, any activity that has been the work of slaves or *peons*, is looked upon as the stigma of servile or semi-servile social status. Anyone not resigned to life as a member of the lower classes must avoid it as he would the plague. Possibly the more precarious one's claim to a position somewhat above that of the masses, the more certain must he be to abstain absolutely from any such demeaning activity" (p. 4).

the interest of this middle class and that of the rural or urban lower classes. One gets the distinct impression[39] that this middle class aspires to and identifies itself with the interests and position of the upper class.

Writing on this issue (in the manuscript quoted above) T. Lynn Smith has this to say:

> In any Latin American city one can find thousands of persons who appear on the surface to be of middle-class status. As compared with middle-class people in the United States, their incomes are no higher, their work in the professions and white-collar activities on one kind or another is little different, their homes are no better, and their level of living no higher. But these Latin Americans are the descendants of grandfathers or great-grandfathers who once constituted the elite of these societies. They are by no means content with the discrepancy between the level to which they were born, and on which they feel entitled to live, and the one they perforce must occupy. In spite of all they can do, things do not work out as they should for most of them and each generation finds life more difficult.

The following quotation, taken from the paper by Pike and Bray, further illustrates this issue:

> Jorge Gustavo Silva observes: ". . . in whatever profession they enter, middle class elements seek to obscure their humble origins and to convert themselves, even at the risk of appearing ridiculous, into aristocrats and oligarchs" (*Nuestra evolución político-social*, 1931, p. 100). The renowned Chilean novelist, Pedro Prado (*Un juez rural, Alsino, etc.*) is noted for his anti-middle class sentiments, arising from convictions that this class has turned on the humbler elements of Chilean society. Nearly every Chilean author, in fact, who has concerned himself with middle class—upper class relations has detected the same tendency.[40]

The reader must understand that I make these comments and offer these quotations not for the purpose of criticizing Chilean society. I am merely trying to point up the nature and complexity of the land reform issues in Chile. And if we are to understand these issues, we cannot ignore this matter of class structure as it presents itself in the rural as well as in the urban society. Institutional and cultural interrelationships between the several sectors in an economy make it impossible to analyze a fundamental issue in one sector without extending the analysis to the other sectors as well. In like manner, I have reached the conclusion in discussing the U.S. farm problem that "paradoxical though it may seem, a solution to the farm problem is dependent on institutional change in the city."[41] So it is with land reform. The problems of and obstacles to land reform are not confined to the countryside.

A Chilean-United States Analogy

It is dangerous to draw analogies between two countries with different histories and backgrounds. Yet, in an attempt to place this issue of class structure in a context more easily understood by U.S. readers, I believe it is valid to reason from analogy. The analogy, of course, is not between U.S. and Chilean agriculture, but between the class structures in the two societies. The relevant comparison on the U.S. side, so it seems to me, is the racial issue.

The United States has no ground for being arrogant or critical with respect to a class issue in another society. The U.S. is not a classless society. At best I believe we can maintain that the proportions in the population are different. But the present generation of Chileans no more created its class structure than the present generation in the U.S. created its problem of racial discrimination. Both are inheritances of the past, and the problem is how to evolve a new structure by peaceful and progressive means. And just as the class problem in Chile is not confined to agriculture, so the racial problem in the U.S. is not confined to the South.

Likewise the U.S. has a minority class problem in the North American Indians. In many respects the analogy between the class problem in

[39] And I want to make it clear that these are impressions, not findings of detailed social research. Also, the generalizations made here have many exceptions. Nevertheless, I make these statements from honest conviction and belief based on personal experience and discussion, and reading the analysis of professional people in this field.

[40] Pike and Bray, *op. cit.*

[41] Peter Dorner, "Farmers: The Real Surplus," *The Nation*, Feb. 9, 1963. I will comment additionally on this interrelationship and its significance for U.S. policy at a later point in this article.

Chile and that of the U.S. Indians in the dominant white society is more appropriate than the Negro analogy. The North American Indian who achieves status and assimilation into the larger white society has a tendency to go on "achieving" and to forget his brothers on the reservation. So likewise in Chile it seems that those who achieve some status and grow out of the lower class forget about their ancestors and, rather than return and organize those left behind for effective collective action, are more interested in climbing another rung on this ladder.[42] With the Negroes, where discrimination is more severe, there is a greater tendency for the individual to remain loyal to his class.

But this analogy cannot be pressed too far. In the first place, whereas the Indians and the Negroes form a relatively small minority of the population of the U.S., the poor, lower class in Chile make up a large percentage of the population. Furthermore, as illustrated over the past decade, the machinery is being created whereby Negroes are organizing and, frequently with assistance of many white people, bringing pressure to bear on the local, state and national levels of policy. This kind of social machinery and organizational potential does not exist to the same degree for the Chilean lower classes.

Prospects for the Future

McBride devotes the last chapter in his excellent book on Chile to "The Outlook for Agrarian Reform." He says:

> Few, even among the Latin American countries, have drawn such a sharp distinction between upper and lower class. The great group of the laboring class has been held in economic subjection for longer than has been possible in most parts of the world. The situation suggests the plight of Russia with its stubbornly maintained autocracy and its eventual far swing to the left, or, more strikingly, the pent-up forces of unrest in Mexico which finally plunged that nation into ten years of destructive revolution. It would seem that Chile can avoid what Mexico suffered and the fate of Russia only if her landowners are wise enough to help promote a modification of the present agrarian basis of society. Strongly repressive measures might hold the populace in subjection, but not for long. If revolt is finally forced, the excesses of Mexico will pale in comparison. The Chilean *roto* (as every Chilean knows) would recognize no bounds to his violence, once the forces (material and moral) that have held him in check give way. It is doubtful if any leaders could hold him in control. . . . To an outside observer agrarian reform seems inevitable. The statement already quoted from one of Chile's own economists seems none too strong: "The Chilean landholders are face to face with the alternative of giving up a part of their lands voluntarily and without compensation, or losing them entirely."[43]

McBride wrote these words in 1935 and the Chilean economist whom he quotes made his prediction in 1932. Yet the agricultural system remains virtually unchanged from what it was thirty years ago. Would the same predictions today prove invalid in another thirty years? This is difficult to say. We can, however, try to point out some of the things which have changed and which may have saved the country from the predicted catastrophe. Likewise we can cite certain new elements in the present situation that did not exist thirty years ago.

First, it is well to recognize that even though the land tenure system has undergone no basic changes, there have been change and development in the economy. People are paying more taxes than in former decades and a major tax reform is in process. Social legislation has been expanded, and minimum wages cover more positions than formerly. The country is more urbanized, and additional laboring groups in the cities have become unionized. In recent years the great amount of publicly financed construction has created new jobs and relieved some of the pressures of unemployment. For good or for ill, there is no denying the fact that massive amounts of foreign capital (both private and governmental) have been invested in Chile in recent years.[44] And although inflation is commonly regarded by economists as a total evil without any offsetting benefits, at least one economist has suggested that "through the device of inflation society gains

[42] Peter Dorner, "The Economic Position of the American Indians: Their Resources and Potential for Development" (unpublished Ph.D. thesis, Harvard University, 1959).

[43] McBride, *op. cit.*, pp. 378-79.

[44] See *Corporación de Fomento de la Producción*, A "Look at Foreign Investments in Chile," New York, 1962. (Mimeographed). "The estimated amount of U.S. private capital invested in Chile up to 1962 was close to a billion dollars" (p. 1).

precious time for resolving social tensions that otherwise might reach the breaking point right away."[45]

Thus one must not underestimate the ability of this system to make changes and adaptations. The adaptations may be sufficient to avoid violence without actually changing the underlying structure in any basic way. We must also realize that we view the present concerted efforts at economic development throughout the world from an extremely short time perspective. Who would have thought, at the time, that the steam engine would force and induce other innovations and changes which would transform the entire foundations of civilized society. Who would have thought, at the time, that the introduction of the corporate form of business organization would lead in the short time period of several generations to what has become known as the "corporate system."[46] And who would have thought at the time, that the social legislation introduced in the U.S. in the 1930's would basically transform the North American system of capitalism.[47] Thus it is difficult to foresee the consequences of certain strategic, though seemingly minor, changes which, although not directed at the central issues, nevertheless have a capacity for affecting and transforming the situation. Changes introduced two, three or five years ago may have opened up new opportunities and possibilities which as yet are inconspicuous, but which may have a compounding and irreversible effect capable of evolving new institutions and new systems of organization.

All these are possibilities, and we must not overlook the changes that have been made and their likely consequences. Yet the central question always remains: Are these changes coming fast enough, and are they sufficient to avoid the violence and the bloodshed which has been all too common in many countries? Here, then, we must look at conditions which are relatively new and that were not so prominent when McBride wrote thirty years ago. It would be difficult to list these in any order of importance, but rates of increase and size of population are certainly a major new condition. Thirty years ago, very little mention was made of land reform. But for the past ten years or more, this issue has been discussed openly and heatedly in the halls of government, in the press, and by the country people. For a variety of reasons, including what economists call the "demonstration effect," aspirations for more economic goods and higher levels of living have been rising. This, we must recall, in a country where economic growth has been relatively modest and where agricultural production has been virtually stagnant. And always, there is the recent example of Cuba, a country with which cultural and emotional identification is easy and natural. Finally, of course, there is the "cold war" with conflicting and competing ideologies which serve both to dramatize the issues and to make constructive action with respect to them more difficult.

These are new conditions that did not exist, certainly in their present form and intensity, thirty years ago. The changes that have been and are being introduced may continue to maintain a reasonable social stability. On the other hand, the prospect is always open to the emergence of a "strong man" who will carry the poor masses with him in a violent overthrow.

One would like to hope and believe that if the appropriate party gained power, with an interest and willingness to work on these problems of land reform, more could be achieved and in a shorter time than has been true up to the present. The problem is that any government, democratically elected, will be composed of diverse interests, and the strong interest represented by people opposed to changing the present system will have to be honored. In this process of compromise needed to form a working government, it is likely that very little more will be done about land reform than is actually being accomplished at present. The challenge and the hope is to organize and make effective the voice and power of the poorer classes so that they can articulate their demands and exert pressure for change.

Challenge to the Alliance for Progress

Given the existing circumstances, it is difficult to imagine a basic reform in these land tenure-income distribution institutions being imposed from the top, that is, by the central government as presently constituted. A first requirement is to create the conditions necessary for the rural laborers to articulate their demands and bring effective pressure to bear on the policy makers. The central task is not a matter of charity or

[45] Hirschman, *op. cit.*, p. 222.

[46] A. A. Berle and G. C. Means, *The Modern Corporation and Private Property* (New York: The MacMillan Co., 1932).

[47] See A. A. Berle, *Power Without Property* (New York: Harcourt Brace, 1959). Two previous articles of mine deal with these issues: "The Farm Problem: A Challenge to Social Invention," *Journal of Farm Economics*, XLII, No. 4 (November, 1960) and "The Family Farm in Domestic and Foreign Land Tenure Policy: A Discussion," *Journal of Farm Economics*, XLIV, No. 2 (May, 1962).

"doing good." Nor is it only a matter of building homes, roads, irrigation works, and mechanizing—as vital as all these are to economic development. The job to be done requires the development of human capacities and the institutions necessary to give the large majority of the population an effective voice in determination of the rules by which this game of associated living will be played.

Failing this, the only alternative is revolution and an absolutist regime. Thus it would seem that the challenge to the Alliance for Progress is to improve the instruments of democratic government.[48] A good amount of emphasis, of course, has been placed on education, improved rural credit, improved sanitation and health, etc. This is good. However, the requirements are for massive adult educational programs in rural areas, and legal and technical assistance to help rural workers organize and press for their demands. I do not know whether the appropriate machinery exists within the Alliance to accomplish this, or whether it can be created. Likewise, it may be expecting too much of a government to launch a program of this kind which threatens this very same government with future problems and perhaps a vote of "no confidence" at the polls. But the haunting question remains: What is the alternative?

The prospects for effective rural organization in Chile are quite limited at the present time. Restrictive legislation makes it difficult to organize rural workers. However, a nucleus exists around which such organization could be built. Examples are the *Asociación Nacional de Organizaciones Campesinas,* and *Unión de Campesinos Cristianos de Chile.*

To get pressures generated from the depressed, low-income classes, this type of organization would appear to be a first requirement. Once this is accomplished, the prospects for land reform become brighter. Even private landlords, once convinced that the future must change and that the government will be forced to carry out a program of reform, may find it advantageous to introduce basic changes into the system. There is sufficient productive potential on most of these farms to maintain a respectable level of income by the present owner even after giving up ownership rights to a large share of his present property.[49] Joint ownership, cooperatives, corporations and family units—all can be evolved out of this present system as and where appropriate to the existing circumstances of physical and human resources.[50] But all this depends on the development of effective pressures by the low income workers so that the government becomes "strong and willing" to undertake such action.

Some Comments on U.S. Policy

Now let us suppose that the Alliance for Progress can develop the necessary control machinery to bring pressures to bear on national governments for introducing the changes deemed necessary.[51] In what kind of embarrassing positions may the U.S. find itself?

First, one can conceive of labor organizations being led by, or at least having as members, Communists. In Chile, where the Communist party is not outlawed, such membership is legitimate and respectable. Would, or could, the U.S. accept this? Likewise, the U.S. has been advocating land reform, but a policy of reform which comes to grips with the basic problems of the present class structure and the mal-distribution of income which it represents may end up "reforming" more than the institutions related to land. Certain basic private industries, including U.S. companies, may become involved in the reform. How would the U.S. respond? And it is important to recognize that U.S. companies do become identified and associated with the upper, wealthy classes. This is almost inevitable if they are to do business in this society.[52]

There may be some justification for the U.S. to withhold its participation if a country nationalizes U.S. companies as a substitute to making

[48] By the Alliance, I do not mean USAID alone, but the general commitment to cooperative effort by governments and peoples throughout the hemisphere.

[49] In fact the entire issue of full compensation at market value must be re-evaluated. A good part of the present value of land is the result of underpaid labor employed over the years. There is no good ground for maintaining that all this value, especially in those cases where high incomes were used for consumption purposes, is the right and legal due of the present landowners.

[50] Peter Dorner, "Land Tenure, Income Distribution and Productivity Interactions," paper presented at the Seminar on Land Reform at Campinas, Brazil, Nov. 19-29, 1963, sponsored by the Instituto Interamericano de Ciencias Agrícolas de la OEA, published in *Land Economics,* XL, No. 3 (August, 1964), pp. 247-254.

[51] That is to say, plans on paper could not be accepted as fulfilling the requirements. Specific action and programs would be the criteria for development loans and grants from whatever source. This itself implies more internationalization of the Alliance than at present exists.

[52] This point is well made in an article by Raymond Penn, "Public Interest in Private Property (Land)," *Journal of Land Economics,* XXXVII, No. 2 (May, 1961), 99-104.

the necessary internal changes. But supposing a country actually carries forward a full scale program of agrarian and tax reform, and in the process nationalizes some U.S. companies. For the U.S. to withhold its participation in such an event bears out the charges of the left in Latin America that USAID is a device used to protect private American industries.

If we are to be absolutely frank and honest, we must recognize that there may be good reason for a government to nationalize some of our companies. The point is that these same companies operating within the U.S. are faced with certain restraints which are non-operative in foreign countries. We have converted certain industries into public utilities and regulated their rates; we have the threat and actual use of the antitrust laws; President Kennedy forced the steel companies to withdraw from their price hike; we have strong labor unions to bargain with the giant industries; there is a variety of countervailing powers operating internally which help to make these same companies more responsive and responsible to the public purposes.[53] All these are lacking or at least much weaker when they operate abroad.

It is for this basic reason, I believe, that the U.S. economic system is so poorly understood by people in Latin America. That is to say, we are not judged by the way our system operates internally. Internally we have effective counterpowers with access to the Congress which maintain a reasonable degree of responsibility in the actions of even the strongest private groups. But in terms of business concerns operating in other lands, these same counterforces do not bear on the Congress, and the private interests operating internationally may have undue influence on policy:

> Our disturbing ability to picture ourselves in foreign lands as a force far more conservative than in fact we are within our own territorial confines has had lamentable consequences in deepening the gulf between the United States and Chile, and the other economically and socially underdeveloped countries of the world as well.[54]

The question is whether U.S. policy can be formulated without giving undue weight to a particular private interest, an interest which, because of its operation outside the U.S. bounds, is not checked and held responsible by the same forces that would be brought to bear on its operations within the U.S.

[53] J. K. Galbraith, *American Capitalism: The Concept of Countervailing Power.* (Boston: Houghton Mifflin, 1952).

[54] Pike and Bray, *op. cit.* An extremely interesting discussion related to these issues is in Charles Frankel, *The Case for Modern Man* (Boston: Beacon Press, 1959), especially chapter X, "The Revolution of Modernity."