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LAND REFORM, DEVELOPMENT, AND INSTITUTIONAL DESIGN

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by

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Land reform has often been viewed as a major remedy for the ills afflicting developing societies. Like the elixirs of the travelling medicine man, no one knows all of the ingredients; no one knows the side effects. But, land reform is guaranteed to cure all-or most all-diseases of developing nations. As John Montgomery has observed, land reform is an example of "a principle which has been tested and has survived, though its effects have rarely been reported or explained." (Montgomery, 1972:62)

While development has a variety of meanings, increased production and productivity along with a better standard of living for the general population seem to be goals shared by development programs everywhere. Land reform has been viewed as a means to these ends: a policy instrument to achieve improved performance in the agricultural sector and to improve the welfare of the rural workers and consumers of foods and fibers more generally. These are not the only objectives of land reform, but they are basic objectives of most land reform programs. Thus the fifth report of the United Nations on The Progress of Land Reform (1970) reiterated that,

The various United Nations resolutions have emphasized the importance of the transformation of the agrarian structure for the following purposes: to improve land distribution and thus raise the level of agricultural productivity; to secure a more satisfactory distribution of agricultural income; and to ensure the economic and social welfare of the tiller of the land, that is

the peasant, the tenant and the landless labourer. The economic and social welfare of the tiller of the land (that is, the productivity of his labour and his income) is therefore the final touchstone for assessing progress in land reform.

(United Nations, 1970:1)

While land reforms have been carried out in many developing nations, these policy objectives have often been unrealized. In great part the difficulties experienced by land reform programs stem from immediate political constraints, reactionary resistance, or technical obstacles. But even more, the mixed outcomes of land reform programs are due to insufficient attention to an analysis of existing rural property systems, the design of alternative property systems, and the lack of an empirical political theory to guide efforts in institutional analysis and design.

After an initial effort to clarify the meaning of property in rural land and land reform, this chapter turns to an analysis of some of the general problems faced by land reform programs involving the creation of new farm units, whether smallholds, cooperatives, collectives, state farms or mixed production units.

Property in Rural Land

Property refers to the legal claims of persons in relation to objects, resources and events which governmental or quasi-governmental institutions will enforce. Such enforceable claims allow proprietors or propertied interests to control the behavior of other persons with respect to the objects, events or resources claimed as a property. In extreme cases human beings themselves are treated as objects or resources subject to the control of other persons. This is the legal basis for slave or forced labor systems. Because property rights convey authority to control objects,

resources, events and other human beings, property systems are critical variables in the design of institutions affecting development.

Property in rural land like any type of property, consists of a bundle of claims of varying scope and domain which are enforceable by resort to the coercive capability of territorial power systems (Nations, States, Kingdoms, Municipalities and so on). Because historically much of the world's population has lived and worked on the land, depended upon agriculture for subsistence, and because this is still the case in the majority of developing nations, property in rural land is especially important in the development process. Landowners have been (or remain) both political and economic elites in most developing nations. For the most part this is the case because property in rural land conveys significant amounts of decision-making authority, both in scope and domain, allowing landed proprietors, especially the minority who control much of the best agricultural land in large estates, to dominate rural production and the peasantry or rural work force.

The scope of authority of proprietors of rural land refers to the range of values subject to their authoritative discretion as a property right. The scope of authority defines (1) what the proprietor can legally do with the objects and resources over which he exercises proprietorship, (2) what exclusive authority within a polity is assigned to landowners (e.g. suffrage in some cases), and (3) what legal authority the proprietor has in relation to the work force. The scope of authority in relation to the work force may range from a narrowly defined authority in regard to "work" activities to a broad authority affecting "all aspects of the workers' lives". Slave systems, feudal systems, peonage systems and early capitalist systems are characterized by an extensive scope of authority by proprietors

over workers. Socialist property systems likewise convey relatively extensive scope of authority to a new type of proprietor: administrative elites and party cadres.

The domain of a proprietor's authority refers to his territorial jurisdiction--whatever the scope of authority--over determined objects, resources, events and persons. In relation to the labor force of a rural estate this domain may include only workers, some or all family members or all residents (in the case of large rural estates) of the territory claimed by the proprietor. Proprietorship and government go hand in hand when the territory of an estate includes a large resident population within the domain of the proprietor's authority. If the scope of the proprietor's authority is unlimited or ill-defined governance within the estate tends to be highly personalistic, authoritarian and arbitrary.

In many developing countries concentration of agricultural land in large estates combined with extensive scope and domain of proprietary authority mean that landowners or landlords are also powerful "governors" in practical control of the daily lives and living conditions of the masses of peasants and rural workers. Inefficient farm practices, feudal-like farm labor systems and modernization efforts that transform peasants into dispossessed laborers make alteration of existing rural property systems--land reform--a critical political economic and social issue of development.

Land Reform

One problem in discussing the implications of land reform policies for agricultural production and welfare of rural populations is that land reform has so many different empirical and ideological referents. These range from the settlement of virgin lands under governmental auspices to the liquidation

of a rural middle class in order to create a dominant state farm sector. Broadly conceived land reform need not refer to public policy at all; peasant movements that alter existing land tenure arrangements have also been called land reform. In the present context a narrower definition of land reform is used.

Property rights in rural land and water resources define the legal discretion of "proprietors" to use, control, and alienate natural resources in relation to other human beings. Land reforms are government measures that seek to redefine and/or redistribute this legal discretion in a defined territory and for a specified set of people. Using this definition of land reform, it is important to point out that some measures not conventionally thought of as land reform do in fact constitute land reform efforts. For example, rural labor legislation and rural unionization usually redefine the legal discretion of proprietors in relation to land and the labor force that works the land. Tax reforms that penalize "inefficient" producers and force sale or disposal of land by farmers that do not make "productive" use of the land may also constitute land reform measures.

Land reform is not, thus, essentially a physical parcelization or consolidation of land—though either of these may be brought about through a land reform program. Rather, land reform redefines or redistributes decision-making authority in relation to land and water resources and the rural labor force. The issue is not so much the type of farm unit—individual farms, cooperatives, state farms, collectives or mixed-farm systems—but the distribution of decision-making authority in regard to use, control and alienation of land and water resources and control of the rural population.

Land reform does not necessarily redistribute income from land in a way that benefits peasants or rural workers. Indeed some land reforms may exploit

rural people in order to finance urban or industrial development. While Doreen Warriner, perhaps the foremost expert on land reform, suggests that in the traditional and generally accepted sense of the term, land reform means the redistribution of property or rights in land for the benefit of small farmers and agricultural laborers, (Warriner, 1969, xiv.) The redistribution and/or redefinition of the package of rights called "ownership" does not necessarily benefit rural workers. Land reforms may dispossess small farmers, cause unemployment for rural workers, or even entail physical extermination for some groups of rural laborers, or "rich peasants." In the present context it is important not to confuse our analysis by including within the definition of land reform an assumption about benign results.

Even with the limitations placed upon the concept of land reform, as

I have defined it, the concept remains a complex one that includes a variety of different concrete programs. The participants in the World Land Reform Conference meeting in Rome, Italy (1966) adopted a definition of land reform that included all of the following types of government programs:

1. The provision of opportunities for ownership [of land].
2. Measures to promote land settlement and security of tenure.
3. Improvement of tenant conditions; e.g. by reduction of excessive rents or share payments.
4. Improvement of employment conditions and opportunities for agricultural labor.
5. Protection of cultivators living under tribal, communal and other traditional forms of tenure.
6. Organization of farms of economic size—land consolidation.
7. Land title registration.
8. Extension of agricultural credit and reduction of indebtedness.

9. Promotion of cooperative organizations used by farmers.
10. Organization of farm machinery services.
11. Fiscal and monetary policy in relation to land reform including tax measures to promote improved land utilization and distribution.
12. Measures concerning land tenure as related to aspects of forestry.
13. Measures to promote the equitable use of limited water supplies.
14. Other related measures such as, for instance, establishment or expansion of agricultural research or education services.

(World Land Reform Conference, 1966:76)

This definition is broad enough to include almost any agricultural development policy and also broad enough so that governments of diverse ideological persuasions can claim to be carrying out land reform without essentially affecting the definition or distribution of rights in land and water resources. Establishment of extension organizations or carrying out agricultural research, for example--without any redistribution of rights in land, is a most efficient instrument for the elimination of employment in the rural sector and repression of rural unions--as the American experience indicates. But to call such a program land reform is quite misleading. It involves no redefinition nor redistribution of rights in land or water resources. How then do we delimit the types of programs that will be taken as an instance of land reform consistent with the theoretical definition provided above?

Any program that includes a redefinition of "ownership" of land and water resources or redistributes rights in land and water resources is a land reform program. In practice this means that settlement of virgin land; expropriation of existing farm units or rural properties; taxation and labor legislation that defines acceptable and unacceptable use of land and water

resources or requires farm operators to allow worker organizations to participate in some way in farm management and disposal of farm income; redefinition of the "package" of ownership rights—for example, ordering all farm operators in a given zone to plant only certain crops where before cropping patterns were matters within the legal discretion of the individual operators; defining through legislation the minimum conditions of tenancy and sharecrop arrangements—all these are land reform measures. Thus when we ask what the effects of land reform are on productivity or agricultural production care must be taken to specify to which particular land reform program reference is being made.

Land Reform and Institutional Innovation

While land reform is, according to the definition adopted, a broad concept, the discussion which follows will be limited to government directed land reforms that create new farm management units. There are two main reasons for this limitation: (1) the creation of new farm units through colonization, subdivision, consolidation of existing units, collectivization or nationalization is usually the core of land reform programs; and (2) It is the quality of design, management and operation of these units that determine to great extent whether land reform will lead to increased productivity and output along with improved economic welfare of the tillers of the land.

Colonization and Subdivision

Settlement of new lands and subdivision of existing large estates have in common the creation of individual smallholds. Outside of the socialist nations this is the commonest (though not exclusive) type of land reform.

Such programs; by assigning private property in land to farm families or heads of households, reallocate decision-making authority in relation to land and often water resources. Sometimes the legal terms of ownership are also redefined (e.g. forbidding alienation or further subdivision). Laws and fences create divisible, appropriable goods (farm land and the fruits thereof) for smallholders where before there existed public lands or large private estates.

Unfortunately for the "beneficiaries" of land reforms, however, such farms are often too small to employ family labor full-time or to permit investment in improved technology or other farm inputs. Extension education is frequently unavailable and the smallholders have little bargaining power in (or information about) factor and product markets.

Under these circumstances successful farming depends upon re-organization of production units or the creation of shared infrastructure (e.g. irrigation networks) among numerous smallholders. Management of common properties—woodlands, grazing land, irrigation canals, through joint enterprises, becomes essential. In order for these smallholders to increase agricultural productivity and improve their own welfare the individual farm units must be organized in relation to a variety of less divisible, less appropriable natural and humanly created goods and services. In some cases this may involve establishment of common facilities (see chapter 5); in other instances it may only involve commonly agreed upon time-sharing arrangements or even voluntary consent to pay, individually, for services that must be provided to all if each person is to receive the benefits (e.g. eradication of malaria).

Lack of common facilities supplied by joint enterprises such as special purpose districts, or cooperative associations, leaves the smallholder unable

to provide himself with a range of goods and services for which each farmer is interdependent at the point of production and which involve large capital outlays, creation of significant physical or organizational infrastructures or which cannot be easily or economically "packaged" for individual purchase and consumption. Many of these goods and services, essential to the smallholder and to the success of the land reform, will not be available unless agreement can be reached to do so collectively.

From the government's perspective, provision of extension services, credit, water works, machinery and so on to thousands or even millions of individual smallholders is an overwhelming task. Despite token efforts, for lack of appropriate institutional arrangements, most land reform programs have been unable to produce, package or deliver effectively an assortment of needed goods and service for individual use. Thus land reform programs create thousands of subsistence or below subsistence farms in Latin America, Asia and the Mideast--instead of increasing gross production, productivity and the welfare of the tiller of the land. The smallholders remain an inchoate community; each household does its best to make ends meet because the community lacks the institutional facilities necessary to produce or acquire needed goods and services.

At this point it is important to note that this lack of organization on the part of smallholders is not due, in the main, to any supposed cultural defects or "peasant mentality." The smallholder faces a set of problems similar to those of small firms or isolated consumers in a complex economy: imperfect markets, imperfect information, lack of access to sources of credit, political influence and essential information. To compete, to increase his welfare, the smallholder must organize. Yet incentives to do so are lacking or, even worse, organization is discouraged

by government policy and established producers, and noncooperation by private purveyors of agricultural inputs. For example, needed seeds or fertilizers may be withheld by firms which are opposed to land reform programs. In this context, the failure of smallholders to organize successfully conforms to Mancur Olson's predictions concerning "latent groups" i.e. inchoate communities: Only a separate and 'selective' incentive will stimulate a rational individual in a latent group to act in a group-oriented way.⁵ (Olson, 1968:51.)

Thus the role of government policy becomes crucial. If small agricultural units created by land reform are to lead to increased productivity and welfare for the tiller, the organizational infrastructure must be provided (including price, tax, and credit policies) that will allow small farm operators to take advantage of existing opportunities and to create new ones. This means that land reform programs must be consciously concerned with the design of institutions that will provide the intended beneficiaries with immediate, concrete incentives to associate themselves with other small agriculturalists in joint enterprises that service their individual smallholds. These incentives, among others, may include preferential access to credit, subsidies on seed or fertilizer or assistance in marketing. In some cases initial cooperative ventures may be the basis for cooperative production where the smallholders decide such enterprises would be of advantage. When this occurs, the design of these cooperative production units must also be given serious attention. But the main point to be made is that creation of smallholds through land reform will not generally increase productivity or even the long term welfare of the tiller, if it (1) is unaccompanied by adequate institutional analysis that recognizes that many areas of interdependence and jointness of interest among the

"beneficiaries" of land reform and (2) fails to work out appropriate institutions for joint enterprises to deal with the provision of collective goods and management of common property resources among small private holders. It is not enough to redistribute property rights to smallholders and hope for the best.

Consolidation or Nationalization

Creation of jointly-owned production units (cooperatives, collectives) or State farms is the objective of most Socialist land reforms and has also been included in the land reform programs of some non-Socialist third world nations. The technical justification of consolidation of smaller farms into larger collectivized units usually refers to economies of scales in production and in the provision of governmental services—education, health, social security, housing, and so on to an organized work force living in a territorially concentrated jurisdiction. In short, it is argued that consolidation eliminates the problems associated with peasant agriculture.

In part this is true. Yet collectivized agriculture has not, for the most part, been particularly successful in increasing output, raising productivity or increasing the welfare of the tiller. Peasant resistance to collectivization because of traditional values and attachment to smallholds may explain some of the difficulties experienced by cooperatives, collectives, and State farms. But what is there about cooperatively or collectively farmed units that is inherently deficient or unattractive to farmers? Ironically, from the perspective of institutional design, the basic problem facing collective farms is quite similar to that of numerous smallholds: providing appropriate incentives to individuals in relation to the production of collective goods and the management of common property resources. This is especially the case where ideological prescriptions preclude differential

wage rates related to individual productivity. But the generic problem of designing institutions for the management of common properties and production of collective goods has not been adequately dealt with even when policy makers have been unconstrained by the demands of ideological purity.

The most typical problem associated with collective production units is the unenthusiastic low-productivity performance of the labor force within the collective domain. Whether in the Soviet Union, other parts of Eastern Europe or Chile, rural workers have continued, where permitted, to produce well on small individual garden plots within larger-scale collectives or collective-like farms. It has not been lack of know-how, laziness, or a subsistence mentality that retards production in collective agriculture. The same peasants who produce well on garden plots for the market fail to do so on the collective domain. Why? Because the surplus from the garden plot is linked directly to individual effort and is privately appropriable, whereas the surplus, if any, of the collective is not linked directly to individual effort, is frequently not divided, and is often appropriated by management or the State through a variety of channels ranging from unfavorable macro-economic policy to simple corruption.

Importantly this is not necessarily the outcome of cooperatives or collectives. Some theoreticians argue, however, that appeals to private interest are a capitulation to the capitalist ethic and that, therefore, linking individual effort to individual rewards or even group effort to rewards to be distributed among a group of workers is an unacceptable concession, indeed a retreat from the task of creating a "new socialist man." While this may indeed be the case, the laments of the peasants in Abramov's *One Day in The New Life** make clear that institutional design with

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appropriate work incentives and arrangements for peasants to exercise substantial decision-making authority within the enterprise, can solve all but the ideological dilemmas involves in collectivized farming. (Abramov, 1963a.)

Interestingly, in terms of the discussion of land reform above, this conclusion entails making proprietors and entrepreneurs of peasants and rural workers. Where farm workers have proprietary interests in collectives, the problems of increasing output, productivity, and the welfare of the tiller can be handled. Where farm workers in collectives are not permitted to migrate, organize unions or associations and are subject to the authority of bureaucratic managers, they have little incentive to participate in farm management decisions. Too often collectivization or nationalization of land does not make proprietors of peasants and rural workers, but of bureaucrats, party cadres or military personnel. Under these conditions rural workers have as little incentive to work harder and improve yields than they did when employed by traditional landlords. Their prospects for an improving standard of living are not necessarily any better. The key, then, in collectivization as in the case of land reforms that create smallholds, is pragmatic attention to institutional design based upon a political theory that recognizes individual human beings as the basic "units" in political communities.

Land Reform and Public Policy

From the above discussion it is evident that land reform, whether in the form of colonization and subdivision, or in the form of consolidation and the formation of cooperatives, collectives, or State farms, may serve

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to increase output, productivity and the welfare of the tiller, or it may do just the opposite. The determining factor is not, however, the choice between individual or family farms and cooperatives, collectives, and State farms. Any of these choices may bring negative results if adequate attention is not given to institutional design. If the choice is individual or family farms in a market economy or a semi-market economy, then joint enterprises (irrigation districts, marketing coops, farm machinery, time-sharing arrangements, etc.) involving common facilities will become crucial to their performance. If the choice is to eliminate all but collective and State farms, then the structure of incentives for the rural work force and their role in the collective enterprises must be given serious attention. If a mixed economy is the goal, then a variety of institutional design problems must be met simultaneously.

There is no "ideal" production unit in agriculture; no "perfect" land reform program. Both the subdivision of large estates or public lands with "abandonment" of the "beneficiaries"—typical in Latin America, and the bureaucratic collectivization experienced in much of Eastern Europe (and recently in Cuba, Chile, and Peru) tend to yield less output and lower productivity while improvements, if any, in the welfare of tillers must be subsidized by the non-agricultural sector. Land reforms (like any reforms) can leave people worse off rather than better off. Policy-makers charged with devising and carrying out land reform programs need to give closer attention to the problems of institutional analysis and design if they are to realize their objectives. Failure to give explicit attention to the redesign of institutional arrangements associated with land reform programs will continue to lead to serious shortcomings in land reforms due to institutional weakness and institutional failure.

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