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sense if we remember that this has to do more with legal formalities (the crossing of national frontiers by goods and services) than with economic fact. Many people have written much about this subject, and most of these writings are useless. No German economist who is used to his country, the Federal Republic of Germany, being admired as the "second-biggest trading nation of the world", ought to be surprised by the developing countries complaining about their small, and declining, share in world trade. One might possibly do the developing countries a favour if total intra-European trade would be defined as domestic trade (as in the case of the domestic trade of the USA and the Soviet Union). In any case the developing countries' share in total world exports would have amounted to 27 per cent instead of 20 per cent. The picture would even improve for the developing countries, if simultaneously trade between the Indian federal states would be declared to be foreign trade and with that world trade.

The list could be continued for a long time, for example by looking at such omnibus terms as integration, cooperation, or international division of labour. It is most remarkable that these terms are of surpassing generality and vagueness. Therefore it is certainly not a pure accident of chance that such terms as we have quoted usually do not hold sway in the seminars of professional economists, but among political economists and economic politicians, such as congregate at the UNCTAD II. Nor is it a pure accident that all these examples are aptly described by a passage from Le Bon's "Psychology of the Masses"<sup>16</sup>: "The power carried by words is tied to the pictures they evoke in the minds, but it is completely independent of these words' true meaning. Words whose sense is difficult to explain have frequently the most powerful effect."

<sup>16</sup> Gustave Le Bon, *Psychologie der Massen*, Stuttgart, 1964 (first published in 1895 under the title "Psychologie des Foules") p. 72.

## AGRICULTURAL POLICY

# Agrarian Reform in Developing Countries

by Dr Mieczyslaw Falkowski, Warsaw

**M**arxist economists, unlike their Western colleagues, do not look upon agricultural development as the principal aim of overall economic growth and basis of economic reconstruction. Indeed, the past history of developing countries precludes the possibility of this type of growth. Moreover, their agriculture is often the most backward sector of the whole economy, showing low productivity, and it is difficult to believe that this sector—even if it were capable of real progress—could ever be able to urge on the overall growth rate of a national economy. History furnishes few examples of this kind of growth, except from Denmark and New Zealand.

### **Changes in the Agricultural Structure**

Only modernisation can bring agriculture into the overall growth programme. This means the elimination of obstacles such as the structure of landowning, as well as cultivation methods and techniques, aimed at raising both the level of production and productivity. Obviously agricultural problems are present in different forms in different countries, and vary according to natural environment, the level of development in each country and the opportunities and potential of the country under consideration. However, essentially the general trend of marxist research is to discover the causes of stagnation in this sector and to indicate the means of overcoming them. Its aim is to build up solid reserves of foodstuffs and raw materials, which will facilitate the total of growth process, and, on the social level, do

away with anachronistic survivals, feudal or semi-feudal, which oppress the peasants, thus creating the conditions for a modern agricultural economy.

From the economic point of view, the transformation of the existing agricultural structure has two aims: to improve the position of the peasant, and, at the same time, to facilitate the development of the productive forces in agriculture. Its importance lies in its ability to bring about a change in land ownership, hence structural changes.

Agrarian reform includes, in principle, the abolition of the limitation of large-scale land ownership. It does away with many of the obligations of the peasantry; it cancels their debts, regulates the conditions of leases and of cultivation, and improvements of soil, and restores ownership to smallholders and owners of medium-sized properties. In brief, these are all methods of transforming existing social relations, restricting the development of productive forces in the countryside.

These methods, which were once used in capitalist countries to suppress feudalistic anachronisms have now become part of the arsenal of instruments used by developing countries and are often one of their first acts after becoming independent. Such changes in the ownership of land lead to new economies, and the small holder or medium-sized farmer, freed from debt and assisted by the State by various projects, e.g. for river regulation, irrigation and mechanisation,

is thus becoming the number one in farming. Obviously, the success of these reforms will depend on the energy and drive with which a government enters into such changes.

Agrarian reform efficiently carried out is bound to stimulate industrial development. This happens in two ways: purchasing power is increased in agricultural areas, and this, in turn, raises the demand for industrial goods; secondly, through the supply of raw materials and consumer goods for those employed in industry.

### Improvement of Purchasing Power

The improvement in purchasing power is due to a redistribution of revenue derived from agriculture, which now favours the peasants, and, more important by the increase in production and labour productivity. In actual fact these two phenomena can often occur simultaneously. As soon as most immediate needs of the consumer—such as food—are satisfied, this increase in purchasing power is directed towards industrial goods, especially manufactures and industrial services. In some cases this higher revenue can be used to purchase machines and other agricultural implements, although the fact that the people involved are small or medium farmers, means that at least during the initial period they tend to acquire ploughing implements, animal-drawn agricultural machinery and very simple equipment.

During this initial period immediately after agrarian reform has taken place it is wholly important that the fiscal authorities should protect the peasants and their newly acquired incomes. This involves not only a suitable tax policy, but also the whole complex of politico-economic tools, employed by government, such as credit policy and credits, the level of ground rents, soil improvement policy and other indispensable measures.

Following agrarian reform in socialist countries, experience has shown that the factor most important to growth in agricultural production is the peasant himself. The success of agrarian reform is absolutely dependent on his labour and efforts. From this point of view it is also vitally important that agrarian reform should be carried through rapidly, and that, from the outset, the peasant should have a sense of the stabilisation of his economic position. Any insecurity is the enemy of progress.

The peasant must receive a fair profit for his work. If he is not to be rewarded with a satisfactory return for his production, he will not invest. For this reason a government which has initiated agrarian reform must guarantee the farmer a minimum price for his products, and create the prerequisites necessary to keep prices stable. Simultaneously, this would be an instrument to meet the danger of inflation, which might destroy the farmer's purchasing power.

When agrarian reform is not accompanied by these indispensable measures, then it may fail, and may even decrease the peasants' purchasing power.

### Problems of Agrarian Reform

As agrarian reform proceeds, it becomes increasingly important to decide on the area to be exploited. Maximum and minimum limits are determined by the total soil available, the number of landless peasants and of smallholders, and the opportunities for employment outside agriculture. If the maximum area of agricultural holdings has not been determined and if the laws on agrarian reform lack precision and permit varying interpretations, it becomes impossible to guarantee the rights of the peasant or the share tenant who pays his rent in kind. Well-known devices such as fictitious deeds in the name of other members of the family, the setting up of "collective" farms and "co-operatives" consisting of a "landlord" and his labourers will become common practice. Old vassalages will reappear under a new name. The middlemen (who officially are supposed to have disappeared) will come back by the backdoor, disguised as new landowners. And—this time—with an aura of legality. Thus instead of preventing the exclusion of peasants from land ownership, agrarian reform might actually speed up this process. Obviously one cannot assuage the "hunger for land" without impinging on large-scale private ownership of land.

But the maximum limit of cultivatable area is not the only important restriction. For agrarian reform to be successful it is no less important that the land distributed should not be too widely dispersed or the farms allotted too small. Excessively small units will prove obstructive—damaging to the economic advance of the countryside, particularly to the growth in yields, which in turn affects the share of production sold in the market. This is why the legislator often restricts or prohibits outright, for a certain period, the sale of land or its partition amongst heirs, below a minimum area.

The question of compensation constitutes another important problem. J. Tepicht warns against undertaking to compensate small farmers for their land at current market prices.<sup>1</sup> He proposes that farmers receive a rather small equivalent in money, with payment spread out over a sufficiently long period.

Equally important is that small farmers who have run into debt must be helped to become either wholly or partially solvent, and thus freed from obligations to landlords and money lenders.

### Farm Productivity

In spite of the need for structural changes in the farming community which are necessary for the economic development of the country as a whole, and in spite of its advantages to other economic sectors,

<sup>1</sup> J. Tepicht: *Agrarian Relation and the Growth of Agricultural Production, Essays on Planning and Economic Development*, Warsaw 1963, vol. 1, p. 65.

experience has shown that the principle of agrarian reform has its opponents. It would be an oversimplification to say that it is only the vested interests of owners and landowners in general which give rise to this resistance. Although the political element is important, we mean to concentrate on the economic arguments raised by economists against the very idea of reform itself. There is a tendency to exaggerate the difficulties of agrarian reform which seriously threatens the realisation of plans in progress. One of these arguments against reform is that small and medium-size farms reduce labour productivity, compared with large holdings. The division of large farms into smaller units would therefore be inefficient from an economic point of view. But actually the productivity of small and medium holdings is not inferior to that of large farms, and after reform productivity remains economically very efficient. This is due to the special characteristics of the underdeveloped economy. Small and medium holdings employing the family's own manpower, don't in general use paid outside labour, and can do without the costly administration, which is such a characteristic feature of large farms. They do, in fact, profit from the services of the cooperative and from state aid.

Those who advocate large undivided farms do not seem to take account of the continuing process of "proletarianisation" of the farming community which this policy involves. According to Kotovski, 20 per cent of the rural population of the "Third World" consist of agricultural labourers, who own no land at all.<sup>2</sup> Their number is growing, and the over-population of the countryside causes extreme unemployment. It follows from this that in a situation where there are only large farms, the large supply of manpower maintains the low wage levels in the countryside. Moreover, the basic capital structure remains bound to a low level, as can be seen from the aversion to mechanisation and to the use of up-to-date operating methods. Abundant and cheap manpower proves to be more advantageous than highly mechanised methods of production. This is precisely why the arguments in favour of the economic advantages of large farm units—in the developing countries—appear in such a doubtful light. Not only do they wreck the realisation of agrarian reform, but they also paint a false picture of modern technology and the abundance of agricultural products which results. This is truly a speculation which is divorced from reality. We have indicated that the true condition of large agricultural units in underdeveloped countries does not confirm the optimists' view that modernisation and mechanisation will bring about a relatively rapid growth of production. On the contrary, we should have to ask whether it is necessary to force modern techniques onto the agriculture of these countries. It appears that it is those economists who do not make a fetish out of technical development who are right. In a situation where the development of industry and the service sector cannot absorb the sur-

plus of manpower in the agricultural areas, an accelerated mechanisation of agriculture is certainly not economically justified. We believe that small and medium farm holdings, supported by agrarian reform, will produce results, that they will facilitate the transition from single-crop farming to diversified production, and that, side by side with cultivation of the land, it will enable livestock production to be developed, and in this way raise the standard of living in the countryside.

### Technology in Agriculture

Exceptions are, however, possible. One should certainly not consider in the absolute the theses that advocate agrarian reform, the distribution of land to the small farmers, and the economic invigoration of the new units. In certain cases where we find that a large unit is farmed intensively on the basis of a considerable outlay of capital, or where its output is important on a national scale, it may be said that the preservation of large units may be justified from the economic point of view. But these will always be exceptional cases, because large units are farmed extensively, and their upkeep would demand immense investments of capital and very costly administration, both of which are usually beyond the resources of a developing country.

Similarly, technical questions cannot be considered in a static manner. What proves correct in the short term may yet require modifications in the long term. It is obvious that in the take-off phase, or when a period of stagnation has to be overcome, these countries which have reserves of manpower should not have recourse to mechanisation. The situation changes with the progress of industrialisation, with the development of towns as new sectors of production, trade and services, and when manpower moves from the countryside into the towns. We know by experience that this migration of farmers to urban areas applies particularly to young people. City life is attractive, salaries are higher than in farming and there are far better training and educational facilities than in the agricultural areas, and all this intensifies the drift towards large cities. This uncontrolled movement puts even more obstacles in the way of industrialisation. And so, in order to meet in good time the shortage of manpower, one has in the long term to have recourse to mechanisation in agriculture.

### The Government's Tasks vis-à-vis Agriculture

There is another argument—also untenable—which advocates that the distribution of land should be synchronised with a limitation of ownership in other sectors of the economy, such as industry or commerce. It is obvious that a new economic policy can bring about considerable changes in industrial ownership. The aim would be to create a state sector for reasons of capital accumulation and investment. But the extent of these changes will depend on the actual conditions of the country in question, on the ability and inclination of its private entrepreneurs to invest and on the amount of capital available for productive

<sup>2</sup> G. K o t o v s k i, "On the Criteria of Efficacy of Agrarian Reform in Underdeveloped Countries", lecture prepared for UNC SAT C/516, p. 6.

investment. Contrary to the situation in industry where the state's principal aim is to stimulate all capital to economic activity, in agriculture the most important factor, namely the land, is strictly limited and there is no solution other than its allocation in a manner which is the most just, from the economic and social points of view. Without profound changes in agricultural ownership, without the total abolition of all that survives from previous "natural" and feudal economies as well as the relations of economic dependence, it will not be possible to develop the other sectors of the economic life of a nation.

All this leads to the conclusion that agrarian reform constitutes the main link in the strategical chain of agricultural development. Its realisation will create stimulants which will militate in favour of an increase in the productivity of labour, and of production itself. Thus an institutional framework will be created which is indispensable for social changes likely to transform the actual structure of ownership itself—ownership being the obstacle to development.

It appears that the most important solution of a developing country's problems must be sought in the preservation and strengthening of individual holdings of small and medium-sized farms, created by the agrarian reform. Large estates, whether state-owned or cooperatives or in private hands are the exception rather than the rule. It appears also that a govern-

ment which envisages agrarian reform, and wishes to ensure its stability, must decide to bring about profound social changes and must also effectively support the interests of small and medium farmers, with a whole range of economic stimulants. In this field an important role can be played by different forms of cooperation, particularly credit cooperatives and service cooperatives which enable the farmer to use better equipment, and also sales cooperatives which protect the farmers against exploitation by middlemen.

Theory proves, and practical experience confirms, that there is no general panacea for agricultural reconstruction. The rhythm and the direction of change in the agricultural sector in a given country depend upon the degree of development of its productive potential and on such factors as the agrarian structure, and its demographic, geographic, social, political, and even psychological conditions, to mention only a few. Two things appear certain. The differing degrees of development and the different characteristic features of the individual countries will cause a plurality of ways and means of effecting this reconstruction. An agrarian reconstruction, we emphasise, implies a simultaneous process of change in the fields of social relations and technology. It is only where both, social and technical factors, are taken into account that the desired growth and the well-being of the small farmers in general can be assured.

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