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# Growth or Equity?

## Reflections on Some Recent Tendencies in the Agricultural Policy of LDCs

by Dr Rolf Hanisch, Göttingen \*

**The following article deals with the aims and consequences of the use of large (urban) enterprises in food production within the compass of agricultural development strategies.**

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In the past decades most developing countries have given to "rural development" a much lower priority than to "urban" and "industrial development". Whilst "unbiased" economists were still arguing about the expediency of "agriculture versus industry" priorities in official development policy, the governments of most developing countries considered — not without reason — the question to have been decided long ago in favour of industrial and urban development. The political regimes in these countries are after all sustained primarily by the middle and upper strata of the urban population to whom they are also most easily accessible. Even where the rural (more or less feudal) upper strata are still holding or sharing the political power, this policy was hardly ever modified because these groups were also seldom interested in rural transformation processes (of whatever kind), the less so as they are sometimes themselves dwelling in the towns and have moved part of their business interests to the towns.

The political dominance of these strata has thus led to progressive development of the parasitic towns which were as such enabled to evolve industrial traits. Their standard of living and continued progress still depended upon exploitation of the rural area through ground rents, manipulation of internal exchange conditions, unbalanced tax and investment policies, etc.

### **"Feedback" of Rural Distress**

The neglect and exploitation of the rural area has in many countries had the effect that agricultural production could not keep up with the population growth and the — usually even faster growing — demand for food. As a consequence these countries were faced with an increasing food deficit, rising food prices, growing hunger and malnutrition in the impecunious and marginalized lower strata of the population and with larger food imports which even aggravated the

already existing balance of payments problems. Furthermore, the disparate development of towns and countryside, their inequality in living conditions, incomes and employment opportunities, led to a flight from the country into the towns by which the rural migrants however seldom bettered themselves significantly; they were still leading a wretched life in new slums on the outskirts of the towns. The big towns, especially the capital and/or primate towns, expanded rapidly. In most cases the urban infrastructure could not cope with the onrush; the growth of the towns outpaced the efforts to extend it. Delinquency, prostitution, unemployment and underemployment all increased. In brief: The distress in the countryside was transferred to the towns and lowered here the quality of life or made it dearer (especially for the middle strata and the more favoured section of the proletariat).

Not until this situation had arisen did the governments under urban dominance in many developing countries begin to grasp in earnest that there was a need for a rural development policy and to give it a higher priority among the general social objectives of state policy.

### **Aid for Medium-sized and Big Farms**

The measures were however largely concentrated on increasing the (market-orientated) agricultural production and were therefore mostly an extension of existing production promotion programmes (often from colonial days) which were now also directed towards producing food for national requirements (and no longer only cash crops for the world market). Owing in part to the "donor bias" introduced into these programmes by the international development aid, they were mostly large-scale — and rather capital-intensive — programmes. On the one hand attempts were made to enlarge the area available for cultivation by

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construction of retaining dams and irrigation-works and by programmes aimed at the opening up of land. On the other hand efforts were made to lower the factor costs of agricultural production and stimulate production for the market generally by provision (and subsidization) of agricultural inputs (seeds, fertilizers, chemicals), credits, propagation of modern farming methods and technologies, and establishment of rural institutions (cooperatives, self-management, etc.).

The introduction of high-yielding varieties of several staple foods in various countries of Asia and Latin America from the mid-sixties onwards, which under the slogan of "the green revolution" raised such great hopes, was probably the most consistent attempt at such a rural development strategy. By and large however the privileged strata, the big farmers, the "progressive farmers", were those who (beside the urban agribusinesses of course) benefited most or even exclusively.

This strategy did more good to the landowners than their tenants and farmworkers, to the big farmers than the smallholders, to those whose land was irrigated and opened up by transport than to those who did not receive these benefits. Outputs increased remarkably but failed, owing to the population growth and even greater increase of demand, to meet the needs of many of these countries. According to an FAO study there are 24 developing countries in which food production did not keep in step with the population growth in the past decade and 39 countries in which it lagged behind the demand. In 30 countries only did the food production match or exceed the domestic demand<sup>1</sup>.

### **New Producer Categories**

From the late sixties and early seventies onwards this rural development policy was extended in several countries and by some international development aid organisations in two opposite directions: On the one side governments in developing countries have been trying to induce the townspeople to engage in food production; on the other they have endeavoured to develop support programmes aimed (exclusively) at promoting the smallholder sector.

For the first of these aims the individual countries concerned have been following different ways. In several countries the urban middle class — especially public servants, small traders, etc. — are to be induced to change to agricultural pursuits, to work medium-sized farms. In some cases townspeople are being urged to use land in the towns — public squares, schoolyards, barracks, private terrains especially — for growing food (more particularly vegetables). The best-known

programme of this kind is probably Ghana's "Operation Feed Yourself" (since 1972).

Quantitatively more important is the attempt of some governments in developing countries to push large local and multinational companies in commerce and industry into the production of food. Some countries try to achieve this aim by means of especially favourable financial incentives.

### **Brazil**

Brazil<sup>2</sup> for instance is trying to speed the development of the Amazonas region by interesting big industrial and building firms through a number of financial inducements in investing in cattle-breeding projects: They can invest up to 50 p.c. of their income tax dues in such projects. Moreover, their estates qualify as investments of a value of 20 cruzeiros per hectare (although most have paid only 7 cruzeiros). In practice their invested capital is thus trebled. Besides, they are given generous loans. These cattle-raising companies have up to date acquired 7 mn hectares of land and invested 7.5 bn cruzeiros — about 30 p.c. from their own resources, 60 p.c. from state development authority funds and 10 p.c. from other sources.

In addition to a number of Brazilian firms VW do Brazil, General Motors and other multinationals have invested money in large ranches of 10,000 to 200,000 hectares. Whether these will be profitable without state subsidies and how profitable they will turn out to be in operation remains to be seen. The number of heads of cattle produced and slaughtered on these ranches is reported to be still considerably lower than the national average, and the minimum age at which they are slaughtered is much higher. With an investment of 130,000 cruzeiros per worker (about four times more than in industry) these ranches can hardly be expected to make a significant contribution to a solution of the unemployment and underemployment in Brazil.

### **Iran**

In Iran<sup>3</sup> the Government has been offering similar attractions (since 1966/68) in an effort to interest

<sup>1</sup> Quoted from: OECD: Development Co-Operation. Efforts and Politics of the Members of the Development Assistance Committee. 1974 Review, Paris 1974, p. 64/65.

<sup>2</sup> Cf. Mitteilungen der Bundesstelle für Außenhandelsinformationen (Reports of the Federal Office for Foreign Trade Information). NfA supplement, December 1974, 24th year, No. 232; Nachrichten für Außenhandel, June 10, 1975.

<sup>3</sup> The following paragraph is based on an expert opinion on "Agriculture and Agribusiness in Iran: Investment Opportunities", Iran Financial and Commercial Service, Tehran, March 1975. Cf. also: Herbert B e r g m a n n, Nasser K h a d e m a d a m, The Impacts of Large-scale Farms on Development in Iran, Saarbrücken 1975; Eckart E h l e r s, Traditionelle und moderne Formen der Landwirtschaft in Iran (Traditional and Modern Forms of Agriculture in Iran, Marburg 1975, p. 179 ff.; Ulrich P l a n c k, Iranische Dörfer nach der Bodenreform (Iranian Villages after the Land Reform), Opladen 1974, p. 35 ff.

industrial firms, banks and others in large-area food production and more especially in animal husbandry and dairy production: Watered land, investment incentives in the form of partial coverage (50–100 p.c.) of the cost of feasibility studies, on-farm irrigation, drainage and land levelling, tax exemption of profits for ten years, and loans on favourable terms. While a number of multinationals, like Chase Manhattan Bank, Shell International, Dow Chemical, Mitsui, etc., have made such "agribusiness" investments, the multinational companies generally are moving very tardily into food production: 300 foreign firms have signed letters of intent with the Ministry of Agriculture, but no more than 5 p.c. of these projects have as yet been effectuated. The reason is to be found in the low agricultural producer prices (a substantial rise took place only in 1974) combined with escalating investment costs, red tape of the government bureaucracy which must authorize the various special benefits, and complications caused by ill-defined and frequently changing state priorities. Nevertheless the current Five Year Plan lays down that by its end (in 1978) 8 p.c. of the watered area of by then 4.1 mn hectares (i.e. 328,000 hectares) is to be farmed by agribusiness enterprises. Meanwhile a feeling has spread among smallholders and farmers on medium-sized units in Khuzestan (a region mainly earmarked for the expansion of agribusiness enterprises) that their rights are once again in jeopardy. Some of them obtained their land only through the land reform. They feel apprehensive about the possibility of early expropriation by the state (and will therefore make no investments on their land).

### Philippines

In the Philippines<sup>4</sup> the government has gone another way. Not by subsidies and the incentives of the market economy but by administrative compulsion does it try to turn the large enterprises to the production of rice and maize: Following the crop failure in 1974 all firms with more than 500 employees were ordered to either import or produce a certain quantity (per employee) of rice or maize. If they resort to imports, the firms stand to suffer substantial losses because the world market price is about twice the domestic consumer price (as fixed and supported by the government). The order applies to 433 firms, including 30 multinationals, but more than half have secured exemption (on account of their precarious earnings position). In 1974 about 200 firms imported about 40,000 tons of rice at a cost

of 134 mn pesos of which they had to bear 59.4 mn pesos. Most firms however were unwilling to shoulder this subsidy for any length of time. In 1975 37 firms only imported 6,300 tons (at a price of 13.5 mn pesos) while 104 firms made arrangements to grow rice themselves and 71 others declared themselves willing to do so.

The foundation was thereby laid for capitalist capital-intensive food production on large areas in the Philippines although these firms in 1975 cultivated only about 5,000 hectares and planted and harvested rice on no more than 2,000 hectares. The total area to be used by firms already willing to start growing rice is stated to be 33,000 hectares. But nobody will prevent the firms from extending their acreage beyond the mandatory area in future when they have found this farming to be profitable. Some firms are already earning good profits and have indicated an interest in further extension of their areas under cultivation. It is therefore by no means impossible that this method of production and organisation will have a more than marginal effect on the structure of agriculture and production.

Certain flaws are however already apparent: The government order allows firms to conclude partnership agreements through agricultural service organisations with (smallholders') cooperatives whom they help to increase, by providing inputs, irrigation systems, etc., the crop on the smallholdings (and make it available to the industrial firms) instead of applying one or other direct production method. Few firms, however, have chosen this way and for this purpose tried to conclude contracts with peasants. The latter resisted such approaches, sometimes fiercely, because they considered (not without reason) the agribusiness to be a threat to their independence. Most firms want to engage in direct production by themselves (or through contractors); for this they are obliged to use, in the main, uncultivated (private or public) lands which they can rent or buy and then cultivate. These uncultivated lands, however, were in practice found to be either lands for which no private titles had previously been assigned or else lands without a formal landlord-tenant relationship which were nevertheless worked by squatters who have now been expelled. Many firms managed to buy (or lease) lands from the owners, with similar consequences for those actually working on the land; although they sometimes received financial compensation, part of them were driven away by force or reduced to the status of farmlabourers.

A contribution to a "rural development" which improves the living conditions of the lower strata of the rural population is hardly to be expected from these firms: They all use highly-mechanized

<sup>4</sup> National Grains Authority: Corporate Farming Program (General Order No. 47), Quezon City 1975; also Annual Reports 1974, 1975; unpublished files of the NGA, personal interviews; cf. further the somewhat imprecise article by Bernard Wideman, Philippine rice plan pays dividends, in: Far Eastern Economic Review, Hongkong, October 10, 1975.

methods of rice production (sometimes including seeding, fertilizing and pest control from the air) and thus save labour in a country with permanent structural unemployment and underemployment in the countryside. Some managers say quite openly that their firms intend to manage with a handful of mechanics, engineers and agronomists once the initial phase is over.

### **Production versus "Development"**

The character of this "development strategy" is thus quite obvious: The governments which resort to it are pretending that the industrial firms will bring capital, know-how and modern technology into agriculture, cultivate undeveloped land, contribute to the solution of the food problem, and generally energize the rural areas. But even where this happens, this kind of modernization is passing the lower strata of the rural population, the mass of the people in these countries, by — more so than all previous attempts. What is more, it blocks whatever slight chances of progress are open to them. It is an unequivocal strategy for increasing production and in many cases (as in Iran and Brazil for instance) scarcely suitable for a solution of the food problem in these countries — the undernourishment and malnutrition of the mass of the population. Higher outputs of animal and dairy products will tend rather to satisfy the consumption habits of the (seldom badly fed) urban middle class and at best assist in solving balance of payments problems (or approaching more closely to self-sufficiency in these products).

In view of the large state subsidies and financial incentives offered in some countries one can also hardly speak of private capital flowing into agriculture. At best it is state capital on which the private sector is drawing. Only if these enterprises were to prove capable of profitable operations without state subsidies and in accordance with their profit expectations would there be

reason to apprehend that they will lose the relatively marginal importance which they undoubtedly still have (sometimes after only a few years of existence) in the countries where they are being encouraged.

If that happens, they will grow into a real danger for the rural structure. They will "energize" and "modernize" this structure but only by displacing and marginalizing the people who previously worked the land. When the townspeople can grow their food without the peasants, the latter will have barely any chance of advancement left in societies in which they are politically second-raters and the non-agrarian (industrial) sectors are hardly prepared to absorb many new workers.

The development and industrialization model in the developing countries of today is bound to differ from that of 19th century Europe in which the release of workers by agriculture was a prerequisite to industrialization. In most developing countries today industry is so capital-intensive that it needs no longer an industrial reserve army of workers set free by agriculture. In addition, the incomparably faster growth of the population in the developing countries of our time (compared with 19th century Europe) has indeed greatly aggravated the manpower surplus in all sectors.

The rural areas of the developing countries can no longer be regarded as a suitable location for the production of food and agricultural raw materials alone. They must be viewed as places where employment, incomes and (in comparison with the urban centres) a general maximum of "quality of life" must be offered to the majority of the people for as far ahead as can be seen (if the country people are to be kept from migrating to the towns). Neither the economic nor the social and political problems of these countries can be solved by a "development strategy" ignoring this fact. On the contrary, it would exacerbate these problems.

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