FINANCING LAND REFORM IN SOUTH AMERICA

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ABSTRACT

PROBLEMS IN FINANCING LAND REFORM IN SOUTH AMERICA

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This study examines the major problems involved in financing land reform in South America. Land reform in the content of this study, implies a planned alteration of the complete agrarian structure of a given region for the expressed purpose of promoting economic and social development.

At this time, relatively little progress has been made in implementing the land reform laws which have been passed in the South American Republics.

Among the factors impeding progress are: the high cost of land reform relative to the financial resources of most of the countries, and the lack of an acceptable method for financing land expropriation.

There are three important aspects of land reform for which financial requirements are large: land expropriation, social overhead investment, and new farmers' capital. The most difficult problems arise regarding the first of these.

Since cash purchase of land cannot be undertaken on a large scale, alternative methods which would be both financially reasonable and politically feasible have had to be sought. Several possibilities are examined in this study. It is concluded that one method which might be satisfactory would involve compensating landowners with bonds which could be used as collateral for specified investment projects. The considerable backing required for such bonds would

necessitate both domestic and foreign assistance. The traditional reticence of external agencies and governments to help with land acquisition might be overcome if the possibility of a real contribution to development could be demonstrated.

A solution to the expropriation dilemma would not, by itself, result in the immediate implementation of land reform. Due consideration must also be given to the provision of complementary services. Financial limitations, though very important, would be less problematic with respect to these. Social overhead investment and farm capital present normal claims on scarce capital resources. Most South American governments have not yet integrated land reform planning into national development planning. Positive steps in this direction could assist the allocation of capital to agriculture for these purposes.

FINANCING LAND REFORM IN SOUTH AMERICA

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CHAPTER I

INTRODUCTION

Modern land reform policy in Latin America may be dated back to the Mexican agricultural transformation that began in 1910. The Mexican experience consisted almost solely in the confiscation of private property and the redistribution of these lands to landless peasants. This was undoubtedly land reform in one sense, the redistribution of landholdings. It has been clearly recognized since, that such a policy, by itself, may do little beyond solving the immediate problem of land hunger and the political storm which such hunger can create.

In contemporary times a concept of socio-economic development has arisen which does not permit land reform policy to deal merely with land redistribution. The new approach is comprehensive and is concerned with increasing the productivity, real income and welfare of the farmers who benefit from land reform. Though it is erroneous to believe that all Latin American countries have identical problems, there are enough similarities in the agricultural sectors and enough similarities in the aspirations of the majority of Latin American peoples to allow a generalized approach to land reform. Accordingly, it may be said that land reform is concerned with the establishment of a system of owner-operated farms through the acquisition and redistribution of land; the reclamation, development and settlement of both public and private lands; effective and equitable property and land tax policy and administration; the consolidation of fragmented parcels of land into more productive units; the breaking-up of large inefficiently operated estates into more productive units; the use of agricultural credit and cooperatives for the benefit of new landowners; the promotion of equitable landlord-tenant relations; and the provision of public services such as marketing and transportation facilities, schools, health programs and extension education.

Support for land reform is frequently expressed in terms of the desire for a more equitable distribution of land to those who till the land and a wider distribution of income from the land. This principle and the scope of land reform were clearly recognized by the governments signing the Charter of Punta del Este who agreed,

> to encourage, in accordance with the characteristics of each country, programs of comprehensive agrarian reform leading to the effective transformation, where required, of unjust structures and systems of land tenure and use, with a view to replacing latifundia and dwarf holdings by an equitable system of land tenure so that, with the help of timely and adequate credit, technical assistance and facilities for the marketing and distribution of products, the land will become for the man who works it the basis of his economic stability, the foundation of his increased welfare, and the guarantee of his freedom and dignity. (Article 6, Title 1)

The Alliance for Progress may be credited with stimulating considerable activity in land reform, and at this time fourteen Latin American republics have some form of land reform legislation. Nevertheless, only limited progress has been made in putting these programs into operation. The fourth annual report of the Social Progress Trust Fund states the problem succinctly:

> . . . despite the legislation approved after 1961, to date very little has been accomplished in the field of concrete progress, especially in the matter of land redistribution, when one considers the magnitude of the agrarian problem facing Latin America. The laws promulgated have not yet generated programs of sufficient breadth and intensity to effect a significant impact in the transformation of the agrarian structure of the region.[1]

In any given region or country there are likely to be significant innate reasons for a lack of progress in land reform. There also exist certain general conditions which tend to prevail in varying degrees of importance throughout the continent. These are: inadequate financial resources, a shortage of trained personnel, political opposition to land reform, and the difficulties inherent in setting up the implementing agencies.[2] The first two of these reasons fall primarily in the economic sphere, and the latter within the socio-political sphere, and as such much of their importance will be assumed in this study.

To implement the vast structural change within agriculture that land reform implies, it is necessary to ensure a sufficient flow of capital and trained personnel into agriculture. Yet, it is just these items that are, almost by definition, a developing country's scarcest assets. There is disagreement among economists about which of these two restraints, capital or personnel, is the more important. Heady replaces the expression trained personnel by "knowledge resources," and approaches the question as follows.

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[1]Social Progress Trust Fund, Fourth Annual Report 1964, Inter-American Development Bank (Washington D.C.: 1965), p. 107.

[2]SPTF Third Annual Report 1963, p. 95.

Either one by itself is unlikely to be very beneficial. In economic terms, "the isoquant relating capital and knowledge approaches ninety degrees for very backward and illiterate farmers." The extension of one alone has zero productivity, and a decrease in the supply price of either can do little productively to increase the demand or use for the other, unless it too becomes more readily available.

> Added knowledge of improved seeds, fertilizers, and other resource-using technologies is meaningless unless the capital supply is increased in the sense of greater credit availability with favorable interest rates. Equally, magnification of credit facilities may only inflate the price of resources representing existing techniques if knowledge and supplies of material factors are not extended also.

Heady concludes that capital is likely to be the more immediate constraint, but that, at a minimum it and knowledge are technical complements. He suggests that cultural and social factors may serve as stronger restraints than knowledge in technical change.[3]

It is not necessary, here, to prolong the discussion of what factor or combination of factors are the most important in limiting progress in land reform. Rather, it will be assumed that any factor which can be shown to have a limiting effect should be provided for in a comprehensive land reform program. This study will be concentrating on the impediments to land reform caused first, by inadequate financial resources and secondly, by the difficulty of arranging the financial system.

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[3]Earl O. Heady, Agricultural Policy under Economic Development (Ames, Iowa: Iowa State University Press, 1962), pp. 661-662.

The Problem:

For social, political and economic reasons, Latin Americans are proceeding with land reform as a major policy goal. The comprehensive land reform programs now envisaged by many Latin American governments are going to place a substantial financial burden on these governments, consequently the problem of capital resource allocation can not be sidestepped. The issue to be faced is, from where are the capital resources needed for land reform going to come? It is contended that under existing financial arrangements the comprehensive programs envisaged in Latin America are unlikely to be realized in the majority of cases.

Objectives:

The objectives of this study are to examine the particular problems associated with financing land reform; to illustrate these problems as they are relevant in South America; and to evaluate possibilities of developing and applying additional financial resources.

Method of Study:

Following a review of literature pertinent to land reform finance, a survey will be made of the implications of land reform for the developing nations. The next step will be to approach the issue of land reform finance, first from an overall point of view; and then on a sectional basis, dividing the subject into three major areas for which finance is necessary: land purchase, infrastructure, and farm investment. Throughout the study, these matters will be dealt with primarily in relation to the South American Republics. Furthermore, discussion of financial procedures, particularly with respect to land purchase, will be centered on problems created by very large landholdings.

Review of Literature:

There is no scarcity of literature on the subject of land reform, and particularly land reform in Latin America. Yet there is a tendency in many publications to treat the provision of capital for land reform rather lightly. Capital shortage is frequently cited as an obvious impediment to land reform but little is written about ways of overcoming the problems created by the shortage.

The fact that little has been accomplished regarding comprehensive studies of the financial implications of land reform is probably nowhere more clearly recognized than by the United Nations Organization. In response to a request from the Economic and Social Council a meeting of authorities on economic development convened at Lake Success from 24 October to 2 November 1949. From this meeting there resulted a publication: Domestic Financing of Economic Development. This is a general study of the financial plight of the underdeveloped countries. Though it did not deal with land reform as a special issue, it brought forth two points relevant to the problem of financing land reform. First that the financial institutions of the underdeveloped countries are poorly developed and secondly, that there is a considerable lack of financial provision from domestic sources for the investments and improvements which form the essence of economic development.[4]

In 1951 the UN published its first major study on land reform: Land Reform, Defects in Agrarian Structure as Obstacles to Economic Development. This was mainly a descriptive study discussing the facts of the land holdings system in underdeveloped countries, and the weaknesses inherent in such systems. However, it too brings out two relevant points; first that rural credit institutions in a large number of underdeveloped areas are either virtually non-existent or, so poorly organized that poor farmers can have little access to them.[5] Secondly, that taxation policies in rural areas leave much to be desired. It points out that the chief obstacles to instituting an efficient taxation system lie in the difficulties of (a) assessing agricultural income and, (b) administering taxation policy.[6] That these are still major problems impeding rural development will be discussed at greater length later.

At its thirteenth session, in September 1951, the Economic and Social Council of the UN adopted Resolution 370 (XIII) which among other things, recommended that provisions be made for a regular review of progress made in Land Reform. Consequently, the Secretary-General was asked to report at least once every three years on this subject. To date four progress reports have been published.

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[4]United Nations, Domestic Financing of Economic Development (New York: 1950), p. 1.

[5]United Nations, Land Reform, Defects in Agrarian Structure as Obstacles to Economic Development (New York: 1951), p. 39.

[6]Ibid., p. 46.

The first report, issued in January 1954 considers two aspects of the financial problem: agricultural credit and reduction of indebtedness; and fiscal policy in relation to land reform.

Referring to the first of these issues, credit and indebtedness, the report pointed out that credit shortage and chronic indebtedness remain basic problems, and that there was little ground for optimism insofar as the institution of corrective measures was concerned.[7] The report observed that though governments were limited by a shortage of funds, there were important steps which could be taken to make credit cheaper and more abundant by reducing its risks and costs. Measures proposed included the use of controlled or supervised credit, wider use of cooperatives, and stimulation of loans from private sources by governmental guarantee.[8]

On the subject of fiscal policy the report concluded, "Though taxation could be used as an important tool in assisting land reform policies, little use had been made of it."[9]

The second progress report, published in 1956, treated the same two financial aspects as the first report, and touched on the issue of international assistance in promoting land reform. Even though various measures for improving the supply of credit to agriculture and for reducing rural indebtedness had been undertaken

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[7]United Nations, Progress in Land Reform, First Report, Economic and Social Council (New York: 1954), p. 230.

[8]*Ibid.*, p. 231.

[9]Ibid., p. 261.

in a number of countries, the problem was far from resolution.[10] On fiscal policy, it indicated " . . . a growing tendency to use tax measures as adjuncts to programs of land reform and economic development."[11]

The report touched briefly on the issue at the heart of this study in its observation that among the other obstacles to progress in land reform, "Limited financial resources also prevent the effective carrying out of programs for which legislation has been passed."[12] Moreover, the report referred to the requests of several governments for international financial assistance. Also mentioned was the need for an international fund to finance long-term and non-self-liquidating investments in land reform projects.[13]

Though these early reports indicate that a serious effort was being made to come to grips with land reform problems, it is clear that little satisfactory progress was actually made. Nowhere is this fact brought out more strongly than in Resolution 1526 (XV) which was adopted by the General Assembly in 1960. The Resolution states in part:

> Bearing in mind that land reform is frequently one of the main requisites for the general improvement of agricultural productivity, that the needs forseen and the difficulties encountered still constitute a serious obstacle to the economic development of many underdeveloped countries and that the

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[10] Progress in Land Reform, Second Report, 1956, pp. 83-96.

[11] Ibid., p. 114.

[12] Ibid., p. 142.

[13] Ibid., p. 143.

> necessary remedies to this end have not been set forth, . . . the [General Assembly] invites the Secretary General . . . to consider the possibility of country studies in order to determine how tax, financial and budgetary factors, as well as the present utilization of land can impede or expedite the execution of national land reform programmes in the under-developed countries."[14]

This request was followed by Resolution 1932 (XVIII) which, after restating the point that ". . . financing may constitute one of the major problems impeding the realization of land reform . . ," requested the Secretary General to include among the studies being pursued in accordance with Resolution 1526 (XV), an examination of ". . . the different approaches and methods of undertaking the financing at the national level of a comprehensive land reform programme, including the method of financing by bonds."[15] The Resolution concludes with a ". . . call to all organizations and governments to study the financial problems of land reform and to examine the feasibility of achieving regional or international cooperation."[16]

In response to these two resolutions the Economic and Social Council did include a chapter on financing land reform in both its third and fourth progress reports.

The third report, published in 1962, deals with three financial aspects: tax policy, the needs of the new cultivator for production

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[14] United Nations, General Assembly Resolution 1526 (XV) (December, 1960).

[15] United Nations, General Assembly Resolution 1932 (XVIII) (November, 1963).

[16] Ibid.

capital and, financial obligations to and of former landowners. The report discusses the role that taxes can play in supporting land reform, and suggests that reforms of the tax system may be necessary in order to provide a large portion of internal development funds. Latin America is referred to as an area that is relatively backward in its taxation procedures.[17]

Provision must also be made for an adequate and efficiently managed system of production capital to complement the initial land grant or sale. Paraquay and Bolivia are cited as examples of countries whose initial land reform programs were anything but satisfactory because new settlers were not provided with adequate capital and technical assistance. Whereas in Venezuela's 1958 program, settlers were provided with ample finance, but inadequate training and supervision.[18]

In discussing compensation and repayment procedures the report points out that these procedures tend to vary considerably from country to country. Inasmuch as most land reforms envisage some form of compensation to landowners, and since there will probably be considerable additional expenditures in settling the new landowners and creating the necessary infrastructure; it is clear that the net financial outlay of a government will depend on the difference between these outlays and what the beneficiaries may be reasonably expected to pay. Since it is unlikely that the

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[17] Progress in Land Reform, Third Report, 1962, pp. 166-176.

[18] Ibid., p. 181.

beneficiaries will be able to pay for such outlays, at least in the short run, a considerable fiscal impact on the budget may be expected. This problem becomes reinforced when it is realized that, frequently, land reform measures are undertaken in the interests of socio-political policy rather than economic policy.[19]

The fourth report issued in May 1965 devotes a complete chapter to the subject of compensation payments. This was published in response to Resolution 1932 (XVIII) referred to earlier. Perhaps the most revealing part of this report as it relates to this study is the conclusion that though external financial assistance may be desirable for certain aspects of land reform, it is ". . . considered inappropriate for financing compensation payments, which have repeatedly been held to be a matter to be financed nationally."[20] Now this decision, though adopted in Resolution 1932 (XVIII) was undoubtedly not anticipated by the proponents of the original draft resolutions. One such resolution, by Costa Rica, recalled that Resolution 1710 (XVI) and 1715 (XVI) of December 1961 recommended and stressed the need for international capital in the implementation of land reform. As the Costa Rican draft pointed out: ". . . there are at present no international sources from which the governments of developing countries may obtain funds with which to purchase land suitable for use in land reform programmes."[21] It went on to refer

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[19] _Ibid._, p. 190

[20] _Progress in Land Reform_, Fourth Report, 1965, Chapter III.

[21] United Nations, _Means of Promoting Agrarian Reform_, A/C, 2/L. 728 (New York: October 14, 1963), p. 2.

to the fiscal burden that land purchase would place on the governments concerned, and called on ". . . the Governments of the economically developed countries to make a special effort by means of international arrangements to satisfy the financial requirements of the land reform programmes of the Governments of less developed countries."[22]

During the debate on the resolution, the Chilean delegate, referring to his own country, pointed out that, even though compensation could be paid in instalments rather than as a lump sum there were inadequate financial resources for such financing. What financing could be achieved had to come out of the budget, but there was an urgent need for external aid to speed up the program. The delegate also made the point that the act of denying external financial help served to perpetuate the control of the large landowners.[23]

Apparently, these objections did not impress the Council, for the resolution was finally passed with the understanding that external financial aid was an inappropriate method of assisting in the redistribution of land; whereas there was agreement that the provision of technical and financial assistance to help meet the foreign exchange costs of other aspects of land reform was quite in order.

What has taken place in many South American countries has been the development of some form of Land Bank. The main function

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[22] Ibid., p. 2.

[23] United Nations, Official Records of the General Assembly, Eighteenth Session, Second Committee (September 17-December 10, 1963), p. 178.

of such a bank, was discussed by Galbraith and Morton at Madison in 1951.[24] They suggested that:

> The land bank would borrow money, issue bonds to the land distribution agency to be used for payments to landlords, and secure from the agency mortgages on the new owners. By investing as a sound financial institution, the bank would seek to attract funds from the public and from the commercial banks.[25]

Johnson and Metcalf, in a 1953 paper, suggested an elaboration on the Land Bank idea. Concerned with the necessity for industrialization as well as agricultural improvement, Johnson and Metcalf proposed a program for jointly financing land redistribution and industrial development. They recommended that payment to landlords for expropriated holdings be made by special government bonds. These bonds could on application at a national development bank be pledged as security for loans to finance approved industrial investment projects or for participating in existing enterprises that were of direct benefit to the economy. The industrial credits so advanced could be obtained from a variety of sources such as: taxation, domestic bond issues, foreign loans, amortization payments from the land reform beneficiaries, and from money created by normal credit expansion of the banking system.[26]

Edward Harris has elaborated on the Johnson and Metcalf

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[24] John K. Galbraith and Walter A. Morton, Land Tenure, Proceedings of the International Conference on Land Tenure and Related Problems, eds. Parsons, Penn and Raup (Madison: University of Wisconsin, 1956), pp. 497-499.

[25] Ibid., p. 497.

[26] Webster V. Johnson and John E. Metcalf, "Land Redistribution and Industrial Development," Land Economics, XXIX (May, 1953), pp. 155-160.

proposal, and suggests that ex-landowners be paid partly in cash and partly in non-negotiable, inflation-proof bonds. The primary point in his proposal is that the role of government be directed towards encouraging and assisting a privately owned and operated development bank. The bank as in other proposals would be particularly concerned with backing the land bonds for use in industrial development.[27]

A more complex scheme was proposed by Mann and Blase in a recent paper on financing land reform in Peru. They argue for the creation of a government-run national trust for financing land reform and industrial development. The major difference in this proposal from that of Johnson and Metcalf is that its success would depend very heavily on foreign funds for backing the trust's activities.[28]

Though these proposals are making valid attempts to resolve the financial problems of land reform, they tend to exhibit a common shortcoming of a fundamental nature. That is, they are biased towards industrialization, and compensation of ex-landowners. Land reform in its comprehensive context is somewhat overlooked. Thus Mann and Blase treat everything that does not concern the legal transfer of land titles or the payment of compensation as a "public welfare consideration outside the scope of their paper.[29]

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[27]Edward R. Harris, Jr., Land Redistribution: A Stimulant to Industrial Development (unpublished, Fidelity National Bank, Lynchburg, Virginia: 1964).

[28]Fred Mann and Melvin Blase, A Potential Institution and Procedure for Financing Agrarian Reform and Stimulating Industrialization in Peru (Iowa Universities-AID Contract Group in Lima, October, 1963).

[29]Ibid., p. 17.

Since December 1962, an attempt has been under way to create an international organization whose chief functions would be to coordinate the financial aspects of land reform, to alleviate the problem of initial capital acquisition, and to ensure a flow of funds into agricultural as well as industrial development.

The organization, to be called the World Land Bank, was proposed by James G. Patton, President of the National Farmers Union. The proposal was adopted at the Thirteenth General Conference of the International Federation of Agricultural Producers in Dublin, on 21st May, 1963; and also by the Inter-American Agrarian Organization on the 17th September, 1963.

The World Land Bank would be formed as a specialized agency within the meaning of article 57 of the United Nations Charter. It would be capitalized by subscriptions purchased by the creditor nations of the world, and by donations similar to those used for financing the World Bank and the International Development Association.[30] At this time the proposal is still under study by the United Nations Special Fund.

Robert Hudgens in Dynamics of Development lists four factors which he considers to be the essentials of land reform that must be resolved before a land reform program is undertaken. They are:

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[30] James G. Patton, "World Land Bank," National Farmers Union Newsletter (December 12, 1963).

"1. How to introduce capital into the process.

2. How to apply subsidy to support the initial stages of agrarian reform.

3. To discover an appropriate method of compensating landowners.

4. How to administer agrarian reform . . . so that all essential services are subordinate to the main objective."[31]

Under his third objective, Hudgens points out that though Latin American countries are seeking

> realistic methods of financing land purchase, . . . , there has been no organized attempt by any of the international agencies to arrive at a plan that might serve as the typical pattern or as the starting point for each country's consideration."[32]

Yet as he says earlier, and as others have said before, the rationale of compensation lies not in helping landowners but in converting capital, presently stagnating in underutilized land, ". . . into a more dynamic form for use elsewhere in the economy."[33]

Though the literature on financing land reform is notable for its paucity, that which is available succeeds in drawing attention to the highly significant point that it is the land itself that is capable of providing the means for financing reform. Though the concept of land reform is scarcely separable from that of agricultural development; it is the patterns of land distribution existent in certain countries that entitles the former to special consideration, and a special place in the literature on development.

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[31]Robert Hudgens, "Essentials of Land Reform," Dynamics of Development, ed. Gore Hambidge (New York: Frederick A. Praeger, 1964), pp. 277-282.

[32]Ibid., p. 280.

[33]Ibid.

CHAPTER II

AGRICULTURE AND THE NEED FOR REFORM IN SOUTH AMERICA

The overwhelming importance of agriculture to the South American countries can be a significant factor in aiding one's appreciation of the need for substantial changes in the agrarian structure.

Since World War II, South America has experienced rapid increases in urbanization and industrialization. Despite this, the proportion of the population living in rural areas, ranges from 18 per cent in Uruguay to 70 per cent in Bolivia; while the proportion of the labor force engaged in agriculture ranges from 25.2 per cent in Argentina to 70.4 per cent in Bolivia. (Data not available for Uruguay).[1]

The Inter-American Committee for Agricultural Development (CIDA) in presenting these figures points out that they are only guidelines since different definitional procedures apply in the different countries.[2] But whatever allowances are made for inaccuracy do not destroy the basic point that a large percentage of the people live in rural areas and are engaged in agriculture.

[1]Inter-American Committee for Agricultural Development, Inventory of Information Basic to the Planning of Agricultural Development in Latin America, Regional Report (Washington, D.C.: Pan American Union, October, 1963), pp. 51-53.

[2]Ibid., p. 49.

Unfortunately, the large agricultural population notwithstanding, many South American countries are unable to produce enough food for domestic requirements. With the exception of a few countries, growth of agricultural output has been inadequate. In Brazil, Ecuador, Peru and Venezuela agricultural problems have been intensified by the fact that population has been increasing faster than the increase in agricultural production.[3]

The importance of agriculture in the South American economies is evidenced by the following table which shows the percentage of Gross Domestic Product originating in agriculture in those countries for which UN data are available:

TABLE I

Percent of Gross Domestic Product Originating in Agriculture, Forestry and Fishing

Country	Year	%
Argentina	1963	17
Brazil	1960	28
Chile	1963	9
Colombia	1962	32
Ecuador	1963	38
Paraguay	1962	37
Peru	1960	24
Venezuela	1963	7

Source: United Nations: Statistical Yearbook 1964, pp. 536-541

[3] United Nations, Economic Bulletin for Latin America (New York: October, 1963), p. 149.

In spite of the large proportion of the people engaged in agriculture and the important position of agriculture in the South American economies there has been a tendency during the postwar period for agricultural output to lag behind the rate of growth in the other sectors of the economy.[4] This is clearly an unreasonable situation. Agriculture, as the dominant sector in many of these economies, must be looked to for the provision of a large share of the domestic savings needed for expansion not only in agriculture itself, but also for social overhead investment and the expansion of industrialization. The point is that even though the so-called developed countries can afford a declining agricultural sector, in the sense that its absolute growth is relatively slower than that of the non-agricultural sector, this does not hold for the under-developed countries. In the latter, agriculture must experience a substantial increase in productivity and output if it is to play an important role in capital formation and in earning foreign exchange.

In the next section this problem of lagging agricultural productivity and the major reasons for its persistence will be outlined.

Causes of Lagging Agricultural Productivity

It is apparent that one could take each South American country separately and prepare a list of the important agricultural problems. That no two countries would have the same set of problems

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[4]*Ibid.*, p. 148.

follows from the fact that the area is large and the conditions heterogeneous. Differences in climate, soils, topography, and water supply are important natural conditions causing variations in the type of agriculture. Economic factors affecting what a farmer can produce include: prices of products, costs of inputs, transportation and marketing facilities, and the rural organization and productive system common to a given region. Nevertheless, it is possible to generalize some broad problems which are, to varying degrees of importance, commonly found in the South American agrarian structure.

Widespread Subsistence Agriculture

A subsistence farmer is one who lives directly on what he produces. This type of activity is quite widespread and contributes to the slow pace of development in two major ways. First it fails to provide an adequate diet and satisfactory standard of living in the rural areas. Secondly, it produces no surplus for sale in the urban areas.[5]

Traditional Agriculture

Traditional agriculture implies a lack of change from the past and finds expression in a low level of agricultural technology, among other things. Rural attitudes and institutions have been built up over a long time; farmers on small plots use primitive and ineffective methods sometimes because they are not aware of better

[5]U.S. Congress, Hearings Before the Subcommittee on Inter-American Economic Relationships of the Joint Economic Committee, 87th Cong., 2nd Sess. (May 10 and 11, 1962), p. 19.

ones and sometimes because the size of their plot does not permit the application of improved methods. Frequently, traditional attitudes and customs play a major role in inhibiting the influx of new techniques.

Low Incomes

Throughout South America agricultural incomes tend to be relatively low, both in comparison with urban incomes and in comparison with agricultural incomes in the more developed countries of the world.[6]

Capital Scarcity

Where farms are small and a high proportion of the people live in poverty, capital accumulation is difficult because average and marginal propensities to consume are high, incomes are low, and there exists indifference towards voluntary saving. Furthermore the small farmer is frequently unable to obtain a loan because he has little or no security to offer. Though the number of public agricultural credit institutions is spreading in South America, they are still few and the amount of funds at their disposal is low.

Shortage of Trained Personnel

This problem, as obvious and as important as capital shortage, implies inevitable delays in both the scope of agricultural development and the speed with which it may be implemented. The

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[6]CIDA, Regional Report, p. 6.

failure of apparently well-conceived development programs has often been attributed to the lack of personnel needed for their implementation.[7]

Land Distribution Pattern

A highly unequal pattern of land distribution is one of the most remarkable features of the agrarian structure. Carroll, generalizing for Latin America as a whole, has estimated the land distribution pattern given below in Table 2.

TABLE 2

Land Distribution in Latin America[8]

Size of Farms (Hectares)	Percentage of Farms	Percentage of Land Area
0-20	72.6	3.7
20-100	18.0	8.4
100-1,000	7.9	23.0
over 1,000	1.5	64.9
Total	100.0	100.0

The problems generated by the unequal land distribution patterns in Latin America have been so thoroughly discussed in so much of the literature that there is little need to do more than summarize them here.

The large landholdings of Latifundia are charged with being

[7] Ibid., p. 61.

[8] Thomas F. Carroll, "The Land Reform Issue in Latin America," Latin American Issues, ed. Albert O. Hirschman (New York: 20th Century Fund, 1961), p. 165.

the seat of much social and political discontent, while at the same time representing an inefficient use of resources. Though much of the commercial agricultural production comes from these properties, it is often charged that they produce well below their potential. Much of the land is used for export crops, and when prices are low there is a tendency to leave part of it uncultivated. This creates underemployment of agricultural labor and contributes to domestic shortages of agricultural products. Frequently these properties are owned by absentee landlords and run by managers. But as long as the property provides a sufficient income there is little incentive for the landowner to concern himself with the efficiency of the property or the welfare of its laborers. The latter are normally organized in some form of tenancy or wage worker pattern such as the Colono System.[9] The technological level tends to be low and most of the workers and tenants rely on subsistence agriculture to support themselves. Usually they have to scratch this living off the poorer lands, because the better land is reserved for the landowner's crops.

However, there are those who argue for the retention of the Latifundia. Generally these arguments run along the lines that large farms are more efficient than small farms, they benefit from economies of scale, and only large landowners can afford to import better stock and machinery. Furthermore, much of the land is of such poor quality that it isn't worth cultivating and there is

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[9] Ibid., p. 168.

therefore, no point in letting small farmers have it. Finally, efficient agriculture requires a reduction in manpower per acre and an increase in mechanization; division of the land into small plots would make hand labor inevitable.[10]

Now if the majority of large farms in South America were the paragons of efficiency that these arguments imply, it is unlikely that the pressure for land reform would be as great as it is. The point is that relatively few are operated in an efficient manner, while the majority represent a considerable fixed investment in land with the landlords acting as non-contributory forces in society, content to siphon off a share of the economic returns to society disproportionate to their share in production.[11]

The Latifundia represent one side of the land distribution problem, the Minifundia or very small farming units, the other side. On farms of this size there is not much that can be done to increase productivity. They are too small for machinery, and scarcely large enough to provide more than a subsistence standard of living even with the use of improved seeds and fertilizer. Frequently the owner is heavily indebted to the local pátron, thereby effectively destroying much of the independence and pride of

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[10]For a comprehensive discussion of the issues involved in this debate see: Rainer Schickele, "Land Economics Research for World Agricultural Development," Land Economic Research, eds. Ackerman, Clawson and Harris (Baltimore: The Johns Hopkins Press, 1962), pp. 102-110.

[11]Doreen Warriner, Land Reform and Economic Development, 50th Anniversary Commemoration Lectures (Cairo: National Bank of Egypt, 1955), p. 15-16.

ownership that could be his. This indebtedness contributes to the subdivision of the plots, for peasants may attempt to escape their debt by selling part of their land.

Thomas Carroll summarizes the relationship between the landholding system of Latin America and the call for land reform:

> Historically, the pressure for land reform has been motivated by social justice and equity considerations. The implicit and explicit aim of all land reforms in the region has been the substitution of the latifundia - minifundia - colono pattern by one based on a much greater amount of owner cultivation or by communally owned larger units in which the cultivator has security and increased status. In societies where the possession of land means wealth, security and status, one can easily understand the appeal of the cry: "Land to the Tiller!"[12]

Unused Land

Most South American countries have large areas of unused land. In fact, as may be seen from the table on page 27, only two, Argentina and Uruguay, have as much as 40 per cent of their area in agricultural use.

There is not doubt that much of this unused land is of low productive potential, but there is also much that has a high potential but which remains unused for a variety of reasons such as: inaccessibility, distances from market, lack of knowledge about soils etc.. Furthermore there remains much to be done by way of intensive studies of the soils, vegetation, climate and hydrological features of the unused lands in order to find out precisely what

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[12] Carroll, p. 171.

TABLE 3

Use of Land in South America by Major Categories

Country	Year of Data	Total area (1000's of hectares	Land in Farms (a)	Crops	Pas-ture	For-est	Unused Potentially Useful	Waste and Other
			PERCENTAGE OF TOTAL LAND AREA					
				Over 40% in Crops and Pastures				
Argentina	1957	277,841	62.5	10.8	40.7	35.8	....	12.7
Uruguay	1957	18,693	90.8	13.7	64.4	2.3	8.8	10.8
				20 to 40% in Crops and Pasture				
Venezuela	1956	91,205	24.3	3.2	19.5	20.8	....	56.4
				Less than 20% in Crops and Pasture				
Bolivia	1956	109,858	29.8	2.8	10.3	42.8	....	44.1
Brazil	1957	851,384	27.3	2.2	12.6	60.8	4.0	20.3
Colombia	1956	113,836	24.4	4.3	11.7	61.0	....	23.1
Chile	1956	74,177	37.4	7.4	0.6 (b)	22.1	10.4	59.5
Ecuador	1956	27,067	22.2	4.1	8.1	60.6	21.4	5.8
Paraguay	1954	40,675	....	1.3	1.7	51.3	1.4	44.2
Peru	1959	124,905	....	1.4	9.6	56.0	....	33.0

(a) Since the estimates of areas in agricultural and livestock exploitations are from a different source and often for different years from the data on land in crops and pasture, these figures cannot be compared directly.

(b) Apparently refers to improved pastures only.

Source: CIDA <u>Regional Report</u>, p. 33.

resources are available.[13]

Underemployment of Labor

In most areas of South America there exists an abundant supply of labor that cannot be absorbed at the existing level of production. The form of this underemployment appears in any of four ways: complete unemployment, seasonal unemployment, hidden unemployment or employment at sub-marginal tasks, and underemployment resulting from the use of inefficient tools and methods.[14]

An economic structure which absorbs this surplus labor will not only aid a country's economic development but also assist its political development, for bands of unemployed peasants have traditionally been the cause of considerable malcontent which has fomented into revolution.

Marketing and Transportation

Inadequate marketing and transportation facilities are common throughout much of South America. A large share of the produce that does enter the market passes through the hands of monopsonistic middlemen, thereby resulting in the exploitation of the small farmer. Transportation facilities are often so inadequate that there is little movement of perishable goods to the major urban areas except from their immediate vicinity.

An additional problem stems from the fact that a large

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[13] CIDA, Regional Report, p. 32.

[14] Ibid., p. 56.

proportion of South America's commercial agricultural produce is export-oriented. Unstable international markets and an inelastic demand for agricultural exports have created difficulties in stabilizing exchange rates.[15] Since the countries must also attempt to stabilize domestic price levels, and since the stabilization of both the exchange rate and the price level is often more important than a high growth rate, the latter must often be sacrificed at the expense of the former.

This resume of the causes of low agricultural productivity has been by no means exhaustive. It has dealt primarily with factors which are chiefly of an economic nature. There are other aspects of socio-political relevance which are no less important. Among these may be mentioned: the social structure, which in many areas is a primary inhibitor to change; the lack of education, in most South American countries the rural population is predominantly illiterate or at best poorly educated; the lack of medical facilities, disease and malnutrition the traditional forces acting to balance population growth are still rampant, but have been reduced to the extent that the birth rate, which has not declined, is considerably higher that the death rate; lack of effective local government, South American governments tend to highly centralized. The prevailing social structure, lack of revenue sources and poor education found in rural areas are not conducive to self government, with the result that the people either depend on the local landowner

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[15] Norman Macrae, "No Christ on the Andes," The Economist (London: September 25, 1965), Supplement p. X.

and/or the church, or turn to the central government for action on strictly local affairs.

Measures for Improving Agricultural Productivity

Having summarized the problems of South American agriculture, attention can now be directed to the more important question of how to overcome them. Should it be on a piecemeal basis, tackling one or two of the major problems at a time; or can some integrated method be worked out which would incorporate most if not all of the measures needed?

The Mellor Thesis

Mellor argues that the first requisite of an agricultural development program is identification of the abundant and scarce resources.[16] He defines abundant resources as those which are being used or are available in such quantity as to lead to low marginal productivities. These include labor, land and, in its traditional form as something created by labor, capital.

The scarce resources include: (1) institutions to provide incentives, such as changes in the tenure system which create the environment for output-increasing innovation, (2) research to develop improved production possibilities, (3) production facilities for physical inputs of new and improved types, such as seeds and livestock, and (4) institutions to service agricultural production, such as

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[16]John Mellor, "The Process of Agricultural Development in Low-Income Countries," Journal of Farm Economics, XLIV (August, 1962), pp. 100-716.

marketing and processing facilities. Mellor indicates that a problem exists in determining the required proportions and the total package of scarce resources required for a given output. The allocation of scarce resources must differentiate between those with a relatively elastic supply schedule, such as fertilizer; and those with a relatively inelastic supply schedule, such as trained personnel. The latter present the really critical allocation problems.

He goes on to discuss three stages of growth through which agriculture will pass. Stage one is stagnant technologically; but is characterized by changes in attitudes and institutions which, while not providing ". . . a sufficient condition for technological advance do help develop a decision-making environment in which farmers accept the possibility of personal gain from improved farming.[17] Mellor mentions changes in the land tenure system and political power structure as being the type which may ". . . provide the rudimentary preconditions for development.[18]

Stage two is characterized by rising agricultural production with low capital technology. Increased acceptance of a small number of technological improvements occurs. Agricultural research and extension play a major role and, at this stage, the major input is personnel. Stage three involves rising agricultural production with high capital and labor-saving technology. At this stage agriculture's role in the economy is declining because of rapid growth in other sectors of the economy.

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[17] Ibid., p. 712.

[18] Ibid.

Mellor's third stage constitutes the end-product or goal of an agricultural development program, and as such will not be treated here where the concern is with the means of achieving the end.

Mellor's division between stage one and stage two and the assumption that stage two will occur, given the basic incentive-creating preconditions of stage one is interesting. He is really concerned with the nature of the need for capital at the early stages of development. His point is that capital is needed chiefly for providing services such as research, extension, and input supply lines rather than for financing farm level purchases of agricultural requisites. He believes that simple changes in farm practices, requiring little or no capital, can raise production substantially; and that it may be possible to finance those services needed at later stages of development out of this increased production.

Mellor's study is based largely on Indian experience and consequently may not be too relevant to South American societies. If development were to proceed as a result of changes brought on by changes in the land tenure and political structures then our problem would be lessened considerably. Unfortunately it is not at all clear that changes in attitudes have automatically resulted from such institutional changes in the South American agrarian structure, or that development has resulted from these minimal institutional changes.[19] Indeed there is ample evidence to the contrary: Wood

[19]Betty Bell, "The View from the Other Side of the Fence," (unpublished, Inter-American Development Bank, Washington, D.C.: 1964).

cites the examples of colonization schemes in Bolivia, Chile, and Colombia which failed because land reform involved little more than land redistribution and changes in the conditions of tenure.[20] Early attempts at colonization in Venezuela failed because though the settlers were given ample help, there was no attempt to develop initiative or make the settlements economically feasible units.[21] Such a result was foreseen by Barlowe in a 1953 article in which he called attention to the fact that despite the increases in income and welfare resulting from a reform, economic development as a concept must be promoted. That is, a certain direction of desires and expenditures may be called for if the benefits are not to be hoarded or wasted.[22]

In Mexico many of the large estates were broken up following the 1917 revolution. The land was distributed to poor uneducated farmers who were not provided with credit, machinery or technical assistance. A form of collective farming was attempted which proved to be quite inefficient, with the result that yields declined, and erosion and soil mining increased.[23]

Bolivia's land reform , which followed the 1953 revolution,

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[20]Garland Wood, "Implicaciones Economicas de la Reforma Agraria," Agricultura: Normas Sobre Economia Y Administracion, ed. Warren H. Vincent (Mexico, D.F.: Editorial Limusa-Wiley, S.A., 1964), p. 401.

[21]Carroll, p. 190.

[22]Raleigh Barlowe, "Land Reform and Economic Development," Journal of Farm Economics, XXXV (May, 1953), p. 182.

[23]William Withers, The Economic Crisis in Latin America (New York: Free Press of Glencoe, 1964), p. 104.

began slowly and showed few positive results other than the destruction of the large landowners' political power. As Carroll says:

> The government lacked the technical, financial and administrative resources necessary to organize the reform in a systematic way, much less to give the new owners the complementary services they so badly needed.[24]

Consequently, amidst the disruption that accompanied the revolution, production suffered and agricultural output declined substantially. In fact the short term effects of the reform were to make the new landowners worse off, economically, than before.[25]

In the article referred to earlier, Barlowe expresses the argument favoring a comprehensive approach to land reform in a concise manner. He points out that land redistribution which involves breaking up viable units generally results in a decline in production. This is particularly true if the expropriated owners have provided supervision, capital, equipment and marketing services. If these services are not incorporated into the reform, total production may remain lower than it was before the redistribution. Barlowe also discusses the need for production incentives to get the new owner to increase his output. Unless he has to pay as much for taxes and debt services as he formerly paid to the landowner, he may attempt to maintain his income level while working less. This problem can be reduced if desired goods and services are available

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[24] Carroll, p. 178.

[25] Ibid.

for which the new owner may exchange his surplus.[26]

The controversy about whether land reform should be concerned solely with land redistribution or with a comprehensive approach to the total agrarian problem was settled in favor of the latter approach when the South American governments signed the Charter of Punta del Este. At this time all the republics have some form of land reform program at some stage of enactment. The programs range in scope and magnitude from the ambitious programs of Venezuela, Bolivia and Peru among others, to the relatively small programs in Brazil, Argentina and Uruguay. In all cases the programs involve considerably more than land redistribution and settlement; for, it has been clearly recognized that these are minimum essential goals which by themselves are insufficient.

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[26] Barlowe, p. 184. Also Philip Raup, "The Contribution of Land Reforms to Agricultural Development: An Analytical Framework," Economic Development and Cultural Change, XII (October, 1963), pp. 1-21.

CHAPTER III

FINANCING LAND REFORM

In this chapter an examination will be made of the overall financial problems which a government may expect to encounter in undertaking a land reform program. That is, the focus will be on the initial task of accumulating and justifying the accumulation of sufficient funds.

High Cost of Land Reform

Land reform as envisaged in this study as a comprehensive solution to the agricultural problems of South America is a formidable and expensive undertaking.

A concept of just how formidable the task is may be gathered from a listing of the variety of auxilary elements, some or all of which would be undertaken in conjunction with land redistribution. The Inter-American Development Bank recognizes twelve such elements for which it will provide financial assistance, these are:

1. Surveys and appraisals of resources.
2. Cadastral surveys.
3. Title registration and transfers.
4. Land preparation and development.
5. Farm production credit.
6. Capital investment on the farms.
7. Capital investment in central productive facilities affecting a number of farmers.
8. Development of the infrastructure.

9. Technical assistance and research
10. Development of cooperatives and of farmers' associations.
11. Marketing, storage and local processing of farm products.
12. Community development and communal services.[1]

It is clear that the provision of such services will involve considerable financial outlays. Yet this is only part of the problem. The other part relates to expropriating the lands which are to be redistributed. The issue of whether or not expropriated land owners should be compensated and if so how much is quite complex and will be considered at length in the next chapter. For now it will be assumed that some form of compensation is to be paid and that provision for such compensation enters into the reckoning of the cost of land reform.

An example of the magnitude of the cost of a land reform program is given for Peru. In a draft working program for 1965 the following budget was estimated.

Component		Soles (millions)
Land aquisition (first year)		121.5
Colonization		255.6
Technical and social assistance		111.4
Research (cadastral, resources)		30.0
Aid to local parcelations		20.0
Staff training		2.0
Reserve		20.0
Administration - Lima		20.0
Administration - programs		130.1
Credit (net) to be extended		942.2
	Total Soles	1,652.8
	Total $US	61.6 millions
	(Exchange rate Sole 26.82 = $1.00)	

Source: <u>Progress in Land Reform</u>, Fourth Report/Add. 1. p. 23.

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[1]SPTF <u>Fourth Annual Report 1964</u>, p. 509.

The total cost of land to be expropriated is estimated at 1,215 million soles ($45.3 million). However, only 10 per cent (the initial cash outlay averaging 5 per cent, plus an average of six months of debt service) would be required currently, the remainder being deferred over twenty years. Thus, in addition to this first outlay, some 1,157 million soles ($43.1 million) of amortization, plus interest, would be required in the future to pay for present land purchases.

Measures taken to finance the program include certain provisions for channeling resources toward investment. The Agrarian Reform Law created the Agrarian Reform Finance Corporation (COFRA) and authorized the issuance of bonds to the value of 6 billion gold soles ($223.7 million), with which to provide COFRA the resources for land purchase. Provision was also made for the establishment of an Industrial Investment Fund, which authorizes the Industrial Bank to float 500 million soles ($18.6 million) in securities.

To finance the remainder of the program all state owned land, rural holdings and expropriated properties are to be transferred to COFRA. In addition, it is to receive the annual principal and interest payments by the beneficiaries and a minimum annual share of 3 per cent of Peru's fiscal revenues for 20 years.[2]

The program is supposed to be completed in ten years. Assuming that expropriation costs continue at the same rate as in 1965, the final year would include S121.5 million ($4.5 million)

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[2]SPTF <u>Fourth Annual Report 1964</u>, pp. 455-456.

plus approximately S972.0 million ($36.8 million) for amortization payments on previous debt. If the program and budget are maintained at the same rate for ten years, compensation and interest will account for 60 per cent of the land reform budget in 1975 compared with 8 per cent in 1965. This means that substantial new revenues will have to be raised to pay for the complementary services if they too are to be maintained at the present level.[3]

Data on Chile's land reform program indicate that the total cost of settling a family approximates $5,000. Half of this cost is for land purchase, the remainder being spent mainly on farm construction , fencing, roads and readjusting the irrigation system.[4] Considering this heavy cost it is hardly surprising that the 1964 report of the Social Progress Trust Fund suggests that the impact of the Chilean reform has not been substantial, and that a lack of financial resources has been a primary reason.[5]

The Colombian Agrarian Reform Institute (INCORA) estimates that there are some 500,000 rural families who may benefit from land reform. INCORA is provided by law with an annual budget of approximately $10 millions, plus what it may raise from foreign loans and from the sale of its own lands. However, the cost of providing new landowners with a house and certain services and

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[3] Progress in Land Reform, Fourth Report/Add. 1. p. 23.

[4] Peter Dorner and Juan Carlos Collarte, "Land Reform in Chile: Proposal for an Institutional Innovation," Inter-American Economic Affairs, XIX (Summer, 1965), p. 11.

[5] SPTF Fourth Annual Report 1964, p. 223.

equipment varies from $2,000 per family in the Cunday project to $2,800 in the Norte de Santander project. Multiplying these figures by 500,000 and comparing the result with INCORA's budget gives a clear indication of the fact that land reform is going to be a slow process in Colombia, even allowing for the possibility of INCORA getting more than the proposed $10 million.[6]

It seems reasonable to conclude, on the basis of these examples alone, that the very high cost of redistributing lands and providing the auxilary services required for increased output has been and is likely to contimue to be one of the major impediments to land reform. This is particularly so when the reform involves land purchase as a first step.

Capital Scarcity

One of the important economic characteristics of most South American countries is their small capital stock relative to their population. Generally, only a small proportion of what is in any case a small output is invested. This in turn reflects the small propensity to save and the low income levels of the people. In addition there are strong pressures for increased consumption and improved health and education standards competing for the peoples' incomes.

This deficiency of savings is only partly offset by inflows of private and official foreign funds. Many authorities have

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[6] Charles W. Anderson, "Land Reform in Colombia: Some Ideas," Land Reform and Social Change in Colombia (Discussion Paper 4, University of Wisconsin: Land Tenure Center, November, 1963).

pointed to shortages of foreign exchange as being major impediments to economic progress. With the exception of Venezuela, the Latin American countries are still suffering from the depression of the late 1920's. Exports from Latin America, which fell by some 60 per cent between 1928 and 1932, have never recovered on a per capita basis. There are two basic reasons for this condition. The first is that international demand for primary products has not kept pace with the demand for manufactured products, and alternative sources of supply have appeared in Africa and elsewhere. Secondly, the international trading and monetary system in its present form tends to impede countries from undertaking major alterations in their export structure.[7]

In order to assist the Latin Americans to overcome these difficulties and to help them achieve a higher pace of development there has been a systematic transfer of funds in the form of international public assistance or private capital investment from the developed nations, particularly the United States. The volume of public development loans authorized by the United States and the regional and international financing institutions has increased from an annual average of approximately $400 million in 1957-60 to

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[7]See also: Hans W. Singer, "The Distribution of Gains between Investing and Borrowing Countries," American Economic Review, XL (May, 1950), pp. 473-485.

Raul Prebisch, "Commercial Policy in the Underdeveloped Countries," American Economic Review, IL (May, 1959), pp. 251-273.

Werner Baer, "The Economics of Prebisch and ECLA," Economic Development and Cultural Change, X (January, 1962), pp. 160-182.

$1 billion in 1961-64. Yet it is clear that even transfers of this magnitude have been insufficient to stimulate rapid development.[8]

At a recent meeting of the Development Assistance Committee of the Organization for Economic Cooperation and Development, Mr. George Woods, President of the World Bank called for a substantial increase in financial assistance to the developing countries:

> . . . [it] is my deep conviction that the present level of finance is wholly inadequate, whether measured by the growth rate which the advanced countries say they are willing to facilitate or in terms of the amount of external capital which the developing countries have demonstrated they can use effectively. The whole order of magnitude of external capital flows to the developing countries wants changing.[9]

What must be pointed out though is that no amount of foreign assistance can substitute for improvements in internal financial mechanisms. For it is the effectiveness of the internal effort which determines the rate of growth and the future application and effectiveness of foreign assistance.

One of the major changes that has been taking place in South America has been an increased dependence of governments on public borrowing to finance their capital programs. This has caused a greater recognition of the importance of government financing in the total level of saving, and implies the necessity for a close

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[8]Note: A recent discussion of Latin America's monetary difficulties may be found in the International Monetary Fund's <u>International Financial News Survey</u>, XVII (October, 1965).

[9]Cited by Felipe Herrera, President of the Inter-American Development Bank, "Towards a Latin American Community: Problems and Progress," speech delivered at the inauguration of the Institute for Latin American Integration in Buenos Aires (August 24, 1965).

check on current outlays and for improvements in the tax structure. Steps are being taken to stimulate the growth in private savings through improvements in institutional savings channels which in turn can help to encourage a more appropriate use of savings. This is a very necessary move, for the monetary institutions have not played the substantial role in the accumulation of private capital that have similar institutions in the developed economies. The major reasons for this are the poorly developed monetary systems themselves, and the lack of confidence by the people in the monetary system; particularly with respect to the future value of their currency.[10] Even where monetary institutions are making finance available there are great differences in the ease with which it can be obtained; agriculture is frequently at a severe disadvantage in this respect.[11]

Inflationary pressures, common to most South American countries, aggravate the whole problem of capital formation. They tend to divert investment to areas where short-term or speculative profits can be obtained, and contribute to the movement of domestic saving into unproductive uses such as landholding, or abroad in search of greater security.[12]

In many respects land reform is as much a social movement

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[10]Yoshinori Ōhara, "Conditions of Economic Development in Latin America with Special Reference to Capital Formation," The Developing Economies, II (June, 1964), p. 182.

[11]Ibid., p. 184.

[12]Ibid., p. 187.

as an economic one. The view recognized here is that social progress is interrelated with economic progress, and that they have a complementary effect in development. Factors such as education, health, technology, government, and labor skills are essential to growth, and if the concept of capital formation is extended to include human as well as non-human elements it is possible to agree with Nurkse, who stated that ". . . capital formation lies at the very center of the problem of development in economically backward countries."[13]

Economic and Socio-Political Reasons for Capital Use in Land Reform

The focus of research on land reform or for that matter on any topic in social science shifts according to the particular discipline of the writer. The economist is primarily concerned with capital formation and the effects of this formation. This is not to deny that the economist has concern for the socio-political aspects of land reform such as the call for social and political justice, and for reductions in rural discontent. Indeed, these facets of land reform cannot be totally abstracted from an economic analysis for the simple reason that they themselves have extensive economic implications.[14] Thus a considerable part of the argument favoring capital allocation to land reform is based on socio-political considerations.

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[13]Ragnar Nurkse, Problems of Capital Formation in Underdeveloped Countries (Oxford: Basil Blackwell, 1958), p. 1.

[14]Raup, p. 7.

Two points may be made which, while seemingly self evident, can do much to clear the path ahead of numerous minor obstacles and objections. The first is that there is no longer any doubt that the South American governments realize the desirability of modernizing their agricultural sector as part of economic and social development. Until recently this view was inhibited by two factors: a reliance on industrialization as the answer to development, and the political power of certain groups. Secondly, capital is relatively scarce, and the allocation of capital to land reform obviously deprives other uses.

It is now apparent that low rates of increase in real income per capita, persistent inflationary pressures, and crises in the balance of payments; all coupled with slow improvements in agricultural output and the minimal contribution of the rural population to the market for domestic industry are incompatible with the goals of economic policy. Consequently, modern economic policy is being more heavily based on an awareness of all these factors; which means that greater attention is being paid to the hitherto relatively neglected sector - agriculture.[15]

As more people become aware of the conditions under which most of the South American agricultural population exists, the contradiction between this existence and national ideals of social and political justice becomes clearer. Two things are occuring in

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[15]Gunnar Myrdal, "Jobs, Food and People: Why Agricultural Progress is the Cornerstone of Economic Growth," International Development Review, VII (June, 1965), pp. 2-6.

the rural areas which may have sweeping effects if not carefully directed. The first is the high rate of population growth; and the second, the movement towards political action by rural peoples. The implication of the first is that the traditional agricultural system cannot be continued without a probable deterioration in rural conditions. The second, with Bolivia and Cuba providing excellent contemporary examples, suggests that if the opportunities for peaceful and planned land reform are not taken by the government, then the opportunities will be seized by a dissatisfied peasantry anyway, in which case land reform will be neither peaceful nor planned.

Having established these elements which lie behind land reform policy, it is now possible to turn to the economic justification of moving capital into agriculture. An optimum allocation of capital is reached when no increase in the value of the marginal product can be obtained by transferring capital from one use to another. In other words before capital is deliberately diverted to agriculture there must be grounds for believing that its productivity in that use will at least equal its best alternative; or, that the social benefits that the capital will provide in agriculture are valued more highly than any loss in national income that might be entailed.

Under perfectly competitive conditions capital flows into the most productive channels. However, modern thought tends toward planned allocation of capital because it is believed that the impersonal operation of the market fails to function in the interests of society as a whole.[16]

The case for planned allocation of capital to agriculture is strong and has been made by many modern authorities such as Witt, Nicholls, Rostow, Warriner, et al.. Barbara Ward summarizes the case as follows:

> . . . if farming cannot be transformed there can be no genuine revolution of economic growth. The first reason is that most of the capital has to come from the countryside, because the bulk of the population lives on the land and the bulk of the wealth comes from farming in the early days. If farm productivity goes up, a surplus can be transferred to other growing sectors and the farmer will still be better off than he was. This gives him an incentive to produce more food. Prosperity also enables the farming population to provide a growing market for industrial goods. If the countryside is stagnant, the farmers cannot buy the new goods and the beneficient cycle of interdependent upward growth in both industry and agriculture cannot go forward. If you do not change agriculture you will not change the economy:[17]

Barbara Ward goes on to refer to the unlikelihood of the agricultural transformation taking place under the auspices of private enterprise; the essentiality of a comprehensive land reform to give the modernization a footing, and the "massive investment" that this entails.[18]

Much of the capital for agricultural development must come from the savings of the agricultural sector itself. Yet, as had been noted earlier, the rate of capital formation within agriculture tends to be low in relation to total investment. And where net

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[16] A.E. Kahn, "Investment Criteria in Development," Quarterly Journal of Economics, LV (February, 1951), pp. 38-61.

[17] Barbara Ward, The Rich Nations and The Poor Nations (New York: W.W. Norton and Co. Inc., 1962), p. 105.

[18] Ibid., p. 109.

capital investment is low, technical progress, which might give rise to increased productivity which would facilitate further capital accumulation, is obstructed. These problems lead to the necessity for government intervention in the form of large-scale development projects, loans, and special financing institutions to take care of agriculture's capital needs.

In reality both private and public investment play an important role in land reform. Private investment relates to those investments a farmer makes in his property in the form of capital improvement, and which may be expected to result in improved levels of productivity and income. This form of investment may be encouraged in several ways: (a) by increasing incomes, and/or debt liquidation, thus making investment possible; (b) by education, which can provide awareness of new opportunities; (c) by market incentives; and (d) by subsidization and credit programs. One of the explicit goals of land reform is the redistribution of income and wealth in favor of the small farmers, and an increase in private investment presupposes that this redistribution does in fact occur. Yet however important private investment may be, the size, scope, and duration of public investment make it of particular importance to the economy as a whole.

In many countries programs of public investment in agriculture are carried out independently of land reform programs. But if land reform is looked upon as a comprehensive tool, it seems that the two are scarcely separable and are at least complementary. In fact, large-scale public investment and capital formation basically serve the same end, economic development, whether they are promoted through land reform, community development, public works programs or a central development plan.

Land reform as a public undertaking is necessarily an appropriate step towards creating the conditions for development because it can make a direct contribution to investment and capital formation. Changes in factors such as the form and security of tenure, and in the size of farms, reduce the risk and increase the feasibility of investment and technological progress. Credit availability and methods of financing too, are closely related to the effect of land reform or investment and hence, development.[19]

Social marginal productivity has already been referred to as an important investment criterion. There are other criteria such as the capital-output ratio, the cost-benefit ratio, and the national product or consumption test, all of which can be and are applied under varying circumstances. Unfortunately, the application of any of these criteria is frequently hindered by a lack of clarity and agreement on decisions relevant to exactly what the role of agriculture should be in a particular economy. In his attempts to evaluate technical cooperation programs in Latin America, Mosher found that the absence of a theory of agricultural development seriously encumbered adequate analysis.[20] He deals implicitly with

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[19]Alfredo M. Saco, "Land Reform as an Instrument of Change," (speech delivered at Yale University, New Haven, Conn.: August 18, 1965).

[20]Arthur T. Mosher, Technical Co-operation in Latin American Agriculture, National Planning Association, (University of Chicago Press, 1957). Cited in: McDonald P. Benjamin "Concentrated Versus Displaced Investment in Agricultural Development," Inter-American Development Bank (unpublished, Washington, D.C.: 1964), p. 5.

the same theme in a later study on the needs of research in rural problems. In this he ranks research on the right place to apply limited capital inputs as the foremost research need in country-by-country studies.[21] This problem was put most succinctly by Erven Long when he stated that ". . . land reform legislation operates largely in an informational vacuum regarding its economic bases."[22]

This confusion is one of the primary obstacles that the Alliance for Progress, and in particular the Social Progress Trust Fund, is designed to overcome. It has recognized that land reform is an essential precondition for development, and that assistance for land reform will be forthcoming only inasmuch as those reforms are founded on an adequately planned basis. Unfortunately the state of planning has not yet reached expectations. Not only is the planning process itself exceedingly complex, but the governments are apparently reluctant to face up to the magnitude of the task and the mammoth financial committments involved. As Fedder suggests,

> . . . there is that misconception which regards land reform as a mere (if somewhat expanded) "investment scheme" for improved production instead of a vast social, political, and economic transformation of rural areas with land tenure changes as only the beginning of other fundamental changes. These changes may require the marshaling of resources on a scale equaling almost a war effort. In all cases, the Latin budgets are unrealistically inadequate and in complete disharmony even with the expropriation schemes alone . . .[23]

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[21]The Brookings Institution, Development of the Emerging Countries: An Agenda for Research, Arthur T. Mosher, "Research on Rural Problems," (Washington, D.C.: The Brookings Institution, 1962), pp. 71-119.

[22]Erven J. Long, "The Economic Basis of Land Reform in Underdeveloped Economies," Land Economics, XXII (May, 1961), p. 115.

[23]Ernest Fedder, "Land Reform Under the Alliance for Progress," Journal of Farm Economics, XLVII (August, 1965), p. 660.

Lack of government control over the agricultural sectors, and ". . . lack of integration of the various activities necessary to lead to a complete and adequately financed plan . . ." are, according to Fedder, the primary reasons for the inadequacy of agricultural development planning;[24] though, most significant to this chapter is the statement above that land reform cannot be regarded simply as an "investment scheme." For this, if true, automatically puts land reform beyond the scope of known investment criteria. Instead it is probably safer to assume the coming of land reform and see what financial resources a government can utilize for its fulfilment.

Capital Sources

There are three major sources from which the finance necessary for land reform may be accumulated: (1) from within agriculture itself, (2) from the domestic non-agricultural sector and, (3) from foreign sources.

Agricultural

The possibility of financing land reform under present conditions has already been discussed and dismissed as unrealistic; incomes and savings of the agricultural population are just too low. However there is the possibility of generating sufficient revenue out of the land reform program itself. Two approaches to this are possible: The first, in which the beneficiaries repay the program's cost and the second, in which the wealth and incomes of present

[24] *Ibid.*, p. 661.

landowners is confiscated.

The former of these two approaches presupposes certain conditions in the land reform program. In the first place it assumes that there will be, initially, a transfer of resources from outside of agriculture into the reform. Once the program is put on a financially stable basis, these funds would be repaid by the beneficiaries. Assuming the correct use of interest charges the net result should be that there will have been no permanent transfer of income. But this approach also assumes that beneficiaries will be able to, and indeed should, repay the total cost of all they receive. Though the payments by beneficiaries are generally regarded as the major source of revenue once a program is underway, the level of charges will be governed by several variables including the costs of land and auxilary services, and the expected incomes of the beneficiaries. This is a complex issue, about which more will be said later; suffice it to say for now that, theoretically, land reform could be put on a self-financing basis. However, such a proposal depends largely on the level of compensation payments to be made for expropriated land, and on the overall goals of the program which, as has already been stated, may not be expressed solely in economic terms.

A second source of revenue from within agriculture itself lies in the wealth and incomes of present landowners. This is generally taken to mean the _latifundista_ as opposed to those _minifundista_ who do own their own land. It is apparent that large landholdings do indeed represent a considerable stock of fixed capital. The actual harnessing of this capital, the methods by which this is achieved, and the uses to which it is put can, as will be seen in the next chapter, make a considerable difference to the financial aspects of land reform, and can under a suitable program be used to finance a large share of a reform.

Non-agricultural

There are two conceivable non-agricultural sources from which funds for land reform may arise: net transfers from either the rest of the economy or from external sources. Net transfers from the rest of the economy obviously depend on the availability of such funds. Since land reform is not usually an area in which private investors take much interest, it may be anticipated that the funds would be derived from the public sector. But inasmuch as plans for overall social and economic development are frequently predicated on a large contribution from agriculture, a contradiction appears. While bilateral transfer can occur, the net result, unless neutral, must be unilateral - one way or the other. Most South American countries are unable to generate sufficient internal funds to promote desirable rates of economic growth, let alone embark on ambitious land reform programs. Thus we turn to the final source of funds, foreign assistance.

The decision to raise external funds for a given project such as land reform, must be governed by: (a) the burden of foreign debt a country can stand and, (b) the competing claims of alternative investments. Nevertheless, given the structure of the Alliance for Progress and the emphasis on land reform that it entails, it is not unreasonable to assume that one operative criterion may be the fact that funds are available for land reform. But this is exactly where the foremost problem in financing land reform begins. International agencies, including the Social Progress Trust Fund, have made it clear that funds may be obtained for almost any aspect of land reform except for expropriating existing landowners. Yet the first step in reform is to achieve a change in the present use of capital tied up in fixed investment in land, and to persuade the landowners to agree to such a change. The facts are that there has been little evidence of landowners voluntarily agreeing to such changes, and ample evidence of their persistent obstruction of attempts at change. This opposition to change results largely from the landowners' fear that unless they are paid the market value of their land in cash at the time of sale, then there will be some confiscation of their wealth.

At this time no South American government, with the possible exception of Venezuela, is so financially sound that it can afford cash outlays for large scale land purchase. Even if they were, such a procedure could be fiscally dangerous in the absence of controls over the use recipients make of the money. Printing the money is always a possibility but such an obviously inflationary policy has been dismissed as representing a totally unrealistic approach.[25] Thus a circular argument appears; the landowners are frequently able to exert sufficient political power to resist any form of payment

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[25]Carlos Sanz de Santamaria, President of the Inter-American Committee on the Alliance for Progress, "Latin America in the Development Decade," (speech delivered at Michigan State University, East Lansing: October 28, 1965).

that may reduce their wealth, the governments are unable to purchase their land and foreign assistance is not available for such purchases. Several governments have been able to effect legislation which permits them to pay the landowners in some form of bonds. Though avoiding the problem of cash payment, payment by bonds has many problems of its own, including opposition from landowners and the simple fact that even bonds have to be paid for at some time.

The next chapter will examine the steps that can be taken to overcome these and other financial problems. Before taking that step though, there is one matter which has not been discussed yet, and that is the role of taxation in promoting land reform. Dating from a 1950 report by the International Bank for Reconstruction and Development on the development of Colombia the issue of land taxation has received much attention, though little action. This report, now known as the Currie Report, recommended in the light of low land taxes, a tax on land that would penalize underutilization.[26] The objective being to force inefficient landowners either to sell their land rather than meet a stiff tax penalty for underuse, or to raise their efficiency. A second report issued in 1956 proposed a modification of Currie's recommendations whereby land would be taxed according to its optimum capacity.[27] Though variants of these

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[26]Lauchlin Currie _et al._, _The Basis of a Development Program for Colombia_, International Bank for Reconstruction and Development (Washington, D.C.: 1950).

[27]Sir Herbert R. Stewart _et al._, _The Agricultural Development of Colombia_, International Bank for Reconstruction and Development (Washington, D.C.: 1956).

proposals were made law in 1957, nothing very much became of them.[28]

The Colombian experience is regarded as the classic in attempts to improve agriculture through land taxation. Its failure has been attributed to; political opposition from landowners, lack of agreement on method, difficulty of securing accurate land assessments and cadastral surveys, and its unacceptability to the peasants including landless ones.[29]

In practice land taxation runs into trouble, and Colombia is no isolated example. Yet in theory it does offer an approach to land reform which could be quite meaningful given strong governmental enforcement and adequate procedures.

Most South American countries have very low real estate taxes. In 1962, revenue from this source averaged between three and five per cent of government revenues compared, for example, with 16.6 per cent in the USA.[30] The effect of such low tax rates, low assessments of land and inefficient collection procedures results in a high market value of agricultural land, and the holding of idle land for speculation and prestige. These in turn help maintain the rigid land distribution pattern. This follows from the fact that low taxation discourages the sale of land, and the high value forces a high level of compensation to be paid if the land is to be

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[28]Carroll, p. 193, also, Albert O. Hirschman, Journeys Towards Progress (New York: 20th Century Fund, 1963), p. 134.

[29]Hirschman, p. 134.

[30]R.W. Lindholm "Land Taxation and Economic Development," Land Economics, XLI (May, 1965), p. 122.

expropriated at market value. Furthermore, the amount of compensation paid frequently determines the scale of payments by the beneficiaries of land reform; the more they must pay for the land they receive, the less they will have available for productive investment.[31]

Carroll suggests that land taxation does offer an indirect approach to land reform which would avoid ". . . the large social costs of drastic programmes and the injustice implicit in radical redistribution of resources." He points out that not only would taxation be fiscally sound but it would force landowners to either farm efficiently or sell.[32]

The basic economic argument in favor of land taxation derives from the Ricardian doctrine of economic rent. Taxes, by absorbing most of this rent can make land approach its original free state. This argument is divided along three lines. First there is the social production theory which holds that an increase in the value of property not attributable to the efforts of the owner should be due to society. Secondly, it is possible to argue that land was free once. Labor and capital are not free, therefore the market price of the products of land is determined by the cost of labor and capital equipment used in the production. Rent is an unnecessary payment not needed to bring land into production and should, as John Stuart Mill suggested, be taxed away. Thirdly we can turn to the use of taxation most relevant here, as a tool to stimulate productive

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[31] SPTF Third Annual Report 1963, p. 167.

[32] Carroll, p. 19.

agriculture. However, this approach must be treated with caution. There is little to be gained from attempts to force land into more productive use through taxation unless and until there is clear evidence of the existence of a "higher use" for such land than it enjoys in its present use.[33]

The two forms of taxation most commonly applied are based either on revenue or capital worth. Haskell Wald has discussed the relative merits of the two systems for underdeveloped economies and as they relate to land reform.[34]

A revenue-based land tax may be assessed as a percent of the current gross revenue or rent paid, or even on net income. This form of taxation is advantageous where effective accounting procedures are used and where there are favorable collection possibilities, such as in plantation economies. It is quite commonly used in underdeveloped areas outside Latin America. The major disadvantage is that it does not have the desired incentive effect on landowners who underutilize their land.

A capital value land tax is based on the locational and fertility qualities of land, and may be assessed from the land's prevailing selling price. Though quite widely used in Latin America the tax is not strongly enforced, being administratively handicapped

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[33] Raleigh Barlowe, Land Resource Economics (Englewood-Cliffs N.J.: Prentice Hall and Co., 1960), p. 546.

[34] Haskell Wald, Taxation of Agricultural Land in Underdeveloped Countries: A Survey and Guide to Policy (Cambridge, Mass.: Harvard University Press, 1959), pp. 7-41.

by surveying deficiencies, inadequate market activity, and reliance upon self-assessment by landowners.[35] This tax falls on the land alone and has the advantage that land producing no income may be taxed at the same rate as land producing considerable income.

The two tax systems blend when normal income or anticipated income becomes the basis of a revenue tax. The determination of capital values from cadastral surveys cannot be based completely on physical characteristics and must include some concept of normal and future productivity. When capital value rather than revenue is taxed, both wealth and income are affected - though both may be largely "notional" if the land is not being managed correctly.

By way of summary it may be said that capital value taxation is more likely to encourage the full use of land and to discourage speculation than revenue taxation, which tends to encourage the holding of idle or partially idle land for speculative or prestigeous purposes.

Should it be possible to install an effective tax system based on land value as an adjunct to land reform there can be little doubt that the economic impact would be considerable.

Apart from the immediate impact on agriculture of stimulating efficient producers and penalizing the inefficient ones, thereby improving agricultural productivity and simplifying expropriation simultaneously, a land value tax can be a useful revenue source. Increased revenues from the land may permit reductions in income,

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[35] Progress in Land Reform, Third Report, p. 172.

profits, and export taxes, thus encouraging industrialization and foreign investment. Moreover the tax could help establish the economic base for local government institutions by providing funds for local capital projects.

In theory then land taxation could play a central role in agricultural development. But in practice it has met with little success. It may be true that effective taxation may not be realized until land reform is realized. For while it may be simpler from the administrative viewpoint to collect taxes from a small number of large landlords than from a large number of small farmers, politically the reverse appears to be true.[36] By blocking land taxation the landowners may, suggests Carroll, be sowing the seeds of their own destruction. For, if and when the landlords lose their power it may be too late for changes which would shift the tenure problems gradually, rather expropriation and confiscation will be the rule.[37]

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[36]Alexander Eckstein, "Land Reform and Economic Development," World Politics, VII (July, 1955), p. 660.

[37]Carroll, p. 194.

CHAPTER IV

FINANCING LAND EXPROPRIATION

Introduction

In any land reform program involving the redistribution of private property, a consideration of how the property should be acquired is one of the first problems which must be solved. There are two basic approaches to this question, the land may be either confiscated or purchased.

The classical rationale favoring confiscation is based on the argument that landlords are a non-contributory force in society, being content to siphon off a share of the economic returns to society disproportionate to their share in production. Doreen Warriner makes the additional point that, on economic grounds confiscation is justifiable because ". . . existing land prices are monopoly prices."[1]

Outright confiscation is generally associated with Communism. Yet a distinction must be drawn between political systems which uphold the concept of private property in land and those which do not.

In Russia, North Korea and several other Communist countries,

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[1] Warriner, p. 18.

land was nationalized, hence the issue of compensation is not even relevant to land reform, since the latter concerns the redistribution of private property rights.[2] Mexico and Bolivia are frequently cited as examples of non-Communist countries in which land reform was effected without compensation. However, apart from the fact that in some instances token payment was made for expropriated land in Mexico, the Mexican and Bolivian cases are not comparable with those in Communist countries for the very important reason that the land was not nationalized, rather, the principle of private ownership was upheld.[3]

It so happens that none of the current land reform laws in South America envisage confiscation without compensation. Though the question of whether or not to pay compensation for expropriated land must be decided within the legislative framework of each country, it is possible to state several reasons which may, in varying degrees, have influenced the decision to compensate landowners. In the first place the idea of outright confiscation is not generally acceptable to the South American people. Not only is there little desire to destroy the right to own property, but there is also the matter of the many small farmers who do own their little plots, and in some countries land reform is as much concerned with combining these as it is with breaking up the _latifundia_. It is inconceivable that any

[2] _Progress in Land Reform_, Fourth Report/Add. 1. p. 6.

[3] Lowry Nelson, _Some Social Aspects of Agrarian Reform in Mexico, Bolivia and Venezuela_ (Washington, D.C.: Pan American Union, 1963), p. 68.

legislation could be implemented which contemplates confiscation of the minifundia. A second amd related reason for the decision to pay compensation is self-explanatory and lies in the fact that the large landowners enjoy considerable political power throughout South America. Thirdly, it may be pointed out that the philosophy of the Charter of Punta del Este adheres to the principle of fair compensation for expropriated property.

Inasmuch as one of the goals of land reform is economic development, the payment of fair compensation can be of considerable assistance. Many landowners possess scarce resources such as: capital, education, and management ability. Paying fair compensation for expropriated land may be one way of encouraging landowners to transfer these resources into more productive channels than land-holding, provided, of course, that alternative and profitable opportunities exist. In Mexico expropriated landowners made a considerable contribution to industrial development despite the lack of compensation. However, the Mexican land reform occured in a period of drastic political and social change. Many landowners with liquid assets and entrepreneurial skills were virtually forced to turn to the cities in search of security from agriculture.[4] If land reform is to be accomplished without the type of upheaval that occured in Mexico or Bolivia, landowners should have some assurance of their future security. A guarantee of fair compensation when

[4]Edmundo Flores, "The Significance of Land Use Changes in the Economic Development of Mexico," Land Economics, XXXV (May, 1959), pp. 115-124.

land reform is first proposed may give the landowner not only security but also some incentive to invest in improving his land.

Conceivably the foregoing argument could be turned around and a case be made for using the threat of expropriation without compensation as a means of forcing improved land use. In some respects this is a similar approach to that of heavy taxation for underutilized land. But, as has already been noted, such a taxation policy has not been successful where tried. The next section will consider a compromise measure which ties the amount paid for compensation to the land value for taxation purposes.

Once the decision to compensate landowners has been taken, the land reform or planning agency faces crucial issues regarding the amount and terms of payment. Moreover it must identify the sources from which the necessary financial resources are to be drawn. While the answers may depend largely on the relative power of the parties concerned and on the prevailing standards of social justice, they must also be based on a consideration of the economic situation of any given country or region.

Valuation Procedures

Most land reform programs are designed to reduce the income inequalities existent in rural areas. The price established for land subject to expropriation is the most important variable affecting this income redistribution. Therefore it is necessary to draw a clear distinction between value and price when discussing land reform. Market value has been defined as the highest price a property would bring on the open market given a reasonable time in which to find a buyer with full knowledge of its uses. It may also be described as a price agreed upon by a willing buyer and a willing seller under conditions of full information and an absence of coercion.[5] But expropriation proceedings do not take place in such a free-market atmosphere; consequently some other basis must be arrived at for establishing value. Though the price paid is likely to be related to the value, it is possible for the two to differ considerably. This difference will reflect the objectives of the land reform and the administrative regulations and power of the land reform agency.

Valuations for compensation may be based upon approximations of:

a) current market values,
b) capitalized value of expected future incomes,
c) capitalized value of past incomes,
d) replacement cost,
e) cadastral or assessed values,
f) self-assessed value.[6]

Each of these methods will be discussed briefly below. First though, it should be noted that whatever the method or combination of methods used, the value arrived at may only be an approximation of the true value. This results from the choice which must often be made between the speed with which land reform is to be implemented, and insuring adequate protection of the landowners' rights. Permitting lengthy appeals by landowners prior to an exchange of

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[5]Barlowe, p. 195.

[6]See Appendix, Table A, for details of the procedures used in individual countries.

title may delay the reform and diminish its socio-economic impact.

Current Market Values

Though this method theoretically approximates the true market value of land, in practice it is unlikely to be very useful. In the first place there are few voluntary sales from which it would be possible to generalize price. Secondly, the land market is imperfect and prices may be influenced by factors which have no bearing on the supply and demand for land for producing agricultural commodities. Thirdly, an announcement of a land reform without specification of the terms of compensation would undoubtedly disrupt the market. Though this could be overcome by basing valuation on historical prices, such a step would involve great practical difficulties.

For these and other reasons market value is rarely used in determining compensation for land. In Venezuela and Peru it is used as one of a combination of different methods. More usually this approach is applied to valuations of livestock and equipment.[7]

Capitalized Value of Expected Future Incomes

This method is frequently proposed by those particularly concerned with landowners' interests. It is apparent that compensation paid according to income producing ability may very well improve the economic position of landowners. This is particularly true of large landowners who have underutilized their land. However, the objectives

[7] Progress in Land Reform, Fourth Report/Add. 1. p. 13.

of land reform are not generally expressed in terms of assisting large landowners. A second objection to the use of this method is that it would require a large number of trained personnel capable of estimating the potential of underutilized land, and competent to make necessary assumptions about technology and capital inputs.

Capitalized Value of Past Incomes

Compensation based on historical yields and costs would more nearly correspond to the actual economic value of the land to present landowners than it would if based on potential income. The use of this method would avoid any possibility of rewarding inefficient landowners. The accuracy of such an approach would depend largely on the quality and availability of farm records, and on the competence of the land agency's staff. In Peru, the capitalized average income declared for tax purposes during the five years prior to expropriation enters the valuation formula. In Venezuela the formula requires the valuation to account for the average production of the previous six years.[8]

Replacement Cost

This approach may be used to value buildings on the land. It is probable that some buildings may have been constructed for the personal satisfaction of the owner with little consideration of future resale value. To value these at replacement cost without large deductions for depreciation and economic obsolescence could result in an unrealistically high figure.

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[8] *Ibid.*, p. 19.

Cadastral or Assessed Values

The major argument in favor of basing compensation on the tax valuation is that landowners have, by implication, assented to the tax valuation. Furthermore tax records should be readily available. Since much of the land in South America is undervalued for tax purposes, this approach could result in large transfers of income and wealth away from large landowners. As was pointed out in chapter three, landowners have been quite successful in blocking land reform legislation calling for this form of valuation. However, there is little ethical reason for landowners to expect compensation for an increment in the price of their land which results directly from under-taxation.

In Venezuela and Peru tax value is one of the factors considered in valuation. The assessed land value, if available and reliable, serves as the base in the former; while in the latter the income declared for income tax purposes is the base. In Colombia and Brazil, the taxation assessment sets an upper limit on land valuation for compensation purposes.[9]

Self Assessment

The principle behind self assessment is that a landowner values his land himself, and that this value should form the base both for the price paid in expropriation proceedings and for taxation purposes. This method requires little or no administrative expense,

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[9] *Ibid.*, p. 15.

meets objections to valuations based on appraisals by outsiders, and forces the landowner to arrive at a realistic figure. Over-valuation would result in heavy taxation, while undervaluation would mean low compensation. Provided the Land Reform Agency may expropriate what land it wishes, it would be able to concentrate on under-valued lands. If the tax is large enough and administered effectively, few landowners are likely to over-value their land substantially. If they should, the treasury would benefit.

This method of valuation is relatively new. It is being used along with traditional appraisal, to set an upper limit on values in Colombia. Results so far have, apparently, been encouraging.[10] The future success of this method will probably depend largely on how effectively the complementary taxation policy can be enforced.

This is not the place in which to choose one method of valuation in preference to the others. Each has its advantages and disadvantages, and one method or combination of methods may be quite appropriate in some cases while inappropriate in others. It should be mentioned though, that while the use of a combination method may be necessary it is likely to increase the administrative cost and delay the start of land reform.

A final point on valuation concerns payment for values of a non-economic nature which a landowner may place on his land. This is a political consideration and cannot be decided by economic analysis. However, inasmuch as land reform is designed to result

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[10] Ibid., p. 17.

in a more equal distribution of income and wealth, it would appear that there are few grounds for paying compensation for factors which make no contribution to real income.

Forms of Compensation

Once the most suitable valuation procedure has been identified, the next problem facing land reform planners is finding a realistic method of financing land purchases. This is, undoubtedly, one of the crucial problems in land reform. It raises critical issues regarding the ability of a country to pay for land reform while maintaining fiscal stability. And, depending on the method used, can be the key to converting stagnant capital, presently invested in underutilized land, into the lifestream of economic development. The method decided upon will depend on the objectives of the reform, the amount to be paid, and the extent to which resources are available for payment. A further consideration must be inflation. Not only can inflation affect the value of compensation but can itself be aggravated if an inappropriate method of financing is chosen.

In South America compensation is usually paid either in cash, bonds or some combination of both, as is indicated in Appendix Tables A and B. The type of cash payment or bond issue decided upon may be expected to have a fundamental effect on the success of land reform.

Cash

Cash compensation may be made either by lump sum or instalment. One of the dilemmas of land reform in South America has been that in several countries there have been constitutional stipulations to the effect that land expropriation must be accompanied by cash payment in full before or at the time of expropriation. In each case it has been necessary to amend or modify the constitution in order to permit payment by other means.[11]

It is clear that if large areas are to be redistributed and if some concept of time is important, then to propose cash payment in full at the time of purchase is unrealistic. Not only is the money not available, but even if it were, payment by this method would be objectionable on the grounds that landowners could squander the money or invest it overseas. To quote an OAS publication: "This alternative is absolutely impossible unless governments are to resort to printing money in considerable quantities."[12] But printing money or creating it through the central bank would be a highly inflationary, and therefore, unacceptable policy.

The inflationary effect would be less if the money could be raised either from current budget surpluses or from selling bonds to the public. However neither of these approaches is generally applicable. With the exception of Venezuela, all South American

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[11]Note: Details of the constitutional amendments that have been effected are included in the second, third and fourth Annual Reports of the Social Progress Trust Fund. An interesting account of the political problems raised by such an amendment in Brazil may be found in: Julian M. Chacel, "Land Reform in Brazil: Some Political and Economic Implications," Proceedings of the Academy of Political Science, XXVII (May, 1964), pp. 364-377.

[12]Wade F. Gregory, Financial Aspects of Agrarian Reform (Washington, D.C.: Pan American Union, October, 1963), p. 11.

republics have been experiencing budget deficits in recent years.[13] Bond issues to the public are in part restricted by the weak financial systems. Furthermore, bonds created simply to pay landowners do not in themselves create any new assets, thus they run the additional risk of being redeemed with inflationary money.

The impossibility of paying the full amount of compensation in cash at the time of expropriation has been clearly recognized in the formulation of South American Land Reform Laws. A common feature of these laws is their exclusion of lump-sum payments to large landowners, though exceptions are sometimes made for highly productive farms, and the Brazilian law requires cash payment in the expropriation of *minifundia*.[14]

In some of the countries, where there have been constitutional difficulties, the governments have been able to compromise by adopting instalment plans. For example, in Paraguay compensation is to be paid in equal cash instalments for ten years; while in Chile and Colombia a down payment is made, the balance plus interest being payable over varying time periods.[15] In such cases, the inflationary effect can be minimized if the instalments are balanced by payments collected from the re-sale of land, and if the marginal propensities to consume and invest of former landowners do not differ radically from those of the new owners.

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[13]United Nations, *International Financial Statistics* (New York: October, 1965), and, SPTF *Fourth Annual Report 1964*, p. 26.

[14]*Progress in Land Reform*, Fourth Report/Add. 1. p. 26.

[15]*Ibid*.

Land Bonds

The most widely accepted alternative to paying cash is to give the landowners all or a substantial amount of their compensation in long-term government bonds. Two clear advantages accrue to a government from issuing bonds. First, it frees the capital that landowners have invested in land by forcing the landowners to lend it to the government. And secondly, it can give the government control over the use to which the bonds will be put. Landowners, however, may be expected to oppose bond issues. They may fear that inflation will erode the real value of their bonds, and they may also be concerned about the prospects of the bonds being honored at maturity.[16]

The advantages a government derives from issuing bonds, and the reluctance of landowners about accepting them may, however, be tempered by several factors. The most important of these are:

a) the ability of the government to finance a bond issue,

b) the type of bond issued, i.e. with respect to negotiability,

c) the possible inflationary effects of various types of bonds,

d) the uses to which the bonds are put, and

e) the terms on which the bonds are issued, i.e. the interest rate and date of maturity.

In the discussion that follows it will be assumed that there are three types of bond which a government may issue: negotiable bonds, non-negotiable bonds and bonds with limited negotiability.

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[16]Gregory, p. 11.

Each of these will be examined as they may effect landowners, inflation, and a government's prospects of using the bonds to further its economic policies.

Though the terms on which bonds are issued are important, little additional light would be thrown on what follows by a separate discussion of their significance. Suffice it to say that in general, governments tend to favor long maturities and low interest rates, and landowners the contrary. A compromise is often reached by varying the terms according to the degree of use or misuse of the land to be expropriated.

Negotiable Bonds

Though probably the most desirable procedure from the landowners' point of view, the use of fully negotiable bonds for land purchase is unlikely to be conducive to fiscal stability. If a bond can be cashed there is no essential difference between this method and paying by cash. Fearing inflation and a depreciation in the real worth of their bonds, ex-landowners would probably attempt to cash their bonds immediately, even if it meant accepting a discount. If many bondholders acted in this way, a likely result would be the creation of new or additional inflationary pressures. The effect on national income in this case would be the same as that if the government printed the money or created it through the central bank.

Many governments create an institution, frequently called a Land Bank, for the express purpose of organizing the financial aspects of land reform. The land bank is responsible for issuing compensation or land bonds. In the early stages of reform, expropriated land provides the security for the bonds.

Some of the participants at the 1951 Conference on Land Tenure felt that if a land bank could be operated in a financially sound manner, then the possible inflationary effects of negotiable bonds could be minimized. They suggested that the value of land bonds could be protected from large changes without any necessity of guarantees from the central bank if the bank could operate effectively under "ordinary banking procedures."[17] The implication here is that, given confidence in the bank and its bonds, some ex-landowners would exchange their bonds for more productive investments. In other words, landowners would be transferring capital from a fixed investment in land to a productive alternative, thereby contributing to economic development.

This case for negotiable bonds is sound in theory. However, it assumes certain conditions such as relatively stable currencies, well-developed financial systems, the presence of attractive domestic investment opportunities, and a willingness by ex-landowners to participate. The point has already been made that such assumptions are invalid with respect to most South American republics.

Non-negotiable Bonds

The major advantage attributable to using non-negotiable bonds for land purchase is that no new money need be created; hence inflation can be avoided. This would only be true though if the

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[17] Galbraith and Morton, p. 496.

bonds were redeemed in instalments based, for example, on the same rate that new owners were paying for their land. In this case payments made by the new owners would approximate the cost of land redemption.

If the bonds were not redeemable in instalments, and were all due to mature at approximately the same time, and in the meantime had not been devalued by inflation, then the redemption payments could generate a substantial inflationary effect.

There are several disadvantages to using non-negotiable bonds whether they be repayable in instalments or not. As was mentioned earlier, the mere issuance of long-term paper, probably at low interest rates, does nothing whatsoever to implement the transfer of wealth in land into an increment in investment capital. Secondly, landowners may very well be expected to oppose non-negotiable bonds. Inflation, with its many causes and frequent occurence could reduce the value of the bonds to such an extent that by the time the bonds matured, ex-landowners would find that their land had been effectively confiscated. This would be particularly true if the bonds were not redeemable in instalments, and if the interest was made accumulative and repayable at maturity. Also, where the political situation is somewhat unstable, landowners are unlikely to be too willing to exchange their land for paper promises.[18]

It could be argued that inflation might be desirable if ex-landowners were paid in non-negotiable bonds. By devaluing the

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[18] Galbraith and Morton, p. 497.

bonds, inflation would promote income equality by transferring income from former landowners to those buying land. For example, the Japanese land reform of 1946 was accelerated by an inflation which reduced the amount payable on bonds by both the government and new landowners.[19] However, in most South American countries, inflation is a big enough problem already without being encouraged as one of the factors necessary for land reform.

One way to prevent inflation from devaluing bonds is to make the bonds adjustable. In Chile, for example, the principal and interest payable on land bonds is adjusted according to changes in wheat prices. A possible disadvantage of using adjustable bonds is that, in inflation, it could increase the wealth of ex-landowners relative to that of certain other sectors of the population. Furthermore, the attitude of landowners toward fiscal reform in general may have much to do with the way in which the government finances inflation-proof bond issues. Improper financing of such bonds, by inflationary methods, might tend to reduce the landowners' interest in fiscal reform because they would be sure of receiving their payments no matter what happens.[20]

Restricted Bonds

Several proposals for using bonds whose use is restricted to some form of directed investment have been made in recent years.

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[19] Progress in Land Reform, Fourth Report/Add. 1. p. 33.

[20] Ibid., p. 35.

Among the well-known suggestions are those by Johnson and Metcalf, Mann and Blase, and Patton; referred to earlier.

The basic objective behind these and similar proposals is to arrive at a compromise between using negotiable and non-negotiable bonds which would avoid the major disadvantages of both, and provide a means for promoting economic development. The method by which this would be achieved would be by issuing bonds which could either be held to maturity or used for defined purposes such as investment in industry, agriculture or other approved projects. Proponents of these schemes argue that this is one sure way of mobilizing the capital, presently sunk in farm land, for economic development. Furthermore, if financed under normal procedures and carefully managed, the inflationary impact of such a program would be minimized because loans which are used for increasing production should be, ultimately, anti-inflationary. The money necessary to finance such operations could come from government surpluses, taxation, domestic and foreign bond sales, foreign loans, amortization payments by new landowners etc.. If additional funds were required to finance local expenditures on such items as wages and raw materials, they could be created by the normal procedures used to create funds in response to legitimate investment needs.[21]

A final point in favor of using restricted bonds is that it may be the one financially sound procedure which would not be too unacceptable to landowners. Though they may not receive the amount

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[21] Johnson and Metcalf, p. 155.

of compensation they consider fair, landowners would at least stand to profit from the alternative uses to which their bonds could be put. This would be particularly true if the program appeared to be managed efficiently and some form of risk insurance were available.

Steps are underway in Peru and Venezuela to tie land reform to industrial development. The laws provide that land bonds may be pledged to official banks as guarantees of new credits for industrial or other investments. A UN report published in May 1965 reports no operating experience from either country at that time.[22]

Other Forms of Compensation

Payment for expropriated land in commodities has been used in a few countries, but apparently not in South America. At this time such a procedure does not appear to be under consideration. The inflationary effects of payment in commodities would probably be slight provided payment was made in instalments. Furthermore since the real value of most commodities may be expected to remain relatively stable, ex-landowners would be, theoretically, protected from inflation. However, considering the magnitude of land reform operations alone, it does not seem that such a proposal would be really relevant in South America.

It has been suggested that where landowners are permitted to retain some land they do in fact receive implicit compensation in the form of the infrastructure built for the benefit of a whole

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[22] Progress in Land Reform, Fourth Report/Add. 1. p. 31.

area. For example the value of land to be expropriated in Colombia is discounted to allow for the expected increase in value of retained land. But in Venezuela, where land reform and infrastructure creation are carried out independently, some landowners have been receiving unexpected gains.[23]

This concludes the discussion of the various forms compensation may take. Except in relation to inflation and lump-sum cash payments, the actual problem of raising the finance necessary for compensation has been avoided as far as possible. It is to this aspect that this discussion will now turn.

Financing Compensation Payments

It is generally conceded that compensation payments should be financed in a fiscally responsible manner; that is, the funds should be raised from available financial resources. Since land is rarely redistributed without charge, an apparent source of funds are the instalment payments new owners make for their land.

Ideally, new landowners would make annual payments consisting of principal and interest which would be no greater than compensation payments. Ex-landowners would then be paid in instalments and, under the assumptions of the previous section, inflation could be avoided.

New farms resulting from land redistribution should, if land reform is to achieve one of its main objectives, be relatively more

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[23] *Ibid.*, p. 37.

productive than existing units. Thus a reasonable price to charge new landowners could be based on a capitalization formula whereby the price and instalments are related to the farmer's expected future income.

Such a proposal would, in a simple manner, solve the problem of financing compensation payments. It actually amounts to a straightforward land-deal between old and new landowners with the government or its land reform agency acting as the intermediary or broker. The only unorthodox feature is that ex-landowners would not receive their cash all at once.

Unfortunately this seemingly straightforward solution leaves several important issues unsolved. First, it is generally assumed that new landowners will not be able to begin paying for their land in the early years of the tenure. In fact, they may require some form of subsidization. Secondly, the price decided upon for compensation may not equal or even approximate the price to be paid by the new owner. Thirdly, there remains the question of the improvements and services needed to complement land redistribution. These too have to be financed.[24]

If compensation payments are to be financed directly by the beneficiaries, and payments are not expected to commence until a suitable grace period has elapsed, the former landowners would be placed in a disadvantageous position for several reasons. They may

[24]Note: Repayments by beneficiaries and financing complementary aspects of land redistribution will be taken up in chapter V; see also Appendix Table C.

suffer an immediate loss if the amount of compensation they are to receive is set below the value of their land. Should they be unable to exchange or liquidate their expected payments, their asset position would be frozen. Inflation may reduce the value of their future income. Finally, they are deprived of income during the grace period.[25]

Some may argue that the penalties which would be imposed on ex-landowners by such a financial arrangement would contribute to the achievement of more equal income distribution. In the event that an equality of incomes is one of the goals of a given land reform, this may be true. However, another goal is to find a way of releasing land-locked capital into alternative productive investments. With due regard to previous discussion of this subject, it is suggested that actions which freeze the assets of ex-landowners for a number of years and then result in payment by cash instalments, are not necessarily conducive to the attainment of this goal.

In practice, it is improbable that an exact balance can be struck between compensation and payments by beneficiaries. The optimum level of charges levied on new landowners will probably be determined within the context of the objectives and total cost of land reform, rather than in strict relation to expected income and the level of compensation payments.

Since the objectives of land reform are expressed in socio-political as well as economic terms, there can be no clear-cut case

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[25]Gregory, p. 11.

for an essential balance between payments to ex-landowners and payments by new landowners; these are actually separate aspects of land reform. If the new farms are to be highly productive, substantial investment will have to be made in them. To encourage, and even allow for increased investment, land payments can be waived or reduced.

The point is that: unless repayments are no less than and commence no later than compensation payments, a deficit is created in the initial stage of financing land reform. The impact of this deficit on a nation's budget may not be ignored. And it is precisely the prospect of this deficit that is one of the major impediments to progress in land reform. Once the initial capital is appropriated land expropriation could proceed on a self-financing basis, but "few attempts" have been made to provide this initial capital.[26]

Faced with such a deficit a government has two alternatives between which to choose: it may either modify its land reform program or find the money.

Modifying land reform in this context means reducing the quantity of resources required, and one way or another this must mean reducing the rate of progress. Deliberately slowing land reform down, however, is tantamount to admitting that agricultural change is something that can be put off; an admittance that is contrary to most modern opinion on the subject which, as expressed by Ward, sees the need for change as "urgent and immediate" and the fact that it

[26]SPTF <u>Fourth Annual Report 1964</u>, p. 115.

will be expensive is an issue that must be faced.[27]

From a fiscal position there is no difference between financing land reform and any other government activity: The government can print the money, raise taxes, use general revenues, or borrow.

The first of these choices has already been dismissed. Increasing taxes to pay for compensation payments is not likely to be well received. Governments have enough problems trying to convince people of the need for tax reform even when it is related to straightforward welfare projects such as education. Furthermore, while granting that there is a need for improvements in the taxation systems in South America it would be hard to justify a tax that is used to compensate the landowning class. Unless the landowners themselves bear the brunt of the tax, a negative redistribution of income would result.[28]

If compensation is to be paid from general revenues, governments are faced with accomodating another item into their already very tight budgets. It is always possible that some other form of spending could be reduced, but it is suggested that the prospects are remote. Despite improvements in budgetary systems which are expected to lead to some economies, fiscal expenditures on essential services are rising more rapidly than increases in

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[27] Ward, p. 108.

[28] Progress in Land Reform, Fourth Report/Add. 1. p. 45.

public savings.[29] Furthermore, compensation payments are only one aspect of land reform financing. Complementary services such as training and credit require even more resources than compensation. To reduce these to finance compensation would be to adopt a contradictory approach.

In Venezuela large landowners are paid partly in cash and partly in bonds. The government finances this by budgetary allocation and bond issues. Thus in 1960, out of a total land acquisition cost of 108 million bolivars ($24 million), 41.5 million ($922,000) were paid from government revenue. In 1964 the corresponding figures were 22.6 million ($502,000) and 8.6 million ($191,000).[30] Bond issues accounted for the remainder in each case. In light of the prevailing fiscal conditions in the other nine republics it would appear that they have little choice except to use a relatively higher proportion of bonds than does Venezuela. Issuing bonds is synonomous with borrowing, and this is where the primary problem arises; Venezuela is a relatively rich country. It has a budget surplus available for, and largely used for, debt retirement.[31] The other countries are less favorably placed, and though a time may come when bonds can be financed from government revenues, something must be done in the meantime.

Various types of bonds have already been discussed. The

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[29] Progress in Land Reform, Third Report, p. 195.

[30] Rate of Exchange: Bs 4.50 = $1.00. See Appendix, Table B

[31] SPTF Fourth Annual Report 1964, p. 111.

important point here is that basically it makes little difference whether bonds are negotiable or non-negotiable if they are issued beyond the extent of available financial backing. In addition to their inflationary effects, negotiable bonds will depress the bond market and depreciate in value. Non-negotiable bonds can be non-inflationary, but by adding to the government's debt, depress its credit and reduce its ability to borrow for other purposes.[32] This is one of the main reasons behind the various suggestions for tying land bonds directly to development projects. It is hoped that in this way sufficient additional income and savings will be generated by the project to permit repayment.

All this leads back to the proposals for mobilizing the use of land bonds. No such proposal automatically avoids the fact that capital assets are being created with which to compensate landowners for making investments. If inflation is to be avoided, additional savings must be found. Artificial methods such as reducing the speed of land reform or, what would amount to the same thing, limiting the issue of bonds to the repayments of the beneficiaries, have previously been rejected as not being within the socio-political interests of the countries concerned.

The suggestion that foreign savings be used to guarantee part of the land bonds has, as previously mentioned, not been well received outside Latin America. The reluctance to assist with compensation payments results largely from the fact that by themselves

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[32] M.L. Dantwala "Financial Aspects of Land Reform in the Far East," - Discussion. Land Tenure, Proceedings of the International Conference on Land Tenure and Related Problems, p. 490.

compensation payments do not create assets; they do not increase capacity to repay external debt; and if foreign funds were used to free cash for payment, there could be a flight of capital.

Nevertheless, it may be recalled that the need for foreign assistance arises basically to offset insufficient levels of internal saving, and thereby to complement those internal resources which are available for investment. It is further assumed that the inflow of such funds will alleviate short-run balance of payments crises and, by accelerating the pace of development, reduce the possibility of extended crises. However, not all foreign assistance can be predicated on the assumption that it will result in directly related improvements in a country's balance of payments. Such profitable investment opportunities tend to attract private funds first, with the result that the less economically remunerative projects are often left to public endeavor.

Consequently, non-private foreign assistance may be justified if it can be anticipated that such assistance will, in time, either directly or indirectly, generate sufficient progress to have made it worthwhile. It should be clear that with regard to the spirit of the Charter of Punta del Este neither "progress" nor "worthwhile" may be construed to have strictly traditional economic implications. The Inter-American Development Bank recognizes that "adequate acceleration" of development would not occur:

> Unless increased investments in projects traditionally considered to be productive were accompanied by an assignment of an adequate proportion of resources to social investment

> programs that would facilitate economic development and would make it possible to incorporate the great masses of population more rapidly into the growth process.[33]

This reasoning is reflected in the assistance programs of the various organizations working as part of or in cooperation with the Alliance for Progress. Included among these are the Inter-American Development Bank, the Agency for International Development, the Organization of American States, the International Monetary Fund, the Export-Import Bank and the World Bank. Through their various lending operations these organizations are, and have been, making available large scale allocations to the South American countries. Most of the countries are engaged in various degrees of development planning in which the external assistance of international organizations features strongly. Inasmuch as the development plans are oriented towards the principle of balanced growth, agriculture is not neglected in the allocation of funds.

That these organizations have been opposed to lending funds with which to compensate landowners has already been made clear. However, there are various indications which lead one to believe that there is now the possibility of a change of position on this point, where the payments are used for financing restricted bonds.[34]

It is the opinion of this writer that such a change is necessary and should be encouraged. With the assistance of inter-

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[33]SPTF Second Annual Report 1962, p. 2.

[34]Conversation with Carlos Sanz de Santamaria, President of the Inter-American Committee on the Alliance for Progress, at Michigan State University, East Lansing, October 28, 1965.

national agencies the bottleneck created in the initial stage of land reform can be overcome. The traditional reticence of international agencies is based on the inability of compensation payments to create new assets; and their correct view that land reform is designed to help the underprivileged and the whole economy rather than just the rich landowners. This bottleneck can be overcome by the agencies tying the use of their funds to backing for restricted bonds. The use of external funds in such a way does nothing to change the ultimate use of such funds even though the approach is indirect. In fact the advantages of such an approach are clear. Not only does it provide a means for the initiation of land reform, but it does so in such a way that inflation can be minimized and the reinvestment of landlocked capital assured.

It is not the opinion here that such investments need necessarily be directed to the industrial sector as Mann and Blase, Harris, and Webster and Johnston imply in their proposals. On the contrary it would be more in keeping with the use of both internal and external funds in backing land bonds, if the bonds could be applied to the provision of agricultural services such as cooperatives, credit associations, equipment dealerships etc.. Furthermore, since most land reforms permit the former landowner to retain a certain acreage, it may not be assumed that there will be an automatic decision by all landowners and farm managers to desert agriculture and apply their entrepreneurial talents in the cities.[35]

[35]In Mexico, many of the landowners, who apparently did so much for industrial development, had no real choice but to leave the land.

In fact by remaining interested in the land they could be instrumental in organizing and operating the type of farm services mentioned above. There is also the added possibility that they may be interested in using their compensation to turn that part of the land they retain into efficiently operated farms.

As a final note, it is suggested that providing a means of tying compensation directly to the promotion of land reform itself may contribute to a reduction in the opposition of those elements within the society concerned, who, while supporting land reform, object to large landowners benefiting from it.

CHAPTER V

FINANCING COMPLEMENTARY SERVICES

The previous chapter dealt exclusively with the financial problem which arises when privately owned land is to be expropriated. Judging by the complexity of this problem and the storm of controversy surrounding it, one might conclude that therein lies the central issue in land reform finance. The urgency of land reform, the magnitude of the undertaking, and the necessity that it be implemented under peaceful conditions all serve to emphasize the problem. In the absence of an acceptable solution, it is apparent that the accomplishments of land reform will not match up to the aspirations.

Landowner compensation, though the most problematic issue in land reform finance, is only one aspect. In addition there must be an immense investment in humans and productive facilities. These investments are needed to help new landowners increase their production and income, and to assist in building up a market-oriented economic system. The capital cost of the improvements and investments necessitated by these goals may well be a multiple of the value of the land which is redistributed. Also, there will be considerable administrative expenses associated with both the land redistribution and the future operation of the program.

The financial problem here relates to the need for capital in the early stages of land reform. This borders on the total subject of the role of capital in agricultural development. Since this subject has been dealt with extensively by such experts as Lewis, Higgins, Nurkse and many others, the attention of this chapter will be directed towards the purposes for which capital is needed, some possibilities for economizing on its use, and the allocation of the burden of repayment.

The system of landholding in existence prior to land reform has only a relative effect on the need for development capital. That is, the quantity of capital required to bring any two areas up to some comparable standard will depend largely on the natural and man-made features already possessed by the two areas. The objectives may be the same for each area, but the amount of capital required and the method of applying it may be considerably different.

Development capital is required for two major purposes: (a) for improving the overall structure of an area, and (b) for improving the economic base of individual farms. Such a distinction is clearly arbitrary, for there is bound to be some overlap. Yet if the distinction can be made, it may be helpful in guiding decisions regarding payment for land reform. Improvements in the structure of an area fall under the heading of social overhead investments and as such their costs cannot be allocated to any particular part of land reform and will only be recovered indirectly and after a lengthy period. The costs of (b) however, which amount to on-the-farm investment, may be recovered directly from the program.

Social Overhead Investment

Social overhead has been defined as "investment and services which make a general contribution to the operation of other industries providing goods and services for the market and to the social welfare of society."[1] Examples of social overhead investments relevant to land reform include transportation and marketing, water management, health and education, and the provision of credit and extension agencies.

Many of these investments will have to be made before new farms come into production. The late Professor Ashby used the provision of a transportation system to suggest why this is so. He argued that an adequate network of roads deserves priority in any development program. Roads are related to agriculture in the same way that they are related to many other economic activities; that is, indirectly. But this makes them no less important to development, for without adequate investment in transportation much of the direct investment on the farms would be nullified.[2]

The fact that roads and other indirect investments must precede development means that capital requirements will not only be large but also will be needed in a lump sum. On the other hand it is possible that some of the direct on-the-farm investment may be

[1]H. Belshaw, Agricultural Credit in Economically Underdeveloped Countries (Rome: F.A.O. Agricultural Studies No. 46, 1959), p. 137.

[2]Andrew A. Ashby, "Land Settlement: The Making of New Farms," International Journal of Agrarian Affairs, I (September, 1953), pp. 2-6.

spread out over time so that capital is required in smaller amounts. This distinction gives rise to the problem of deciding priorities and of rationing scarce capital resources between direct and indirect categories. This difficulty is compounded by the fact that direct investment produces a marketable output, whereas indirect investment does not.

The general procedure for financing improvements whose benefits are widespread is for the government to assume the responsibility. A United Nation's study points out that:

> In part, they [the improvements] are counterparts of services long provided city dwellers out of tax revenues and without direct charge; in part, the beneficiaries could not afford to pay for them so charges would merely lead to conflict.[3]

By charging the costs of infrastructure to over-all economic and social development rather than to land reform itself a government in no way avoids the necessity of raising additional revenue. But separate budgeting can make possible a distinction between those aspects of land reform which may be put on a self-financing basis and those which may not. Such a distinction has another advantage in that it may serve to increase public acceptance of land reform proposals.[4]

Clearly, such a proposal raises problems regarding where the line should be drawn between direct and indirect investment. Whether or not this distinction could be made and the usefulness of such a distinction is something to be decided within the framework

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[3]Progress in Land Reform, Fourth Report/Add. 1. p. 43.

[4]Gregory, p. 2.

of individual country's development plans.

Investment in land reform is not different from any other form of investment in that all possible means must be sought to economize in the use of scarce capital inputs. A considerable saving could be realized if early land reform efforts were concentrated in areas where some infrastructure is present rather than in remote, undeveloped parts. For example, the present Colombian development plan anticipates heavy investments in settling areas that are devoid of infrastructure. Yet there are other areas with infrastructure that could be developed, but which are being bypassed. Such a policy will require substantial additional capital inputs, and emphasizes a fact which frustrates economic planning; namely, that political considerations can play havoc with attempts to base plans on economic realities.[5]

Apart from the immediate capital saving that would result from concentrating on the more developed areas, a future saving would result when the undeveloped areas are opened up. With the experience of the initial areas on which to draw, the reform agency should be in a position to save itself from costly experimental mistakes.

Finally, some South American governments have been effectively denying themselves international financial assistance because they have excluded land reform from their development plans. Funds that are available for agricultural development, including land reform,

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[5]John Phelan, "Prospects for Political Stability in Colombia," Prospects for Political Stability in Colombia with Special Reference to Land Reform, Discussion Paper 1 (University of Wisconsin: Land Tenure Center, January, 1963), p. 5.

are unused simply because sound projects have not been forthcoming. To assist in overcoming this the CIDA is now helping South American governments in the preparation of projects which are built around land reform.[6] For example, on August 17, 1965, the Inter-American Development Bank made a $3 million loan to Chile to help finance pre-investment studies. This loan was significant in that it was the first application of a "development loan" approach to the field of pre-investment. Previous development loans by the Bank had been made to national institutions that re-lent the money to various enterprises for financing specific projects.[7]

Direct Investments

It is usually assumed that the beneficiaries of land reform will be expected to pay for all or a large part of those investments which effect their landholding directly. The optimum level of such charges will depend on several factors which reflect the over-all objectives of land reform. These include: the total cost of the reform, the size of the new landholdings, the expected income of the new landowner, the amount of preparation the land is to receive and the amount of additional credit the farmer will need.

Land reform policies are no longer built on the principle of granting land to farmers and leaving them to fend for themselves, for it has been clearly demonstrated that such policies frequently

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[6] SPTF Fourth Annual Report 1964, p. 115.

[7] Inter-American Development Bank, News Release (Washington, D.C.: August 16, 1965).

create more problems than they solve. However, the other extreme whereby the new landowner is put in a position from which he can start producing at some desired optimum level as soon as he occupies the land is very expensive. It should be anticipated that a part of such costs would not be recoverable. Furthermore, considering the current emphasis on initiating land reform on a large scale, the economic decision regarding the allocation of scarce resources reappears; and again there is room for conflict between economic rationality and political expediency.

A list of the requirements of individual farms might include: buildings, land clearance, fencing materials, improved livestock and seeds, fertilizer and equipment. In addition living and operating expenses for the first year or so must be provided. That a new farmer will be unable to bear the cost of all these, even over an extended period, should be clear; particularly if he is expected to pay for his land, and also has to meet a tax bill. However, it is suggested that to accept even the incomplete list above at face value is to exaggerate the new farmer's need for credit, and to overlook the opportunity he may have for building up capital. Much of the capital used in agriculture can be produced through the direct efforts of farmers in such areas as land improvement, construction of buildings and fences, well-digging etc.. Because much farm work is seasonal there is a period when opportunity costs are low, and this time can be used for the creation of these and similar non-capital demanding investments. It would still be necessary to grant the farmer credit for the purchase of materials. But it seems probable that to have the farmer do this work would be more economic than to have it done for him in advance. Where agricultural credit is scarce this amounts to straightforward capital accretion. Furthermore, leaving such relatively simple tasks to the farmer, the benefits of which should be made clear to him, may be one way of increasing his incentive.

But the main point here, is that in any land reform program, and particularly one which is to be undertaken on a broad front, the methods by which scarce resources are economized are most important. The costs of setting up new farms can be reduced if the new owner is allowed to build up his production over time. Nevertheless, this argument does depend very much on the required pace of land reform. These low-cost methods of capital-creation cannot be fully employed if, for some reason, it is considered expedient to have the new owner producing at the optimum as soon as he begins his occupancy.

Credit[8]

Any decisions that are made regarding the amount of preparation farms are to receive do not change the fact that some production credit must be made available to new farmers. Yet it is a commonly recognized fact that one of the major problems besetting poor farmers is the excessive debt so many of them carry. However,

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[8]The importance of this subject is evidenced by the vast quantity of literature on the subject, consequently only passing reference will be made here.

much of this problem may be attributed to the inadequate credit systems operative in rural areas. And since debt contraction is a necessary means of securing capital for agricultural investment and development, it must be assumed that the provisions of credit agencies geared to the needs of new landowners will be an important aspect of land reform.

Several factors must be taken into consideration by the agency charged with setting up a rural credit system. The local social attitudes with respect to borrowing and repayment, and possible differences in responsibilities depending on the source from which money is borrowed, can be of considerable importance. There is also the problem of convincing farmers that the production expenditures suggested by advisers are worthwhile. Dr. Carl Taylor advances the hypothesis "that so-called tradition-ridden peasants will not be inhibited by their sanctions and taboos if they are approached with alternative ways of doing things which they are already doing, and the doing of which yields them immediate, obvious results."[9]

Quite frequently, new owners are unfamiliar with the land they are to farm and with all the complexities involved in farming it for themselves in an efficient manner. Therefore, not only do they require credit but, in addition, the type of training usually associated with extension services. Credit and extension should be

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[9]Cited by Arthur T. Mosher, "Research on Rural Problems," in The Brookings Institution, Development of the Emerging Countries. An Agenda For Research (Washington, D.C.: The Brookings Institution, 1962), p. 100.

regarded as complementary inputs, since the productivity of credit will depend largely on the quality of its use, and this quality can be encouraged by good extension. Making funds available to poor, untrained farmers without a measure of direction as to its use may very well result in it being used for non-economic purposes.[10]

Perhaps one of the more useful approaches to the question of production credit has been the evolvement of supervised credit systems which commenced in Brazil in 1949. The principle of supervised credit is that loans are extended to farmers on the condition that they work with the extension service and follow a production plan designed to enable them to redeem their loan and increase their level of income. By this method farmers are expected to learn the value of improved practices and eventually be able to earn sufficient income to be eligible for further credit through regular channels.[11] Furthermore, it is anticipated that such a method will have a demonstration effect which would help to spread knowledge of the benefits to be derived from improved farming.

The major drawback to widespread use of supervised credit systems is their cost and supervisory needs. Nevertheless credit availability and methods of financing it are among the more important economic factors affecting the relationship of land reform to investment. Whatever form a credit operation takes does not hide

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[10] Progress in Land Reform, Third Report, p. 177.

[11] Charles E. Rogers and Dorothy Cochran, "Influencing Rural People," Selections from the Report of the Working Party, Land Tenure, Proceedings of the International Conference on Land Tenure and Related Problems, p. 681.

the fact that substantial financing will be necessary if the credit system is to be adequate. Yet, a brief look at the prevailing credit funds situation in most Latin American countries reveals some disquieting features.

Referring to those countries without supervised credit programs a CIDA report claims that:

> several are considering the establishment of supervised credit agencies although the persons concerned with agricultural credit do not understand just what supervised credit is, or just what facilities and arrangements are necessary to put it into effect.[12]

The same report points out that before developing agricultural programs governments should

> examine the entire capital structure of the country's agriculture in order to determine total investment and the relative sizes of various sectors. Unfortunately, this does not seem to have been done in any Latin American country. Partly for this reason, most agricultural credit programs are of an ad hoc type.[13]

The report suggests that too little attention is paid to the effect of inflation on credit programs. Inflation can dry up the sources of agricultural credit and destroy confidence in the economic structure. Available government funds are inadequate and must be supplemented by private sources if sufficient credit is to be made available for agriculture. Yet private sources will not be attracted in the absence of an assured "normal return" on funds.

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[12]CIDA Regional Report, p. 116. Note: Brazil, Chile, Bolivia and Peru are cited as the only South American countries with genuine supervised credit programs.

[13]Ibid., p. 99.

That is, in inflation, the gross return must be sufficient to cover: the normal interest rate, costs of administration, insurance on the capital and the return of the principal in real value. In order to yield a net return of 5 per cent to lenders, and assuming the costs of administration and insurance to be 2 per cent, the Venezuela borrower would have had to pay 8 per cent, on an average, during the period 1950-62. In Brazil where the average annual rate of inflation was 24 per cent during this period, the borrower would have had to pay 29 per cent in order to provide a net return of 5 per cent.[14]

The report is critical of governments, many of which "are not even in a position to meet their own operating expenses," for being overly concerned with the establishment of new governmental credit agencies and farm loan programs while failing to take account of inflationary pressures.[15]

Other factors tending to cloud the whole issue of agricultural credit include:

1) Virtually no information concerning credit from private sources.

2) Except that provided by government agencies, little informatien concerning amounts loaned as classified by regions, or by types or sizes of farms.

3) Fragmentary and incomplete information on interest rates and other charges for the use of capital.

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[14]Ibid., p. 103

[15]Ibid.

4) Disregard for the demand schedule for agricultural capital. Agricultural capital is rarely studied as a production factor amenable to normal market influences. And the effect on demand of the price of capital tends to be overlooked.

5) Maldistribution of credit.

6) Absence of a well developed system for financing land transfers.[16]

These conditions and others facing individual countries raise two problems of particular importance to this study. The first is that until many or all of them are overcome, land reform can scarcely be expected to operate in the environment which has been posed for it. Secondly, until more attention is paid to these factors and other ambiguities regarding the present capital situation and future needs of land reform, it is not possible to state that a lack of capital is any more than a relative bottleneck to progress in land reform. That is, the provision of additional capital is, by itself, a necessary but insufficient condition.

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[16] Ibid., p. 105.

CHAPTER VI

SUMMARY AND CONCLUSIONS

The landholding system prevalent in large sectors of the South American agricultural economies is a primary factor inhibiting productive efficiency and economic growth. Consequently, the foremost objective of land reform policy is to bring about increases in agricultural productivity through changes in the landholding system. While it may be true that alternate ways of achieving this objective are defensible on economic grounds, it is necessary to recognize the fact that the South American people have committed themselves to land reform; therefore it is unnecessary to dwell upon the alternatives.

From the standpoint of productive efficiency it is the feudalistic latifundia which represent the real barrier to agricultural as well as general economic development. For in agriculture, the problem is largely one of changing the present use of the most important fixed asset - land - and persuading the existing owners to agree to such a change. The combination of factors which will produce such changes in any given area will necessarily be complex and will reflect the particular circumstances of that area. The emphasis in this paper has been upon one of these factors, the need for which is common to all areas - capital. Capital requirements of land reform are large and are related to three major realms of land reform policy: land purchase, social overhead investment and direct farm investment. Programs existent in South America are expressed in terms that make the simultaneous application of capital to all three absolutely essential.

While it is feasible for a government to budget for the total cost of land reform and leave the arrangements for the disbursement of funds to a land reform agency, it is suggested that separate budgeting may provide a more realistic approach. The reason for this belief is that these three represent totally different areas of concern, and therefore the financial arrangements made in each case should reflect, as completely as possible, not only the principles involved in what they represent, but also the possibilities of securing capital for each case.

Farm investment is needed to enable the new landowners to become efficient agents of production and thereby to enjoy a meaningful role in society. Since it is commonly assumed that they will not have private means at their disposal, the new landowners must be provided with adequate credit. Thus credit programs will have to be instituted, not just to provide a lump sum payment with which the farmers can start out, but to ensure the continuing flow of funds needed to complement extension services and other measures taken to assist the farmers. It is anticipated that these funds plus interest will be repaid once the new farms attain certain standards of productivity and income earning capacity. The funds needed to initiate credit programs may be acquired from both central and local government revenues, and also by borrowing both internally and externally. The Inter-American Development Bank and other international agencies have already made large sums available for this purpose and have additional funds at their disposal.

Social overhead investments differ from farm investments in that their cost cannot be recovered directly from the land reform program. Nevertheless, inasmuch as the provision of an adequate infrastructure is an essential component of land reform, arrangements must be made for adequate financing. Fiscal revenues and loans are again the apparent source of the finance. External funds have been used and are available to complement internal efforts in this respect. It should be pointed out that reforms in the taxation system are among the major goals of economic policy in South America, and success in this direction could greatly alleviate the problem of financing indirectly productive investments such as the provision of rural infrastructure.

Finally there is the question of financing land purchases. This is directly related to the problem mentioned at the beginning of this chapter and which has been the problematic theme throughout the paper; changing the structure of large landholdings and persuading the owners to embark on such changes. That there is no one way of treating this matter may be ascertained from the various approaches currently envisaged in South America.[1] Limitations on the availability of liquid funds and the undesirability of cash payment even if the funds could be raised, have meant that land bonds have become the primary method of payment. It is generally assumed that, following a grace period, mortgage payments by new landowners

[1]See appendix.

will be sufficient to redeem all or a substantial part of the debt incurred in this process. This assumption may, however, be quite unrealistic. If the emphasis of land reform is to lie in building sound productive units, there may be a considerable time lag before the new farmers can assume even part of the debt. In fact, as has already happened in Venezuela, they may eventually be granted the land free of charge. Furthermore the mere issuance of bonds does nothing towards creating additional assets unless arrangements are made for relating their issuance to investment projects. Several proposals based on this principle have appeared in recent years. Their common feature has been a call for endorsement of such bonds by national governments and international agencies so that investment funds could be borrowed against the bonds. To this time international agencies have refrained from issuing such endorsements. Many reasons have been given for such a policy, but as has been pointed out earlier there may now be the beginnings of a change in attitude.

It would seem to be clear that fair consideration should be given to any proposal which may contain the necessary elements for resolving those factors impeding the progress of land reform. The only way by which proposals for encouraging the investment of compensation payments can be tested and evaluated is through experiment. Peru has the beginnings of such an experiment under way. It is not a large project, and is financed internally. Should this project show signs of success it may act as the catalyst needed to induce the international agencies to free the funds which are needed to overcome the primary problem in land reform finance.

APPENDIX

TABLE A

Recent Legislation Governing Compensation Payments

Country	Date of Law	Compensation Amount	Method of Payment	Funds Provided
Venezuela	5 March 1960	Price to be based on production over last 6 years, tax value, and acquisition price in last sale of property or similar neighbouring properties, plus value of buildings etc.	Between 10 per cent (for large amount) and 100 per cent (for smaller) in cash. Rest in bonds -- 20-year 3 per cent bonds for uncultivated or indirectly cultivated land expropriated. 15-year 4 per cent bonds for such land sold amicably. Better terms, to be determined, for efficiently cultivated land acquired for irrigation etc. schemes.	Provisions for financing Agrarian Reform contained in General Budget Act.
Colombia	13 December 1961	Cadastral value with opportunity to have it revised to realistic level, owner being permitted biennial self-reassessments until re-valuation completed.	Depends on type of land. For utilizable but unutilized private land 2 per cent bonds. For private land inadequately cultivated by owner or tenants 75,000 to 100,000 pesos in cash, remainder in 8 annual instalments at 4 per cent. For adequately cultivated owner-occupied land (but some over-riding considerations which may reverse these priorities) 150,000 to 300,000 pesos in cash, rest in 5 instalments at 6 per cent.	Funds provided by budgetary allocation, bond issues and credit, amounting 1964 to 240 million pesos ($US 19 million).

Table A cont.

Country	Date of Law	Compensation Amount	Method of Payment	Funds Provided
Chile	15 November 1962	Criteria not specified, but note that landlords reserve area calculated by value. Hence higher rate of compensation claimed smaller the size of reserve area. Price readjustable over 10 year period if inflation, but not by greater percentage than increment in wheat price.	Up to 20 per cent in cash. Rest in 10 or more annual instalments at 4 per cent interest.	Funds not specified, but to be financed by national annual budget.
Paraguay	29 March 1963	Agreed between owner's valuer, or if no agreement by jointly approved third valuer, or (if no agreement on 3rd valuer) by arbiter appointed by court. Local land prices and tax assessments to be basis of calculation.	Payment to be completed in 10 years.	Funds not guaranteed in law.
Peru	21 May 1964	Based on last 5 years' tax payments, potential yield, and "commercial value". It owner refuses Institute's evaluation, panel of 3 experts finally decides by majority decision. (1 from College of Engineers, 1 State valuer, 1 representative of Farmers' Association).	For efficiently managed farms first 200,000 soles ($US 7,500) cash, rest in 6 per cent 18-year bonds, inefficient owner-operated land first 100,000 soles cash, rest 5 per cent in 20-year bonds, indirectly cultivated or idle land 50,000 soles, 4 per cent of compensation may be paid to owner's dependent labourers.	Authorization of compensation bonds up to 6,000 million soles ($US 225 million).

Table A cont.

Country	Date of Law	Compensation Amount	Method of Payment	Funds Provided
Ecuador	11 July 1964	To be determined by Institute's valuer (but may be appealed to Special District Judges and for big estates to Special Bench of Supreme Court), on basis of cadastral valuation and average net profit for previous 5 years capitalized at 8 per cent.	To private owners in bonds --- 20 years--- 5 per cent or 30 years --- 4 per cent depending on the owners' previous degree of under-cultivation.	The annual State budget shall provide funds. 50 million <u>sucres</u> ($US 2.8 million) minimum from regular budget. Authorized loans at 8 per cent for further 50 million <u>sucres</u>. Additional bond issues for payment or compensation.

Source: <u>Progress in Land Reform</u>, Fourth Report/ Add. 1. pp. 18-20.

TABLE B

Forms of Compensation Payments in Recent Land Reform Programs

Country	Year of Law	Cash	Bonds
Bolivia	1953	none	25-year, 2% (never issued)
Chile	1962	up to 20%	10-year, 4% (1)
Colombia - type A	1961	none	25-year, 2% (N) (2)
Colombia - type B	1961	Ps 75-100,000 ($8.3-11,000)	8-year, 4%
Colombia - type C	1961	Ps 150-300,000 ($16.6-30,000)	5-year, 6%
Peru - type A	1964	S 50,000 ($1,860)	22-year, 4% (N)
Peru - type B	1964	S 100,000 ($3,620)	20-year, 5% (N)
Peru - type C	1964	S 200,000 ($7,240)	18-year, 6% (N)
Venezuela - type A	1960	Bs 100-200,000 ($22-44,000)	20-year, 3%
Venezuela - type B	1960	Bs 100-200,000	15-year, 4%
Venezuela - type C	1960	Bs 100-200,000	10-year, 5% (N) (3)

NOTES

(N) Bonds are non-negotiable unless this symbol appears
(1) Readjusted in principal and interest, according to wheat prices.
(2) Land idle for ten years is confiscated outright.
(3) The law specifies "market" rates for type C land bonds.
Type A land is idle when expropriated; B is poorly exploited; C is well exploited.

Exchange rates:

Colombia: Principal Selling Rate Ps 9.00 = $1.00. (The free rate is Ps 19.26 = $1.00)

Peru: S 26.82 = $1.00

Venezuela: Selling Rate Bs 4.50 = $1.00

Sources: Progress in Land Reform, Fourth Report/Add. 1. p. 28.

International Financial Statistics, October, 1965.

TABLE C

Recent Legislation Concerning Beneficiaries

Country	Date of Law	Terms for Beneficiaries	Size of Beneficiaries' Holdings	Provision of Facilities and Aftercare	Number of Beneficiaries
Venezuela	5 March 1960	Purchase price = cost of purchase of land + improvements on it, not including cost of infrastructure facilities. To be paid over 20-30 years starting in third year, free of interest, but (a) reductions of 5 per cent for each dependent; (b) reduction if cost of land purchase abnormally high; (c) reduction if annual payments would otherwise exceed 5 per cent of gross annual yield; and (d) free allocation if necessary "in order to incorporate the beneficiary into the economically productive life of the Nation". (So far in practice all grant free).	Large enough for their continuing economic progress. Small enough to require little more than family labour.	"In general housing shall be provided". Institute may organize Agrarian Centres with schools and other community facilities. First-year living allowance (to be repaid later). Farm credit service and Irrigation Institute to be organized. Cooperation to be fostered and State marketing agency created. All these facilities to be open to established farmers as well as to reform beneficiaries.	1959-1963 33,000 families settled on private and 34,000 settled on public lands.

Table C cont.

Country	Date of Law	Terms for Beneficiaries	Size of Beneficiaries' Holdings	Provision of Facilities and Aftercare	Number of Beneficiaries
Paraguay	29 March 1963	Up to 15 annual instalment payments at 4 per cent interest. No charge for 20 hectares for man with 7 + children, or for 40 hectares for Chaco war veterans	50-100 hectares for mixed farming, 300-8,000 hectares (depending on the region for stock-raising).	Whole public service structure of local community created for each settlement. Institute may provide credit (up to 7 per cent interest) and marketing service, but type or volume of funds not specified.	
Peru	21 May 1964	Price related to economic capacity of land, or cost of acquisition plus cost of works - lesser of the two. Paid over 20-25 years - rate of interest discretionary. May pay in compensation bonds taken at face value (but purchased presumably, at a discount).	Small enough to need only seasonal hired help amounting to not more than ¼ of total labour requirments. Big enough for family's livelihood, payments on land, plus a certain margin of saving. Maximum of 30 per cent of a settlement area may go into medium farms 10 times normal size.	Irrigation, roads, formation of co-operatives, marketing assistance, technical advice, credit, institution may also build processing centrals.	Two projects under way to settle 30,000 families; 2 more similar projects in preparation, 1,750 families to be settled in four other colonization projects.
Ecuador	11 July 1964	Price depends on land's productive capacity. Terms depend on grantee's economic capacity.	Big enough to employ family, provide income to support them, pay for land and improve their farm, housing and living levels. Never less than 5 hectares.	Settlements to include schools, clinics, churches. Technical advice, credit.	

Table C cont.

Country	Date of Law	Terms for Beneficiaries	Size of Beneficiaries' Holdings	Provision of Facilities and Aftercare	Number of Beneficiaries
Colombia	13 December 1961	To pay cost of lands plus improvements, plus nominal overhead administrative cost, plus valorization charge if improved value more than 130 per cent over cost of land + improvements. Over maximum 15 years at 4 per cent. For first 2 years 2 per cent interest and no capital repayment.	Big enough to cover land purchase and development costs plus adequate and improving level of living for normal family. Small enough to require only occasional hired help.	Institute may establish "organized settlement areas" providing full range of roads, schools, clinics and other communal facilities. May also carry out large-scale irrigation works, finance processing industries and generally foster agricultural development of all kinds.	1,450 families settled November 1964.
Chile	15 November 1962	Criteria for determining price unspecified. To be paid over 20-30 years, outstanding amounts subject to adjustment, if inflation at same rate as for landlords compensation. Price reduced by 4 per cent for each son receiving agricultural schooling; by 2 per cent for other sons.	Big enough to allow family "to live and prosper" if necessary with employment of some hired help. Not less than 15 hectares of irrigated or 50 hectares of unirrigated land.	Corporation may grant credits. Houses may also be provided and market garden centres or villages with commercial facilities created.	<u>Plans</u> as of January 1963 to settle 12,700 families in 1963-64.

Source: <u>Progress in Land Reform</u>, Fourth Report/Add. 1. pp. 19-20.

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