Land Reforms:
A Successful Course of Action?

Supervisor: Javad Amid
Department of Economics
ABSTRACT

The problem with unequal distribution of land ownership, in developing countries, has been debated in numerous papers. It is important to solve this problem and one of the major contributions in finding a solution is the implementation of a land reform. The aim of this paper is to elucidate the outcome of two different approaches to land reform, i.e. coercive and market based, and to find out how successful they are in reducing the concentration of land ownership in a sustainable direction. The conclusion of this paper is that neither of the approaches alone is successful in this task, the strength lies instead in a combination of the coercive and market based approach.

Keywords: Land reform, coercive, market based, inequality, redistribution of land
FIGURES AND TABLES
Figure 1 - An overview of our definition and structure
Figure 2 - Monopoly on the land market
Figure 3 - Demand elasticity of small and large landowners
Figure 4 - Monopsony on the labour market
Figure 5 - Factor costs for small and large landowners
Figure 6 - Inverse relation between farm size and yield
Table 1 - The concentration of land in developing countries
Table 2 - An overview of our analysis
Contents

1. Introduction ...............................................................................................................................1
2. Land Reform and Its Benefits ...................................................................................................4
   2.1 Problems of High Land Concentration: Market Imperfection ........................................4
   2.2 Economic, Political and Social Benefits of Land Reform ...................................................11
3. Coercive and Market Based Land Reform ..............................................................................14
   3.1 Disadvantages ......................................................................................................................15
   3.2 Advantages ...........................................................................................................................17
4. Comparative Analysis and Summary ......................................................................................19
   4.1 The Role of the Government and Secure Property Rights .................................................20
   4.2 The Potential for Success .....................................................................................................21
   4.3 Concluding Summary ..........................................................................................................25
References ......................................................................................................................................26
1. Introduction

In 2001 there were 1.1 billion people living below one dollar a day and 2.7 billion had less than two dollars a day.¹ These numbers are an improvement from earlier years, though in numbers of human suffering they are far from satisfying. Reducing these numbers is the main target of development economics. There are numerous approaches within the discipline that deal with the same problem. Some of the issues are constantly reoccurring, for example, poverty reduction, growth, equity and redistribution. This paper has redistribution as a key element in how to make a relevant decrease in these terrifying numbers.

As distribution of wealth is one of the main concerns in development economics, it is important to find the factors which generate a more equal distribution in a sustainable direction. This process includes a broad spectrum of aspects, all of which are very important and demonstrates a very broad discipline. The part of development economics that we will address is rural development. Writing in the Journal of Agrarian Change, Griffin et al address the problems regarding rural development; with the major part of their paper directed to the distribution of land in rural areas with high poverty. They contend that: “The case of land reform rests not on the existence of defective tenure contracts but on the concentration of land ownership rights and the inefficiency, inequality and poverty which this creates. The core of a land reform is thus a redistribution of property rights in cultivable land”.²

An uneven distribution of land results in numerous problems for the rural poor and the whole country at large and, in order to correct this, there is a need for an effective method to reduce inequality. As mentioned above, Griffin et al claim that the problem is the concentration of land ownership. We will make three assumptions to facilitate this paper: The first assumption is that a redistribution of land will result in a reduction of poverty, and we have decided to exclude other possibilities to decrease poverty. Furthermore, high concentration of land ownership is debated since it includes a number of market imperfections and flaws in social structures.³ The main part of this paper will focus on the concentration of land ownership and the problems it causes. Another reason for our choice is that concentration of land also influences concentration of income. In order to reduce poverty it is argued by some that it is important with a more equal distribution of income. Though, as land is the only source of income in the rural areas, the redistribution of land also gives a strong indirect effect on the distribution of income. Therefore, our second assumption will be that redistribution of land ownership indirectly results in a redistribution of income.

¹ The World Bank
² Griffin et al, pp. 283-284
³ ibid
However, some believe that land reform is unable to affect the income distribution in general. They state that the agrarian sector constitutes only a small part of the GDP and therefore the land reform will only have a small impact on the income distribution in society. But, even in cases where the agrarian sector constitutes a small part of the total production, it could still affect the urban sector by raising minimum income in the whole country. There will be lower incentives for poor people in rural areas to migrate to more densely populated cities and towns. This, in turn, causes an increase in the minimum wage in the urban areas. Therefore, our third assumption is that even a minor agrarian sector could have a noticeable indirect impact on the income distribution.

The solution to the problem of uneven distribution has often been implementation of a land reform. There is a diversity of approaches to land distribution, and the results differ. We have chosen to delimitate our paper with two main approaches: coercive and market based land reform. The reason for our choice is the polarised nature between these two, plus the fact that they are also widely debated in literature and often seen as counterparts, making a comparative analysis more appealing. The aim of this paper is to explain these different approaches, to look upon how successful they are in reducing the concentration of land ownership in a sustainable direction, and to examine their strengths and weaknesses.

---

4 Baer et al, p. 27
The paper is organized in the following way. Firstly, we will consider the definition of a land reform because of the large diversity in how the concept is used. Secondly, we would like to motivate the importance of a land reform by highlighting the disadvantages with a high concentration of land. Thirdly, the two different approaches to land reform will be examined. We start with the coercive and then the market based land reform and present their benefits and also the problems associated with them. Finally, a comparative analysis and summary will be carried out considering our criterions for a successful land reform in terms of how well they remove land concentration. In this section we will also discuss further aspects regarding improvements of land reform and whether our two approaches could be used as complements to one another. Figure 1 illustrates the structure of the paper.

Figure 1. Figure 1 - An overview of our definition and structure
2. Land Reform and Its Benefits

We have chosen a definition given by Griffin et al: “Land reform will be restricted to programs that redistribute land ownership from large private landowners to small peasant farmers and landless agricultural workers.” This definition is specific, and in return it provides us with a high reliability in accordance to the aim of our paper.

Another reason for implementing a land reform, besides that it is desirable in terms of a more equal distribution of land ownership, is the gain in efficiency from small farm sizes in developing countries. We will motivate and describe this advantage in section 2.1. This section will be important because, if there was not enough motivation for land reforms, there would be no need to go any further with this paper.

2.1 Problems of High Land Concentration: Market Imperfection

The problem of land distribution and inequality amongst the rural population has been debated in virtually every developing country. The fact that it gives rise to a lot of problems, both economical and social, makes it an important political issue for every government. Why is it not desirable to have high concentration of land ownership? The major economic problem, with high concentration of landownership, is that resources are used ineffectively. In general, there is a high concentration of land in developing countries, which generates a negative effect on the economy i.e. market imperfections. The land concentration for various countries is shown in Table 1. It is measured by the Gini coefficient at certain years specified; zero is perfect equality and one is perfect inequality. The table shows a high degree of inequality in land holdings, for six major regions in the world, and illustrates the situation in many developing countries.

---

5 Griffin et al, p. 280
6 Barraclough pp. 1-2
7 Griffin et al, p. 322
8 Statistics Sweden
We will, in this section, discuss some of the most important economical arguments regarding market imperfections. The high concentration of landownership and political power, mainly, provides certain groups with monopoly power and also cause the government to favour these groups. These two factors give large landowners access to scarce resources through the use of their political and economical supremacy.\(^9\)

With a small part of the population controlling a large part of the agricultural land, negative economical effects are felt on labour markets, land markets and credit markets. In the theory of economics, perfect competition is seen as a utopia, where in equilibrium we have no inefficiency. Therefore, perfect competition will be the reference of our approach in looking at market failures. A high concentration of land distorts the economy away from perfect competition.\(^{10}\)

If a small part of the population owns a large part of the land, they will act like monopolists on the land market in order to maximize their profit. They control both supply and prices on the

---

\(^9\) Griffin, pp. 17-18

\(^{10}\) Lundahl, pp. 524-526
market, due to their monopolistic position. By holding back the supply of land, they can raise the price and further increase their own wealth and power. Figure 2 illustrates the situation. The quantity of land for sale is \( q_m \) at the price of \( p_m \), as an effect of the monopoly. In perfect competition, the price of land would be lower and a higher quantity of land would be available for sale. The monopolist maximizes the profit when MR equals MC. The deadweight loss associated with the monopoly is the area of abc. In perfect competition, the equilibrium is instead in point c and there will be no deadweight loss.\(^{11}\)

Figure 2 - Monopoly on the land market

In addition, small landowners have a greater need of land, which invokes price discrimination for these farmers. Small landowners, with their high demand for land, have low price elasticity, i.e. the demand elasticity for small landowners is much lower than the elasticity for larger landowners. The small landowners are price discriminated because of their high demand for land and subsequently have to pay a price, higher than the equilibrium price in perfect competition. Moreover, the large landowners will have a price that is below this equilibrium.\(^{12}\) The situation is illustrated in Figure 3, which shows the elasticity for the two demand curves.

\(^{11}\) Mankiw, p.374-377
\(^{12}\) Lundahl, pp. 524-525
Another problem is that land markets are extremely fragmented and the sales are low, implying that the access to land markets is even more difficult.\textsuperscript{13} It will be hard for the market to marginally adjust as it would in perfect competition, due to the imperfections on the land market.

As we could see above, landowners have monopoly power over the land markets. This also affects the labour market because agriculture usually is the only job opportunity in the rural areas. If large landowners have monopoly on land, it invokes monopsony power on the labour market, since they are the only buyers of labour. By holding back the demand for labour, the large landowner will press down the wages which will give them lower costs.\textsuperscript{14} Furthermore, the communications between different regions is often severely underdeveloped so the opportunity to work for a different landlord is nonexistent, or at least very small.\textsuperscript{15} If large landowners sold part of their land, they would have to raise wages to prevent the labour force from working somewhere else. Therefore, they instead choose to employ fewer workers at a lower wage. Figure 4 illustrates the situation; the employer will hire labour to a point where his marginal expenditure, ME equals his marginal revenue product, MRP. The wage will be \( w \) and the amount of labour will be \( L \) instead of \( w' \) and \( L' \) that a perfect competition would give. The deadweight losses associated with the monopsony situation are the area ABC. The large landowners gain from the monopsony, preventing them from selling part of their land and the results are ineffective production and inequality.

\textsuperscript{13} Griffin et al, p. 285
\textsuperscript{14} Lundahl, pp. 524 -525
\textsuperscript{15} Griffin et al, pp. 287-288
As a consequence of the high concentration of land, there are differences in opportunity cost of land for the large and small landowners. The small landowners experience a very high opportunity cost for their land since land, in their case, is very scarce. The large landowners, on the other hand, experience a rather low opportunity cost since they own land in excess. Without market failure, the large landowners would sell part of their land to the small landowners and landless since they value the land higher. In reality, a sale of land from the large landowner to the small landowners will not happen for several reasons, which will be discussed further on in this section.\footnote{Griffin et al, p. 285}

There is a common misunderstanding that small farms may be less productive than large farms. This misunderstanding comes from the fact that small farms often lack the capital to mechanize their production.\footnote{ibid, pp. 281-285} Some argue that the small landowners lack possibilities of economies of scale and therefore are less productive. However, there is evidence that in general, small farms tend to have a higher production output per acre than large farms.\footnote{Boyce et al, p. 1}

The reason for the higher land productivity for small landowners derives from the fact that in most developing countries, the cost of labour is very low compared with the cost of capital and land. In order to maximize the total factor productivity, it is important to use a combination of factors that are related to the opportunity costs of each factor. The production function should therefore consist of a larger part of labour than capital.\footnote{Boyce et al, p. 1}
credit from the organized credit markets. The small landowners, on the other hand, lack the collateral and have small possibilities to lend from the organized credit market, forcing them to look elsewhere for capital in order to purchase land. The lack of possibilities for small landowners to lend capital is an important issue since their ability to undertake the most profitable economic decisions are diminished. This affects the size of the land they choose to purchase.\(^{20}\) In addition, the small landowners have a greater cost of capital than the large landowners since they lack collateral and are considered less credit worthy.\(^{21}\) On the whole, small landowners are forced to pay a higher interest rate since there is a problem with asymmetric information.\(^{22}\) The money lender is unaware of the small landowners default rate and charges a higher risk premium than could be considered appropriate, in relation to the small landowners production output.\(^{23}\) Ironically, small landowners in general have a lower default rate than large landowners and have better record in repayment of loans. Though, still they are unable to gain access to organized credit markets.\(^{24}\)

The large landowners tend to have higher opportunity cost of labour than the small landowners. The reason is costs associated with supervision of the labour force. Wage labour usually does not work as hard as if they worked on their own land. They have little incentive to work hard unless their job depends on it, because they often lack concern for their employee’s well-being, or at least his revenue. As a result of this, the employer has to spend time and funds on supervision of the workers.\(^{25}\)

Since small landowners have a lower opportunity cost of labour than large landowners and the opposite holds for capital. The small landowners will use more labour and less capital in the production compared to large landowners, the situation is illustrated in Figure 5. The figure shows that different sets of inputs are used for the small and the large landowners, in order to produce the same quantity. It will therefore, be the small landowners and not the large landowners that maximize the efficiency in developing countries, since, as seen above, the production function in developing countries should consist of more labour than capital.\(^{26}\)

---

19 Griffin et al, pp. 286-287  
20 Griffin et al, p. 285  
21 Lipton, p. 645  
22 Griffin, p. 27  
23 Gayer et al, p. 230  
24 Griffin et al, p. 285  
25 Boyce et al, p. 8  
26 Griffin et al, pp. 286-287
It is important to remember that inverse relationship between farm size and productivity is a tendency and not a law. The connection between farm size and productivity is not a linear relationship. This is illustrated in figure 6, and when comparing two farms of different sizes, the result is not always the same. The result depends on the location in the graph for the farms in comparison. In general however, small farms always tend to have a higher productivity.

Another bias, in the comparison between the farm sizes, is the fact that large landowners often own land of a higher quality. Because of their monopoly power on the land market, large landowners often obtain and control the most fertile land.

Another reason for the more efficient use of land by small landowners is that they have a

---

27 Griffin et al, In Defence of…, pp. 368
28 Griffin et al, In Defence of…, pp 367-368
higher intensity of cultivation, i.e. they use a higher percentage of their land. Large landowners tend to keep larger parts of their land uncultivated to keep their monopoly position on the land market. In addition, large farms have a lower cropping intensity, they usually use part of their land as grazing lands for livestock, which is a more inefficient use of the land than agriculture. 29 There are numerous of data confirming the relationship between the small farm size and the higher productivity, the data also confirms the higher cropping intensity of the small farms. Countries included in the data are for example, Argentina, Colombia, Ecuador, Mexico, Pakistan, Kenya, Malawi and South Korea, where small farms could have as much as four times higher productivity than large farms.30

2.2 Economic, Political and Social Benefits of Land Reform
A land redistribution program that reduces the concentration of landownership would probably improve situation in the land, labour and credit market, results in desirable effects. As was shown, it may result in a higher degree of land productivity and more efficient agricultural sector. We saw earlier that large farms are less productive per acre than the small farms, which implies that land reform redistributes land from, less efficient large landowners, to more efficient small landowners. However, in addition to these major economical benefits, there are of course other desirable effects associated with a successful land reform. We will mention some of them briefly for a better understanding of the complex nature of a land reform.

The aim of redistribution is to help the poor. However, this is not always the case since politically vocal and those with influential connections in the society have a greater chance to influence the land reform, in ways that benefit their position.31 Therefore, initiative from rural poor is needed, for gaining the support for a change. However, rural poor are often the dominant group in developing countries and could have advantage if they organized. This task is often difficult, due to the ethnical and cultural differences. However, if the organization of the rural poor succeeds, support from other actors is still needed. It is important that these actors assist the poor, in order to justify the land reform.

After an implemented land reform, there are still problems with how rural areas should be managed in the long run, and by whom. There is a need for the rural poor to stay united in the long run in order to gain continuous benefits from the reform. The complication when land becomes available for the rural poor lies in difficulties for them to keep united, if the socio-economic backgrounds are highly differentiated. For achieving a sustainable land reform, it is essential to

29 Boyce et al, pp. 7-8 and Deininger, p. 653
30 Cornia, p. 516-518
31 Deininger, p. 653
assist the rural poor in continuing to have a united front.  

In many parts of the world, there has been a bias against the rural population. The organisation of the agricultural sector and the development policy has been supportive of the urban sector and particularly the industry. The price for crops has been kept at a low level, compared with the price of manufactured goods. This holds the wages down in the rural areas, which in turn also hold the wages down in the urban areas.

Another problem is that the rural population often bear some of the cost for urban development due to the policy and structural bias towards urban areas. The rural elite have connections with the urban elite and also with people in political power. The connection, between the two groups, is shown in how large landowners invest their capital. They often invest in urban sectors, partly to spread economic risks beyond agriculture, such as industries, and partly because of the larger profit in these sectors. This implies that the rural poor have to bear the net savings for the investments in the urban areas and the urban areas develop at the expense of the rural development. In order to gain full benefit from the land reform, the urban bias has to be considered, examples could be found in Latin America and Ethiopia, where this bias was neglected. The discrimination towards the rural areas was never corrected and it resulted in disappointing outcomes of the land reform.

In addition to the complications mentioned above there is another problem. Due to the large differences in land ownership and uneven distribution of wealth, there is often a relatively outspread rural unrest. In some cases, especially in times of distress or famine, there is a risk that rural unrest leads to rural violence. The situation that follows from rural violence is both socially and economically devastating for the country. Estimates in Colombia indicate a loss in total production up to 15 percent due to uprising in rural areas. By reducing the differences in wealth, the rural unrest will be decreased and as a result, the risk of rural violence is also decreased. If land redistribution is used only to calm rural unrest, without concern for reducing poverty and increasing productivity, the effect of the land reform will most certainly backfire in the long run. In case of political pressure, there is a risk that this happens since it is tempting to obtain the goal of reducing the social unrest in the short run, by redistribution of land. In the long run however, sustainable redistribution is a lot more demanding task.

There are not only social problems associated with high concentration of land but also some environmental problems. If the land cultivated by small landowners is not sufficient enough to

---

32 Barraclough, pp. 36-37
33 Griffin et al, p.292
34 Griffin, pp. 103-105
35 Griffin et al, pp. 315-316
36 Deininger, pp. 653-655
support their living, they are forced to over cultivate the land, which leads to impoverishment.\textsuperscript{37} The large landowners repel the small landowners from the fertile land and force them to cultivate forests, steep hill-slopes and other areas unsuitable for agriculture. This type of farming is devastating for the environment, leading to loss in wildlife habitat and erosion of the soil and damage forest by reckless cutting.\textsuperscript{38} However, when small landowners have access to fertile land, they are usually more protective of the environmental aspects such as enhancing soil fertility, protecting bio diversity and maintaining water quality.\textsuperscript{39}

\textsuperscript{37} Lundahl, p. 527
\textsuperscript{38} Heltberg, p. 1807
\textsuperscript{39} Boyce et al, p. 1
3. Coercive and Market Based Land Reform

We will start the chapter, by directing our attention to the definition of coercive and market based land reform and how they are carried out and finally we will see to the disadvantages and the advantages of the two approaches.

The coercive land reform is based on the expropriation of land by the government. It is a redistributive land reform in response of rising rural dissatisfaction. This dissatisfaction is often a direct effect of an unequal distribution of land and the problems this inequity inflicts on the society. The expropriation of land is often executed without compensation, or at least compensation that is highly below market prices. The expropriation is usually carried out within a short period of time and redistributes land from the large landowners to the rural poor. The coercive land reform is therefore a direct way of reducing the concentration of land ownership.

As a result, the coercive approach to land reform always has the element of expropriating land with coercive power. The coercive tendency and the lack of taking market forces into consideration started a reaction against coercive land reform and the criticism was mainly lead by the World Bank. They defined another approach to land reform, namely the market based, and it has recently been implemented in countries, such as, Brazil, Colombia and South Africa. The market based land reform see the situation in a different way, cooperation between the large landowners and the government are essential for this type of land reform. Only the large landowners, who are willing to sell their land, will be affected by the land reform and they will be compensated with the full value for their land, according to market prices. In order to achieve a voluntary sale, different market incentives are implemented. However, the methods carried out in a market based land reform are often referred to as market friendly. Two methods of market based land reform, which seems to be the most important one, will be addressed below.

The first method is to support the small and landless people and facilitates for them to obtain land. By implementing market incentives, for land sales, the government indirectly transfers land from large landowners to small landowners or landless people. By creating a functional credit market, the small landowners or the landless rural people could easier access land markets.
recent years, microcredit has also begun to reach the rural poor.\textsuperscript{48} However, as was stated in section 2, there will be several other factors, preventing this sale and it is therefore necessary to remove other market imperfections in order to stimulate land sale.\textsuperscript{49}

In addition to the provision of credit a government may create market incentives to sell land, by taxes. By introducing a tax on land, the power of the large landowners could be reduced. When tax on land is imposed, the value of the land will fall by the present value of all future tax payments a situation referred to as capitalization. The reason why the value of the land is reduced is because the price that someone is willing to pay for the land is all future returns minus all future costs. The present landowners will therefore bear the full burden of all the future tax payments.\textsuperscript{50}

A tax on land would therefore affect landowners in two ways; one is that it would lower the value of their land and the other is that it would be costly to have an ineffective use of land. By using only a small part of the land, the total cost for the tax on the land, would be supported by only a small part of their holdings. This could be unprofitable in long run and the landowner might be forced to sell some of the land or increase their cultivation level. The cultivation of more land, would lead to more supply of labour on the labour market and in addition to less monopsony. If the large landowners sell their land, there will be more supply of land on the land market and a less monopolistic situation.\textsuperscript{51} In order to enhance the effectiveness of this approach, the tax could be used to subsidize beneficial credit systems for the rural poor, including microcredit. This could provide further help in removing the bias on the credit market. The small land owners will by these microcredits, obtain capital and therefore access the land market.\textsuperscript{52}

\textbf{3.1 Disadvantages}

There are problems associated with the different approaches to land reform. We will start with the coercive approach and then look into the market based approach.

A major problem with the coercive approach is to gain support for the reform, when the large landowners are uncompensated. It is politically very hard to perform such a land reform, because the large landowners are well connected with the ruling elite.\textsuperscript{53} A solution could be to compensate the landowner for the expropriated land, in order to avoid dissatisfaction and resistance. However, there are a number of problems associated in giving such compensation. One problem is raising the sufficient funds, a task which is virtually impossible for developing countries without

\textsuperscript{48} Griffin et al, p. 285
\textsuperscript{49} Gayer et al, p. 320
\textsuperscript{50} Ibid, p.320
\textsuperscript{51} Rashid, p. 27
\textsuperscript{52} Lipton, p. 651
\textsuperscript{53} Meier et al, p. 413
enormous aid from foreign countries.\textsuperscript{54}

Throughout history, the former owners of expropriated land have been treated different in respect with compensation. One example of expropriation is during the Chinese revolution, where landowners were left without compensation. Yet other examples exist where landowners have been compensated with the full value for their land.\textsuperscript{55} One example of this kind of compensation is Venezuela in the 1960’s where large landowners promoted strikes from their workers, so that they would get their land expropriated. The reason for this action by large landowners was because the compensation was way above the market price of land.\textsuperscript{56}

The problem with compensation could be easier to overcome if the cost of the redistribution was spread over the entire rich population. The rural rich oppose the redistribution, to some extent, because they have to pay the entire price while urban rich gains the benefits without contributing.\textsuperscript{57}

Another problem with the coercive approach to land reform comes after the redistribution. There is a need to eliminate the bias in land prices in order to obtain sustainability. Land prices are often higher than the capitalized value of the agricultural profit. The large landowners gain higher profit if they are able to regain monopoly power, as seen in section 2. They may therefore buy the land back from the small landowners if this bias is not eliminated. The small landowners tend to sell the land since they can obtain a high price for selling the land. Land reform will be unsuccessful in the long run and therefore it will not be sustainable.\textsuperscript{58} Therefore, even if land is redistributed to the rural poor, there need to be economic incentives for keeping the land. Griffin et al states that, “One cannot, as often happened, simply give land to the peasants and then abandon them, and expect that all will be well.”\textsuperscript{59}

Finally, when expropriating land under democratic ruling it is necessary to justify an action that undermine the basic structure of the democracy, especially when the expropriation is executed below market prices or without any compensation at all.\textsuperscript{60}

We will now turn to the market based approach. The lack of a specific time frame is a drawback with market based land reform. It is uncertain how large the impact of the reform will be, and also how time consuming it is to reach certain goals. The result may be weak, at least in the short run. Furthermore, there is uncertainty in how many landowners are willing to sell their land. With this uncertainty, it is hard to calculate the impact of the reform and since the reform lack a time frame, there will be even harder to determine what is needed to be done in order to get a

\begin{itemize}
  \item \textsuperscript{54} de Janvry, p. 389
  \item \textsuperscript{55} Boyce et al, p. 2
  \item \textsuperscript{56} Barraclough, p. 20
  \item \textsuperscript{57} Lipton, p. 654
  \item \textsuperscript{58} Binswanger et al, p. 2731
  \item \textsuperscript{59} Griffin et al, p. 285
  \item \textsuperscript{60} Pereira, p. 2
\end{itemize}
specific result. As a result of this, the market based approach lack specific targets of redistribution.\textsuperscript{61}

Another problem, associated with the market based approach, is that landowners often respond to economic threat, such as taxes, before the laws could be enforced. By switching production, large landowners may avoid taxes on one type of production by exchanging it for another. The effect will be weakened by this avoidance, when landowners take advantage of the situation before the implementation of the law. Therefore, the taxes need to be well implemented to avoid a negative response. As an example, if a tax is placed on agricultural land, the landowners could change the production to livestock to avoid the tax. Livestock production has lower productivity and is therefore harmful for the total production.\textsuperscript{62} This type of production employs less labour and uses more capital, which is a less productive use of resources as discussed in section 2.1. The usage of less labour results in higher unemployment in rural areas, this increase the large landowners dominant position on the labour market \textsuperscript{63} In addition, it may also result in over cultivation of unproductive soil and a scenario of devastating ecological consequences, as seen in section 2.2.\textsuperscript{64}

### 3.2 Advantages

We will now discuss the advantages associated with the two approaches. One important aspect of the coercive land reform is the transformation of the economic and political power relationship.\textsuperscript{65} The main goal is to solve defective agrarian structures and the strength of the coercive land reform is that it preserves the operational structure of farms.

In addition, the coercive approach is swift and gives a direct redistribution of land and as a result the rural poor obtain a direct source of income.\textsuperscript{66}

The bias against small landowners takes many forms, for example; credit policies in favour of large landowners, regional development plans that favour fertile and more accessible regions owned by the large landowners.\textsuperscript{67} The more successful these biases are removed, the less subsidies and assistance is needed for the rural poor.\textsuperscript{68} Since the coercive approach directly alters the power structure in the society, it will be effective in solving these biases and could provide a positive effect in the long run. In addition, it could affect the income in urban areas and the coercive land reform

\textsuperscript{61} Meier et al, p. 413  
\textsuperscript{62} Deininger, p. 653  
\textsuperscript{63} Lundahl, pp. 524-525  
\textsuperscript{64} Heltberg, p. 1807  
\textsuperscript{65} Pereira, pp. 7-8  
\textsuperscript{66} Binswanger et al, pp. 2730-2732  
\textsuperscript{67} Griffin et al, p. 284  
\textsuperscript{68} Binswanger et al, p. 2732
could therefore reduce poverty in the whole of society.\textsuperscript{69} There will be lower incentives for poor people in rural areas to migrate to more densely populated cities and towns. This, in turn, causes an increase in the minimum wage in the urban areas. However, this is an effect of all land reforms but the coercive approach has an advantage since it has a direct impact on the overall poverty level in the society.

The strength of the marked based approach is that is voluntary in the sense of providing incentives for land sales, instead of coercive redistribution.\textsuperscript{70} As a result, the secure property rights are protected and there are less losses in the long run investments due to insecurity.\textsuperscript{71}

When the redistribution is led by the government, the land may not reach to the farmers best suited for cultivating it. By the use of market forces the most efficient farmers and the ones most suited for agriculture will be those benefiting from the land reform. The farmers best suited for agriculture will be able to buy land to gain revenue or support their living and those not well suited for agriculture will be forced to turn to other businesses. Another result of the market forces are that the market will strive to reach the most effective farm size since this gives the highest profit, at least if there are markets for land, labour and credit without market imperfections.\textsuperscript{72}

By invoking laws or taxes that threaten the position of the large landowners, they can sometimes respond by selling some of their land. When they sell their land, they often decide to sell it in smaller pieces, even though this results in larger transaction cost. The reason is that landowners could obtain a higher price if they divide the land and sell it in smaller pieces. Another reason for the action is to avoid selling land to major rivals.\textsuperscript{73} This, in turn, opens land sales markets for the rural poor. These markets could be expected to have a great impact on the ability of rural poor to gain land. It has been stated earlier, that small farms have a higher efficiency than large farms in developing countries. This indicates that perfect competition land sales market would reallocate the land towards smaller farms.

There are difficulties in undertaking laws that are costly for the large landlords of the agricultural sector and when the rural rich bear the entire cost of a land reform they will most certainly oppose the implementation. The dissatisfaction from the rural rich could, to some extent, be avoided if the cost was distributed equal over the entire population. This is because the economic costs are much smaller per capita. A solution to this problem could be to make the reform so that the rural and urban rich of the same taxable income bear the same cost.\textsuperscript{74}

\textsuperscript{69} Griffin et al, p. 285-292
\textsuperscript{70} Meier et al, p. 413
\textsuperscript{71} de Janvry et al, Access to..., pp. 1-2
\textsuperscript{72} Meier et al, p. 414
\textsuperscript{73} Lipton, p. 651
\textsuperscript{74} ibid, p. 654
4. Comparative Analysis and Summary

We will in this section analyse and compare the two approaches, coercive and market based. In order to facilitate the analysis a definition of our central criterions how to achieve a successful land reform is given below. To elucidate the expression *successful*, we want to be unambiguous that our target group is the rural poor and *successful* in this context implies that the land reform should be beneficial for this group.

There is a great difference between success in the short run, and in the long run. There are also a lot of different problems that need to be considered. For example, in times of distress a government could perform a land reform with only a short-sighted goal in subduing people’s dissatisfaction. Because of this, the land reform must be carried out not only to strengthen a government’s political position but also to increase efficiency and to reduce poverty in the long run.

The criterions, for success, are partly chosen because of their repeated appearance in the literature, and partly because of their relevance to our definition of successful:

- More equal distribution of land ownership - the goal to reach a more equal distribution of the land i.e. a lower value of the Gini coefficient on land ownership.

- Sustainability - the concept of maintaining a successful reform in the long run.

In order to facilitate the analysis, Table 2 illustrates an overview of the advantages and disadvantages of the two approaches to land reform according to the criterions of a successful land reform.
Table 2 - An overview of our analysis

<table>
<thead>
<tr>
<th></th>
<th><strong>Coercive Land Reform</strong></th>
<th><strong>Market Based Land Reform</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Distribution of Land ownership</strong></td>
<td>Advantages</td>
<td>Disadvantages</td>
</tr>
<tr>
<td></td>
<td>Fast implementation and straightforward Direct distribution of land</td>
<td>Resistance from groups with power, Rural rich bears the entire costs, compensation</td>
</tr>
<tr>
<td><strong>Sustainability</strong></td>
<td>Dissolving social structures</td>
<td>Exclusively controlled by the government, lower incentives for investment,</td>
</tr>
</tbody>
</table>

4.1 The Role of the Government and Secure Property Rights

Governments are the main decision maker concerning land reforms. It is possible for the government to acts in both directions; it could encourage and prevent politics regarding redistribution of land. Whether the government encourages or not often depends on several internal and external factors. The internal factors include rural poor, landowners and political parties and the external factors are considered to be other governments and non-governmental-organizations. An agreement between the different actors is an important aspect, which must be taken into account for developing policies to be successful.\(^{75}\)

Historically, governments have supported status quo. The explanation for this is that they are often supported, or consists, of the most privileged in the society. Therefore, governments promote a status quo, because a change would intervene with the interests of the privileged. In order to oppose the established power structures in agriculture, the government needs to be strong enough, otherwise it will not be able to perform a land reform. As stated above it is often very hard to avoid opposition to land reforms since the rural rich usually have a great influence over the government.\(^{76}\) Mexico is an example where the government were able to implement the land reform due to its

---

\(^{75}\) Barraclough, pp. 33-48

\(^{76}\) de Janvry, p. 389
Rural Land Reform: A Successful Cause of Action | Alve Högman and Pär Sällström

political stability in the 1950s and 1960s.\(^7\)

In addition to the government’s role there are also problems associated with security in property rights. It could be argued that in order to maintain a functional economy and well-functioning social structures, there is an essential need to maintain secure property rights. These rights are to be fundamental, on which the main functions of a capitalistic society rest. Furthermore, disrespecting these rights is seen as an attack against the most central part of the society, the family. Surely, there is a lot to benefit from secure property rights, as will be stated below. However, the potential of these benefits could be questioned when most of the people lack property to support themselves and their families.\(^7\)

Lack of secure property rights provides fewer incentives for landowners to invest and start new businesses. In addition, lack of secure property rights attracts less foreign capital to the country since foreign investors also experience uncertainty. Furthermore, privileged people with connections to those in control will bribe to gain benefits. The result is a situation of increasing corruption in the country. In most cases only a threat or fear of restricting property rights may indulge these negative effects\(^7\) and affect investments on land in the long run. These long run investments are argued by some to be necessary if land should be used as a tool for output and poverty reduction. In order to invest in the long run, landowners must believe for certain that the property rights will be maintained for a long period of time.\(^8\)

It should be mentioned, that property rights are never completely secure. Landowners around the world have throughout history lost some or all of their belongings, either by law or by force.\(^8\) Even in counties that is said to have secure property rights, the government could by law change the rules concerning how a landowner is using his land. The government could also, by compensating the owner, expropriate land for public use if this benefits the society. For example in United States the government are able to expropriate land, if it is considered to benefit the society and if the expropriation is compensated with full market value.\(^8\)

4.2 The Potential for Success

The major difference between the two approaches, regarding distribution of land ownership, is in which way it is decided to be implemented. In the coercive land reform, the redistribution of land is believed to be necessary even though it is against the landowners will. The market based approach

\(^7\) ibid, p. 386
\(^8\) Dorner, p. 9
\(^9\) Mankiw, pp. 551-552
\(^8\) de Janvry et al, Access to..., pp. 1-2
\(^8\) Boyce et al, p. 1
\(^8\) Dorner, p. 9
of land reform, strives to implement structures that provide incentives for landowners to voluntarily sell part of their land to the rural poor, i.e. redistribute land without force. The main criticism from the market based approach is the use of a coercive method, when expropriating land. This is seen as undemocratic because this undermines the basic structures within the society. The coercive approach on the other hand stresses the undemocratic relationship in the unequal distribution of land. The argument is the same but used in two different directions. Depending on the situation both could be right, if the situation is severe enough it could be justified to intervene with the sovereignty of the rural rich.

As discussed in section 3.2 and 3.3, there are benefits and problems with both methods of redistributing land ownership. Both sides meet the same problems associated with relatively high concentration of land ownership. The main discussion here is whether it is important to force the distribution of land or if this could be solved with market incentives. Furthermore, as is seen throughout the paper, the state of market failures in developing countries has a negative effect on the output of the total production. Therefore, it is important for any government to remove these failures. This is an important issue for both of the two approaches.

The coercive approach states that in order to get a successful land reform, distribution is needed to be swift in order to be effective. By only using market incentives, a lot of the positive benefits of the land reform will be lost. Social structures are argued to work against the reform, and as a result, market incentives will mainly benefit the large landowners. Proponents of the coercive approach also argue that the market based approach is too slow, because it only has an indirect effect in redistribution of land ownership.

The marked based approach states that by using force, the coercive approach looses the benefits that market incentives given by the government, could correct market failure without any coercive force and therefore result in minimal losses in security of property rights. Proposers of a coercive approach respond by stating that the rural rich will be able to avoid the negative effects, in cases where taxes are used. This avoidance is believed to, in some cases, be negative for the rural poor.

In addition, problems associated with redistributing land ownership are that those losing from the implementation will resist the change. However, these problems take quite different form in the two approaches. In the coercive approach, large landowners oppose the redistribution due to their large loss in land possession. The marked based approach encounters another kind of dissatisfaction from the rural rich. The rural rich oppose the redistribution due to the fact that they have to pay the entire cost while the urban rich are left with only the benefits. This could be even though the two different groups have the same taxable income. Furthermore, if one of the main criterions is equality, it is also desirable that the cost of implementing a land reform is divided
equally between the rural and urban population. The marked based approach could address this problem by levying an equal tax on the urban and rural wealth. The cost per capita would be lower and the funds raised could be used to support the rural population in removing market imperfections, the reform could have a larger impact in the long run. There can be argued that the disagreement would be larger since the urban rich also would oppose the tax, however taxes are seen as a necessary tool in all societies as long as they are equally distributed over population with the same taxable income.

The largest part of the income for the rural poor is generated from cultivation of their own land, or from working for larger landowners. This means, to increase the income for the rural poor, there is a need to either give them more land to cultivate or to give them better opportunities at the labour market. The two approaches deal with this differently. The coercive approach proposes a direct distribution of land as seen above. This in turn gives the rural poor a larger source of income. The market based approach look for market incentive as a solution to the income distribution. It promotes changes that either give the rural poor better opportunities on the labour market or enhance opportunities for the rural poor to access land markets.

The coercive approach has another advantage; it reduces economic and political power structures that promote an unequal distribution of wealth. This advantage is direct though in order to be able to maintain the effect, bias against the rural poor is important to remove. A problem associated with the coercive approach is how to raise sufficient funds to support the beneficiaries after the implementation of the land reform. For the market based approach, the effect is reversed. The power structures are hard to change, at least in the short run. On the other hand, by imposing taxes, funds could be raised in order to assist the rural poor after the reform. With this assistance, the bias could be reduced against the rural poor and the land reform would gain a greater effect. Though, this is often an outdrawn process which could be negative since redistribution of wealth often is needed to be quick.

In addition, the importance of sustainability consists of functional structures as a complement to the land reform. Even if the redistribution is successful and land is transferred to the rural poor, it is of no use if they lack support in the long run. This perspective has a longer time frame and is directed to the problem of maintaining the functional markets. The distribution alone will not solve the long run problems. This is an important issue for both approaches in order to succeed. If most or all of the biases in urban sectors, or the bias from large landowners towards the small landowner are neglected, the small landowners will have less possibility to compete with the large landowners and the urban population. The small landowners may be forced to sell their recently gained land. A situation would be obtained, where the positive results of the land reform, like increased production and more equity, will be reduced to zero or worse. The negative effects
however, like insecure property rights and less incentive for long run investments, will still be present.

The coercive land reform has problem in sustainability, since expropriation of land results in less secure property rights. As a result of this, there is less incentive for long run investments as seen in the section above. Also stated, is the fact that the secure property rights could be questioned, when a majority of the population lack property. When implementing a coercive land reform, the gain in equity and production is seen as a greater advantage than the loss implied by less secure property rights. However, to minimize the cost, the reform should be carried swift and a confidence in the government it needed. If the government manage to be consistent with the reform, i.e. performing is as planed and as a onetime action, the uncertainty in property right could be minimized. As a result the coercive land reform could be favourable in turns of both equity and production.

The coercive approach is exclusively controlled by the government and this is another problem associated with the approach. This is especially a problem when the government is influenced or corrupted by the rural rich. Though, the exclusively control by the government could also be seen as an advantage if the government is neutral and work in favour of the rural poor.

A problem of market based land reform is when striving to obtain an optimal farm size, a conflict between secure property rights and efficiency occurs. On one hand, an economy has to strive to gain the most efficient outcome by reducing market failures. On the other hand, the government could reduce these failures with a coercive method. By expropriate land, the market imperfections could be removed since these imperfections come with unequal land distribution. However, on the other hand, there are strong beliefs that secure property rights are of great importance for a functional and efficient society. These beliefs create a barrier to redistribute, even though a more equal distribution would give a higher efficiency.

Even in cases when market based land approach manages to create land sales markets, by providing the rural poor with incentives and funds, the land sales markets will not be effective, due to imperfections, such as monopsony powers and ineffective credit markets. Land is often overpriced since it has other values than being a source of production. Large amount of land is, in addition to production, also used as collateral in obtaining capital, status and market powers. Furthermore, the rural poor usually have to pay a higher price for obtaining capital. Under these conditions the poor experience difficulties in buying land. An indirect way of solving the problem of land concentration and income inequality could be solving these market failures. One way is to levy a tax upon large holdings of land and the result would be higher incentives, for the seller, to divide the property for sale. Larger holdings would be exposed to capitalization and be worth less on the land sale market. The large landowner would gain higher revenue by selling the land in
pieces since each small piece is unaffected by the tax and therefore has a higher present value. In other words there would be more costs associated with large holdings of land compared to smaller and the price for the first would be lower per area unit. The tax would therefore, result in more effective land sales markets for the rural poor and in addition, a more equal concentration of land ownership.

4.3 Concluding Summary
We have seen both advantages and disadvantages in this paper and our conclusion is that neither of the approaches to land reform could successfully fulfil our criterions in a sufficient way. In order to reach our criterions there is a need for a combination of the strengths in both approaches. The swiftness and direct redistribution of land obtained by the coercive approach could be combined with the implementation of taxes taken from the market based approach. Equal taxes over the entire population could result in less resistance to the reform, and the funds raised could be used to compensate the rural landowners for the loss of land. In the long run, the funds could be used to remove market imperfections in order to maintain a sustainable land reform.
References


Barraclough, Solon L., (1999), *Land Reform in Developing Countries: The Role of the State and Other Actors*, UNRISD Discussion Paper, No. 101, pp. 1-51


Deininger, K., (1999), *Making Negotiated Land Reform Work: Initial Experience from Colombia, Brazil and South Africa*, World Development, Vol. 27 No. 4, pp. 651-672


Lipton, M., (1993), Land Reform as Commenced Business: The Evidence Against Stopping, World Development, Vol. 21 No. 4, pp. 641-657


Pereira, J., (2005), From Panacea to Crisis: Grounds, Objectives and Results of the World Bank's Market-Assisted Land Reform in South Africa, Colombia, Guatemala and Brazil, Rio de Janeiro, Land Action Research Network

