

Merle and Michael Lipton

1 THE CASE AGAINST AGRICULTURAL REFORM

There is disagreement about the need for agricultural reform in South Africa. Some argue that agriculture (already down to 6-8 per cent of GDP in South Africa) is, inevitably, a declining sector in developing economies and that the future lies with industrialization and urbanization. They argue further that Black farming - destroyed by apartheid - is now in a hopeless state; that Blacks, understandably, don't want to farm; that, indeed, the shift of Blacks out of agriculture was delayed by apartheid, which tied people down in low-wage work on White farms and in subsistence farming in the Bantustans. Otherwise, even fewer people would now work in agriculture.

It is also argued that South Africa has a poor agricultural endowment and that its comparative advantage does not lie in expanding agriculture but in producing other goods and services and buying food cheaply on international (including regional) markets. Moreover, attempts at agricultural reform are likely to cause serious problems and upheavals - undermining confidence and even disrupting production on the White farms that currently provide for practically all of South Africa's domestic consumption (except in drought years), as well as contributing to exports. Attempts at serious reform, particularly land redistribution, could also stir up a political backlash among White farmers.

Finally, it is maintained, the balance of political power militates against agricultural reform. The potential gainers are the rural poor, who are unorganized and have little leverage. Post-apartheid governments will be subjected to powerful pressures to deliver to urban constituencies and that is where their priorities will lie.

On both the Right and the Left, many people believe that the future lies with industrialization, and regard agriculture as an unpromising area for serious redistribution towards Blacks, and/or are hostile to the small-scale, labour-intensive agriculture that a number of us advocate and which they

regard as an inferior 'hewers of wood' option for Blacks (Lipton 1976; Lipton and Lipton 1993; Binswanger and Dieninger 1993).

2 THE CASE FOR AGRICULTURAL REFORM

However, there are compelling reasons for devoting attention and resources to agricultural reform. First is the need for decent livelihoods, for the large number of people still in the rural sector. In 1985, they accounted for 37 per cent of the total population, and 47 per cent of Africans. The absolute number of rural dwellers is projected to rise from 12.5m to 16m by the year 2010 - an increase of 30 per cent. About 90 per cent of these rural dwellers are Blacks. Information on incomes, nutrition and access to education and health services suggests they are the poorest people in South Africa.

The level of unemployment is alarmingly high, with approximately 40 per cent of the economically active outside the formal sector. The projections for job creation in urban areas, and the high cost per job, suggest that, for the foreseeable future, it will be difficult to absorb present job seekers, and the rising flow of urban entrants to the job market - let alone job seekers from rural areas. It is therefore essential to exploit the potential for rural development, based on a reformed, labour-intensive agriculture, to generate jobs at lower cost (discussed below).

The second compelling reason for agricultural reform is that it is likely to generate efficiency gains. The combination of racial and class measures gave South Africa one of the most heavily regulated agricultures in the world outside the communist countries. An extensive range of controls restricted African land ownership, and even renting, to under 14 per cent of South Africa's land and severely restricted the mobility of labour. Controls also applied to the subdivision of land, the marketing and pricing of up to 80 per cent of agricultural production, the supply of agricultural credit and inputs (channelled largely through state credit agencies and the cooperatives) and to agricultural exports and imports. These extensive interventions (and macro policies which, until the mid-1980s, provided tax relief on

capital investment, subsidies and low interest rates) led to distortions and inefficiencies in the structure of South Africa agriculture. In particular, they resulted in the emergence of South Africa's dualistic structure of 'two agricultures': the large-scale, capital-intensive, heavily subsidized and protected White farms, which provided the bulk of marketed production, and the small-scale Black subsistence sector. Black farming was heavily discriminated against in relation to land rights and in pricing, marketing, extension, research and infrastructure. No wonder it stagnated.

The high costs of this distorted system showed up in the opportunities foregone by potential Black farmers and in the prices (frequently above world levels) which consumers had to pay for basic foods, such as grains, meat and dairy products. The system also resulted in the misallocation of factors of production, with government policies encouraging lavish use of scarce factors - not just capital and land, but soil and water - and underuse of the increasing surplus of labour. This overly capital-intensive path applied not only in agricultural production, but also in related activities such as storage, processing and distribution. These activities can often be operated on very labour-intensive lines; yet they were heavily regulated, often subsidized (milling, storage) and protected from competition and undercutting from small-scale operators.

As is well-known, small-scale farming is more labour-intensive than large-scale farming. It is also, when labour is plentiful and capital and land scarce, generally more efficient in its use of scarce factors. It is therefore likely that a larger smallholder sector would have led both to higher output and greater employment. Thus, far from apartheid having kept more people in agriculture than expected at South Africa's stage of economic development, it probably resulted in lower employment than might otherwise have been the case. The belief that apartheid resulted in higher employment in agriculture is based on a confusion with apartheid's aims of keeping down wages by tying workers to the farms and of keeping Blacks out of the towns and dumping them in the Bantustans. But the overall effect of apartheid was probably to reduce numbers in agriculture more rapidly than if there had been more smallholder farming and a more labour-intensive pattern on White

farms, where mechanization was deliberately encouraged by the government in order to keep down the number of Blacks in 'White' areas. Thus, compared to countries with similar GDP per head, such as Argentina, Brazil, Uruguay and Bulgaria, South Africa has experienced premature 'deagriculturation' both in terms of the contribution of agriculture to GDP (which declined from 20 per cent in 1950 to about 6 per cent now)¹, and in terms of the much lower levels of employment than might be expected from South Africa's per capita income and extreme inequality.

There is thus room for efficiency gains if South Africa moves to a structure more congruent with its relative factor endowments. This should result in a lower-cost, more competitive agriculture (though some hitherto protected products, such as wheat, might become uncompetitive) and to the generation of more livelihoods. This should also have a spillover effect in stimulating output and employment in non-agricultural activities in rural areas, such as servicing, construction, processing and trading etc, in which small-scale activities can be very competitive and labour-intensive. However, there will be costs involved in providing compensation for White-owned land and support costs for Black farmers.

Thirdly, in addition to these economic and demographic considerations, there are some powerful social and political reasons which may compel support for agricultural reform, in particular, the disruption and upheaval that are likely to result from the failure to create rural livelihoods.

The extent of influx from rural areas into urban areas has often been exaggerated. In many developing countries, contrary to popular myth, urban growth has usually been modest and gradual and has come from natural population increase and from redefinition of urban boundaries to take in people formerly counted as rural and now in the peri-urban areas of expanding cities. However, there are exceptions to this pattern - countries such as Mexico and Brazil - where there has indeed been explosive migration-based urban growth.

South Africa shares with these countries the characteristic of having not only high urban-rural differentials, widespread throughout the developing world,

¹ Though the unreliable agricultural statistics underestimate output from smallholders, especially Black smallholders.

but also high inequality **within** rural areas. This high intra-rural inequality appears to be correlated with higher rates of migration (Connell *et al.* 1976). In addition, South Africa has a backlog of rural-to-urban migration because of influx control and other restrictions on Black mobility and housing in urban areas. Thus South Africa could be a candidate for the explosive rural-to-urban migration that has been something of myth in many developing countries.

Indeed, spurred by the recurrent droughts of the 1980s, some of this explosive migration has already taken place. And its effects are already evident in overcrowded peri-urban and urban slums, with rising violence, crime and disorder that are making life in these areas miserable and insecure, and that are spilling over into longer-settled, better-off Black townships and even into the privileged White suburbs. These pressures are making it more difficult for both Black and White urbanites and politicians to ignore the needs of rural areas; and they could provide pressure to direct at least some resources into rural areas in order to stem the explosive and destabilizing problems arising from the unmanageable urban influx (not to mention the growing unrest and violence within some rural areas as well).

3 SOME REQUIREMENTS FOR AGRICULTURAL REFORM

There has been a wide-ranging debate about agricultural reform; the discussion here will focus briefly on the following issues:

- the feasibility of creating a viable small-scale sector among the 'destroyed' Black peasantry.
- the redistribution of land;
- the regulatory framework for agricultural pricing and marketing.

3.1 The feasibility of creating a viable small-scale sector

Pessimists about the possibility of reviving the interest and skills of South Africa's 'destroyed' Black peasantry point to the dismal state of Black farming. As mentioned above (and discussed in detail elsewhere), this view confuses cause with effect: discriminatory measures removed both the opportunities and incentives for Blacks to farm. The recent limited easing of restrictions has already stimulated increased production from Black farmers, particularly in market gardening on the outskirts of many cities and in sugar and tropical fruits in Natal and the eastern Transvaal (Lipton and Lipton 1993).

The part-time farming that is prevalent among South African Blacks is viewed as another indication that they are not serious about farming and that they do this only to supplement urban incomes. The part-time nature of most farming in the 'homelands' (to which Black farmers have been limited) results partly from their hitherto restricted opportunities for profitable farming. But these dismissive views about Black farming also reflect views about the nature of agricultural work which are increasingly at odds with what the findings of research throughout the developing (and often developed) world reveal about this highly seasonal activity.

Adam Smith viewed specialization as practically synonymous with industrialization and development. From this flowed his enthusiasm for free trade, which encourages specialization by increasing the size of the market in which specialists can exchange their products. Yet Smith explicitly recognized that, for rural people, the seasonality of agricultural production limits the scope for specialization. In summer rainfall areas, maize farmers or farmworkers have to be sufficiently generalist to plough in September, plant in October, weed in November, and harvest in May. They must also seek income in the slack season, through rural nonfarm activity, or by working on farms with different rainfall patterns, or in nearby towns.

Many rural people are not just farmers or peasants, but what Lévi-Strauss (1962) termed *bricoleurs*: people who cobble together a livelihood from many sources. There is nothing unusual or backward about part-time farming, trading, carpentry, or bush tanning. Apart from seasonality, rural people diversify to reduce risk, and there are numerous occupations in a household - or even for an individual - especially in rural Africa. In rural Asia, irrigation reduces risk and permits year-round farming in many areas. Improved infrastructure, including irrigation, will facilitate more intensive farming in South Africa too. But there is nothing inherently wrong with part-time farming by households, or even by individuals. Indeed, cash, inputs, and knowledge acquired by poor people away from their own farms often enable them to manage their farms more effectively. In addition, as in Ecuador, non-farm income, far from harming agriculture, can enable smallholders to develop their land, and often to acquire more land (Forster 1989). Not every farmer needs or wants to be full-time.

Thus, underspecialized rural activity and part-time farming are neither unique to Blacks in South Africa, nor grounds for despair about the possibility of labour-absorptive rural development. The South African state needs to reorient towards smallholders its (often excellent) support services and infrastructure, including irrigation where suitable, as well as improved technology and training. These measures will help to encourage greater skills and specialization among smallholders and farm workers - where this is appropriate and profitable.

3.2 Redistribution of land rights

Increased access by Blacks to farmland is an essential requirement for reform. The debate on land rights has focused heavily on the issue of restitution to communities dispossessed of their land under apartheid. A persuasive case has been made for a limited and clearly-defined programme of restitution. But the crucial question for serious reform is surely that of land rights related to the production possibilities for poor families. Such redistribution does not only mean extending ownership - an essential but difficult and expensive process. Land rights can also, and more easily, be extended by operational arrangements such as tenancy, sharecropping and outgrower schemes. Until recently, many of these contractual arrangements were regarded with disfavour. But they are now being viewed more positively - as useful mechanisms for poor farmers without capital to acquire experience of farming on their own account, to accumulate savings and - for those with ambition and entrepreneurial skills - to work their way up the agricultural ladder.

These contractual arrangements barely exist for Blacks in South Africa, as they were forbidden under apartheid. There are strong reasons for encouraging them now, particularly as South Africa lacks at least two of the characteristics of some of the most successful agrarian reforms, such as those in Japan, Taiwan and South Korea. First, in these countries there was a foreign power to impose and/or finance land reform. And, second, there existed a large class of tenants or share-croppers already farming the land so that the change of ownership did not involve great changes in the farming operation. These favourable conditions do not exist in South Africa, and mechanisms such as tenancy could help to minimize the disruption,

and ease entry to the rather different mode of farm operations that reform is likely to require. However, encouragement of these contractual arrangements should not preclude, or serve as a substitute for, an active programme to extend Black land ownership.

Since World War II, while there have been a number of successful land reforms; there have also been failures, many associated with heavy-handed state intervention. Given the current balance of power, and the climate of opinion, there is not a great risk of ambitious experiments in social engineering involving huge state-led resettlement schemes. A greater danger in South Africa is too little transfer of land rights to Blacks. The often adverse experience with state Land Authorities suggests that maximum use should be made of market mechanisms - enabling people to buy land themselves. But the process should be reinforced by measures to keep down land prices and the size of holdings. These measures might include a progressive land tax and land ceilings legislation.

While the beneficiaries of a land acquisition programme should, in time, pay back much of the costs of their subsidized land purchase loans, the overall costs of the programme should be borne mainly by the state (i.e. by tax-payers as a whole) and not by individual White farmers who did what the state's bad laws permitted. Also, supporting services and infrastructure should, where appropriate, be provided for newly established farmers. This means that reform will require investment in agriculture, not just redistribution within the sector. However, the livelihoods generated by this investment are likely to cost less than for urban jobs. Research by van Zyl (1991) and others has confirmed for South Africa the world-wide pattern of less capital requirement per job in agriculture, as well as strong employment multipliers and linkages with other sectors. Nevertheless, serious land and agricultural reform will not be a cheap and easy option.

There is a danger that, as in many other countries, loans and subsidies intended for smallholders will be seized by 'yeoman politicians' rather than by poor family farmers whose labour-intensive mode of operation can generate the livelihoods and efficiency gains of small-scale farming. The likelihood that 'yeoman politicians' will emerge in

South Africa has been strengthened by recent actions of the de Klerk government in handing over to its (frequently corrupt and unpopular) allies in the Bantustans some of the Trust and State land that provided one of the relatively easy, low-cost opportunities of distributing land to Blacks. Nor has the government adhered to its long-standing commitment to stop shoring up inefficient marginal White farmers (estimated to comprise a third of the approximately 65,000 White farmers). Instead, a recent study by Rimmer (1993) shows that most of the almost R4 bn supposedly set aside for drought relief is being used to bail out heavily indebted White farmers, some of whom might otherwise have left farming. Emerging Black farmers received little benefit from the drought relief programme.

3.3 Reform of agricultural pricing and marketing

Experience, from Romania to Chile, confirms that, to benefit from land reform, the rural poor require an end to pricing and marketing policies skewed against them. The marketing system in South Africa emerged in response to the pressures of the (once politically important) White rural constituency. The more than two dozen statutory and (usually) monopsonistic Marketing Boards were dominated by White producers. Together with agricultural protection, the Boards funnelled tax-payers' and consumers' money towards the large-scale White farmers. Black farmers were excluded from the marketing and other facilities provided by the Boards, the extensive network of Cooperatives and the other parastatals servicing White agriculture. There are parallels elsewhere in Africa of (non-extractive) marketing boards which confined their purchases to crops grown on larger farms (maize but not millet or sorghum). But these cases are less extreme, and certainly less explicit, than the discrimination by South Africa parastatals against Black smallholders.

There was also, in South Africa, a bias in favour of large-scale operators in agricultural processing and distribution. The Marketing Boards established close working relations with a few large processors, and the resulting oligopolistic structures extended into the wholesale, transport, and even retail sectors, blocking opportunities for small-scale millers, butchers, transporters and shopkeepers (Duncan 1992; Lip-ton 1993; Sunnyside Group 1991).

In addition to having adverse distributional consequences, this highly-regulated and biased system led to efficiency losses, with the prices of many basic foods, such as maize, wheat, meat and dairy products often above import parity prices. Recently there has been some deregulation of the Boards' powers, as well as a reduction in the protection, subsidies and tax breaks for White farmers. This shift towards more market-oriented policies, including real interest rates and a reduction in the tax breaks for mechanization has already led to a reduction in capital-intensity and to improvements in total factor productivity on the White farms (Thirtle *et al.* 1993). These trends are beginning to open up opportunities not only for Black farmers, but also for small-scale processors and distributors.

However, sections of the agricultural establishment are attempting to ward off genuine reform with preemptive restructuring, such as the attempted East European-style '*nomenklatura*' privatization, which would have enabled the mafias that run the meat and dairy boards to convert their public monopolies into private monopolies. These attempts underline the fears of large-scale producers and processors that they could be undercut by smaller-scale, more labour-intensive operators.

African experience of monopsonistic parastatals is generally unfavourable (Bates 1981; Harvey 1988). Marketing boards can help farmers if they improve the price level, stability, or access to markets. But where this has been achieved in Africa, the means - pan-territorial pricing that encourages production of bulky crops far from their markets; stabilization funds that are vulnerable to errors of price forecasting - have proven costly. These costs are borne by domestic food buyers, by tax-payers, or in the case of export crops by the producers themselves, in terms of lost competitiveness and market share.

The marketing and pricing policies of post-apartheid governments are likely to be more heavily influenced than hitherto by the interests of South Africa's urban consumers. Indeed, there are already pressures from trade unions and other interest groups to restore or extend subsidies and/or price controls to keep down food prices. Post-apartheid governments will need to find ways of helping small-scale producers without perpetuating South Africa's elaborate marketing system, which is likely to prove even less sustainable if extended to numerous small-scale farmers than it has been in serving a few large farmers.

4 THE NEED FOR STATE ACTION TO COMPLEMENT MARKET REFORM

The current role of sections of the White agricultural establishment (and its allies in the Bantustans) in blocking, or attempting to divert, reform - and the abysmal historical role of the state throughout Africa (including South Africa) in mismanaging the agricultural (particularly the smallholder) sector - is cited in support of the case for minimizing the role of the state in agricultural development. But while South Africa's over-regulated agriculture should certainly become market-oriented, there are major tasks that the state must perform in reorienting South Africa's selectively splendid rural infrastructure, research, training and other support services towards Black smallholders.

There are signs that sections of the bureaucracy, especially its younger and the more technical members, would respond to an assertive, reformist leadership. Moreover, while the pressures for rural

reform - especially those likely to provide a political constituency for the ANC - are weak and difficult to mobilize, they have on occasion been strengthened by unexpected White allies, such as disaffected White farmers rebelling against the meat and dairy boards and agribusiness and retailers agitating against the high costs of many products controlled by the official marketing system. Meanwhile, the opponents of reform are far from homogeneous, as can be seen from the infighting within the (White) South Africa Agricultural Union and within the right-wing political parties that are leading opponents of agricultural reform, especially of land redistribution.

Despite the political difficulties, agricultural reform offers a post-apartheid government that pursues this economically rational strategy the prospect of creating for itself a rural constituency, as well as a strategy for reducing the explosive social problems in South Africa's urban areas.

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