

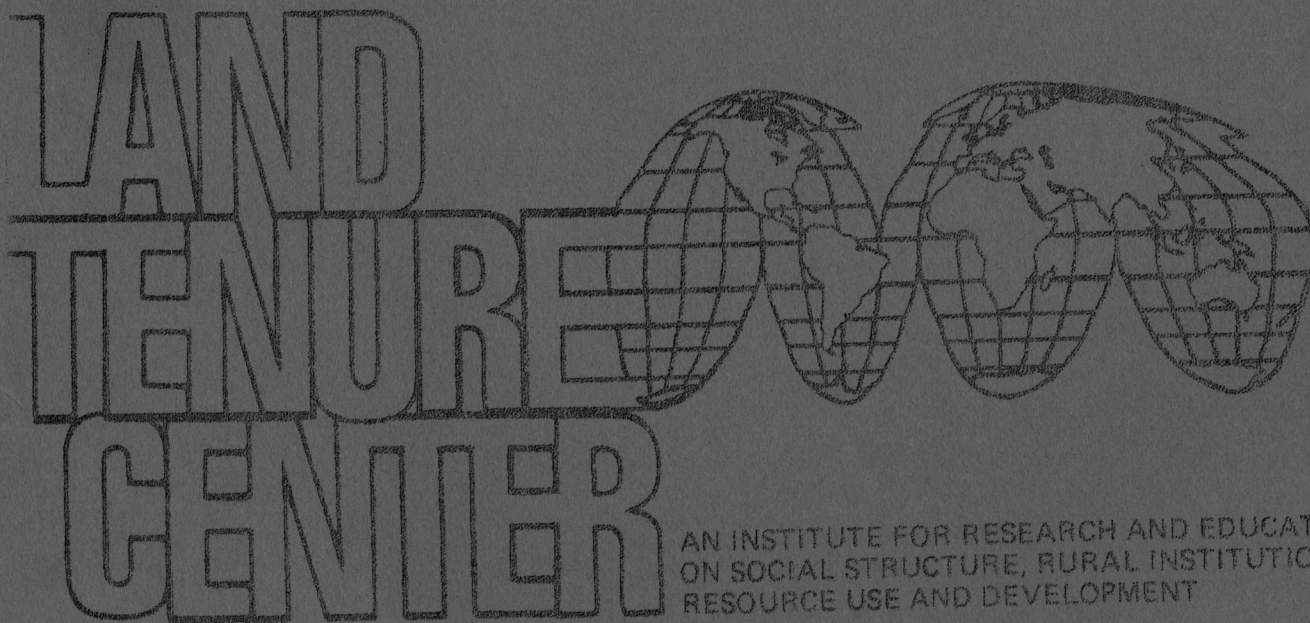
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PHILIPPINE AGRARIAN REFORM
IN THE PERSPECTIVE OF THREE YEARS
OF MARTIAL LAW

by
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PHILIPPINE AGRARIAN REFORM
IN THE PERSPECTIVE OF THREE YEARS OF MARTIAL LAW

by

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All views, interpretations, recommendations, and conclusions are those of the author and not necessarily those of supporting or cooperating agencies.

FOREWORD

This paper is intended primarily to present a perspective on agricultural development and agrarian reform which the author has reached after two years of work as research advisor in the Philippines. It is not intended to summarize the research pertaining to the agrarian reform, and only presents such data as seem necessary to illustrate and substantiate the perspective.

The task of the research advisor has been primarily to work with Filipino researchers, particularly the Agrarian Reform Institute, University of the Philippines-Los Baños, in developing a program of research to support the reform. This program includes both the immediate need for monitoring the effectiveness of implementation and subsequent evaluation of its impacts, and the longer term need to establish the informational basis to guide any future reforms.¹ The task was not designed to be that of building my own program of research, but rather to make a contribution toward strengthening Philippine research institutions. Thus, I conducted only one empirical study of my own, although I was involved in the design of several others to varying degrees.

Other tasks fell to the research advisor because of his particular background which were not strictly part of building the research program, but which have influenced the perspective presented here. These included participation with the interagency team which made an overview study of the agricultural resettlement program,² and work with the Bureau of Lands section for Land Use Planning and Classification.

The perspective on agricultural development and reform presented here touches only briefly on some issues which are developed at greater length in papers which have been written over the past two years. The reader who may be interested in pursuing some of these topics in more detail is referred to the other papers.

1. The task of establishing the research basis for guiding future reforms derives from the criticism of Professor Kenneth Parsons, consultant to AID/Philippines, 1972. He found that agricultural economists did not have adequate information to design the reform in rice and corn lands. His recommendations for a research component in the agrarian reform project contributed to the establishment of the research advisor's position.

2. "Resettlement in the Agrarian Reform Program of the Philippines," April 1974.

INTRODUCTION

The proclamation of martial law by President Marcos on September 22, 1972, has undoubtedly greatly changed the nature of the agrarian reform program in the Philippines. The long, slow history of legislation going back at least to 1953, implementation hindered by lack of funds to carry out the law, lack of enthusiasm for exercising the available administrative discretion¹ for vigorous reform, and the development of a wide variety of tactics by the landlords for delaying reform show clearly that stronger measures were required. The declaration of martial law was followed by a fundamental change in the nature of the agrarian reform program. The law of 1963, Republic Act (R.A.) 3844, began the process of converting share tenants to lessees, altering but not severing the ties between farmer and landlord. Presidential Decree (P.D.) 27, October 21, 1972, began the conversion of both share tenants and lessees to owners of the land they till, resulting in an almost complete severance of the landlord-tenant relationship.

Much was accomplished in the first fourteen months of martial law, at least as measured by the number of farmers who had land-transfer certificates printed in their names.² Sometimes it is said that as much has been accomplished in land reform under martial law as was accomplished from 1953 to 1972. This is an impossible comparison to make, because the social and political impacts of leasehold conversion are inherently different from those of land transfer. Even if we adopt the crude measure of the number of beneficiaries, there are the problems of data and of not knowing how many of the 203,000 farmers who have certificates printed in their names will ultimately become owners of their land. Likewise, there is no good information on how many farmers were actually practicing leaseholders under the 1963 law. Many of the leases are known to have made no change in practice. The farmers were still paying the traditional 50 percent crop share instead of the fixed rental under leasehold, equivalent to about 25 percent of the crop at the time of the lease contract. Indications are that roughly 15 to 25 percent of the rice farmers were practicing leaseholders in 1973.³

1. An example is the failure of the Land Authority to devise a standard leasehold contract for the conversion of share tenants to lessees under Republic Act 3844, the 1963 land reform law, and the failure to require all contracts to be written and registered.

2. It is important to distinguish between certificates printed, which are reported regularly by the Department of Agrarian Reform, and certificates received by the farmers. No adequate data exist on the latter, but estimates made on the basis of talks with DAR field personnel indicate that less than half of the certificates have been received by the farmers, the remainder being withheld for a variety of reasons.

3. Richard Burcroff, unpublished preliminary data from a study of the diffusion of legal norms in agrarian reform. The study was not designed to measure tenancy nationwide, but consisted instead of intensive surveys of 16 barrios in the various rice regions.

The martial law land reform is the culmination of a long history of agrarian problems deeply rooted in the past. A significant evidence of the problem was the pledge of the Malolos independent Philippine government in 1896 to expropriate the lands owned by the Spanish and distribute them to Filipinos. The American regime recognized the problem of concentration of landownership in the expropriation of the "Friar lands" in 1903. The major strength of the Hukbalahap in the 1940s and early 1950s was among the rice farmers of Central Luzon who enjoyed a degree of de facto land reform during World War II when many of the landlords fled to Manila and were unable to collect their full land rents. By 1972, the rate of tenancy in rice and corn lands in the Philippines had reached about 60 percent, a rate much higher quantitatively than the tenancy rate in China in the 1930s which contributed to the communist revolution in 1949.⁴

In setting forth the reasons for the proclamation of martial law, President Marcos gave emphasis to preserving the republic from the communist insurgency. He cited the growth in membership of the insurgent groups, the numerous acts of violence, landing of a shipload of arms in Isabela, and the problems of maintaining law and order in Mindanao. In his speech to the nation, he stated that insurgents were in effective control of 33 municipalities in the province of Isabela. On the positive side, he stated that the nation would have to be reformed, but referred primarily to corruption in government and the operation of criminal syndicates. Land reform began to emerge as the "cornerstone of the New Society" in Presidential Decree No. 2, which reaffirmed leasehold conversion as the agrarian policy as set forth in R.A. 3844 and R.A. 6389, and proclaimed the whole country a land reform area. Prior to this share tenancy was illegal under R.A. 6389 (1971), but the full administrative machinery had not been called on to implement the law. One month after the declaration of martial law Presidential Decree 27 was issued, changing the reform to a transfer of ownership to the farmers.

Although the causes are many for the decline of law and order and the increase in revolutionary activity which culminated in martial law, two data series published by the National Economic and Development Authority lend considerable understanding to the situation. While the economy has been growing at a moderate rate, ranging from 4 to 7 percent annually over the past twenty years, the real wage rate of skilled workers in the Manila area declined 30 percent between 1949 and 1972, and the real wage rate of unskilled workers declined 3.2 percent in the same period. Apparently, a very few people were sharing in the growth of the economy while most actually lost ground. We do not have adequate data to determine whether the farmers fared better than the urban workers. Several factors which contribute to increased farmer income are: (1) the conversion of some share

4. In the late 1930s, 17 percent of the farmers of China were solely tenants and another 29 percent were part tenants and part owners. The remaining were owner-operators (J. L. Buck, quoted by Kang Chao, Agricultural Production in Communist China: 1949-65 [Madison, Wis.: University of Wisconsin Press, 1970]). I know of no information that would enable comparison of tenancy in China and the Philippines.

tenants to leasehold, with a consequent reduction of rent by about 40 percent; (2) increasing availability of institutional credit, reducing the interest charge from the 50-100 percent charged by landlords to 12 percent charged by banks; (3) increase in per-hectare yield resulting from use of new rice varieties and the attendant high technology, beginning about 1967. However, counterbalancing these improvements is the process of fragmentation which has reduced the average size of rice tenancy from 2.1 ha. in 1960 to about 1.6 at present.⁵ The migration of people to Manila which has forced down by competition the real wage of urban workers (excluding the middle-class professional and technicians) probably reflects similarly deteriorating conditions in the rural areas, at least among the most vulnerable class--the landless agricultural workers.

Thus, the land reform of P.D. 27 was begun under the conditions of immediate crisis that led to martial law, but in the background is a long history of legitimate grievances and privation. The agrarian reform laws passed in the post-war period speak of the various facets of the problem and set forth a wide range of objectives. The policy objective "To make the small farmers more independent, self-reliant and responsible citizens, and a source of genuine strength in our democratic society . . ." (Sect. 2(6) Code of Agrarian Reforms, 1972) recognizes that the patron-client relation of landlord and farmer contributes to an imperfect social and electoral system. The strong language of the second policy statement, "To achieve a dignified existence for the small farmers free from pernicious institutional restraints and practices," seems to reflect the vulnerable position of the farmer under tenancy. The third section addresses the economic aspects of the problem: "To create a truly viable social and economic structure in agriculture conducive to greater productivity and higher farm incomes through a cooperative system of production, processing, marketing, distribution, credit and services." The family farm is set forth as the basis of Philippine agriculture.

Although these legislative objectives recognize many aspects of the problem, and the program of P.D. 27 was begun under crisis conditions, the present slowdown in land reform implementation is conducive to a reassessment of the nature of the agrarian situation and a more fundamental statement of the problem.

5. A better indication of the trend in farmer welfare over the period from 1964 to present will be forthcoming upon the completion of the Plaridel study, a resurvey of farmers in Plaridel, Bulacan, after eleven years of agrarian reform activities. This study is now being contracted to the Institute of Philippine Culture, Ateneo University. The International Rice Research Institute also has studies underway which will measure changes in farm income. Source of the 1.6-ha. estimate of average tenancy is DAR data.

THE NATURE OF THE AGRARIAN PROBLEM

The Filipino Rice Farmer:

The problems of the rice farmer are basically that most of them are tenants, giving one-half to one-fourth of their harvest for the right of access to the land resource which is the only economic opportunity realistically available for most. Farms are too small to provide more than a meager subsistence and, in the absence of year-round irrigation, leave the tenant idle about half of his time. It is expensive to provide extension and credit services to such small units and accordingly the level of technology is far below its potential.

The rate of tenancy in rice and corn farms was 47.3 percent of all farms in 1960, as reported by the census. The 1970 census has not yet been released, so it is difficult to estimate the nationwide change in tenancy rate that has taken place over the past 15 years, but in Nueva Ecija the tenancy rate increased from 76.4 percent in 1960 to 90 percent⁶ in 1974. The nationwide average size of rice and corn tenancy has decreased by 25 percent, from 2.08 hectares in 1960 to 1.6 hectares in 1975. Except for the effects of land reform, the final impact of which is quite unclear, almost all of the fragmentation undoubtedly has resulted in new tenancies, increasing the tenancy rate. If we assume that the 13.6 percent increase in tenancy rate which occurred in Nueva Ecija was experienced nationwide, then the 1960 national census datum of 47.3 percent tenancy in rice and corn becomes about 60 percent in 1975. This appears to be an understatement of tenancy nationwide, because Ben Ferguson found over 90 percent tenancy in the 14 provinces he surveyed.⁷ However, his survey was not designed primarily to measure tenancy and we do not know whether his sample is unbiased.

There are no nationwide data on income of farmers, so a description of their level of living can come only from fragmentary evidence. Mangahas, et al.,⁸ present probably the best indication of the income level of rice farmers in their study in Nueva Ecija. Table 1 shows average family income for the crop season 1972-73.

Another indication of the income level of rice farmers comes from a study by José Nicolas of the Agrarian Reform Institute.⁹ This study

6. Report of DAR District Office Annual Report, Nueva Ecija, 1974.

7. Ben R. Ferguson, "The Simultaneous Modernization of a Nation Socially, Economically, Politically and Attitudinally," USAID/Philippines, July 12, 1972.

8. M. Mangahas, et al., "Tenants, Lessees, Owners: Welfare Implications of Tenure Changes," Institute of Philippine Culture, July 1974, Table C 21.

9. José Nicolas, "Some Aspects of Operation Land Transfer: A Comparative Analysis of Small Landowners and OLT Tenant Beneficiaries," Agrarian Reform Institute, UP-LB, July 1975.

Table 1. Average Family Income From Farm and Off-Farm Activities, Nueva Ecija, Crop Season 1972-73, Current Pesos^a

<u>Tenure Type</u>	<u>Income</u>
Owner-operator	₱2,858
Amortizing owner ^b	1,327
Lessee	1,522
Share tenant	1,243

^aThe exchange rate at this time was ₱6.6 = US\$1.00.

^bAmortizers are farmers to whom land was distributed following expropriation of large estates, primarily under R.A. 3844, and are not analogous to amortizers under P.D. 27.

compares farmers who have received land-transfer certificates under P.D. 27 to small landlords. Average family income of land reform beneficiaries, including off-farm income, before receipt of their certificates was ₱4,591, but 57 percent fell under the ₱4,000 level. These data probably reflect largely income levels of 1973. After receipt of land-transfer certificates, average income was ₱6,439, but 69 percent still fell under ₱4,000. The survey was conducted in mid-1974, so the data probably reflect the 1973-74 crop-season level. There are at least two sources of upward bias in these data. Samples were drawn from the DAR 18 pilot land reform municipalities which have been subject to somewhat more intensive credit and extension activity. There is probably also a bias in the selection of the early recipients of land-transfer certificates, perhaps from the more compliant and generous landlords who did not protest allotment of their land.

In an intensive survey of one rice-farming barrio in Laguna, Hayami found the modal family income to be ₱4,000, but for landless workers who comprised 44 percent of the families the modal income was ₱2,000.¹⁰

As stated in the introduction, the average size of a holding in rice and corn tenancy is 1.6 hectares, as indicated by the DAR data. The size of tenant farms is quite uniform. The average tenancy in landownerships larger than 100 hectares is 2.3 hectares. Average size of tenancy ranges from 1.7 to 1.9 hectares in ownerships between 100 hectares and 7 hectares in size. Only in the very small ownerships, less than 7 hectares, is average size of tenancy substantially smaller. In this class, it is only 1.3 hectares. The range in size of tenancies is narrow. DAR reports that there are very few which exceed the limits set by P.D. 27, i.e., 3 hectares for irrigated and 5 hectares for unirrigated land.

10. Y. Hayami, "Socio-Economic Characteristics of a Rice Village in Southern Luzon," International Rice Research Institute, Paper no. 75-10, 1975.

About one-third of the rice land is irrigated. Although some irrigated land produces only one crop because it is not year-round irrigation, about one-third on the rice area gets two crops or more each year. In a few areas, natural rainfall permits two crops.

The level of income of the Filipino rice farmer does not distinguish him from the mass of other poor people. In 1971, half of the nation's families had incomes less than ₱2,500. There is a great unutilized potential for increased production, as is indicated by production of 700 cavans (1 cavan = 2.13 bushels) per hectare obtained by Mr. Lorenzo José in Pampanga and by the IRRI plot yields. Yet one must also ask whether the achievement of the increased yields through intensified credit and extension and investment in new irrigation is likely to outpace the countervailing forces of farm fragmentation due to a growing population. For agriculture as a whole, but less relevant to rice farmers, there is also the continual loss of productive capacity due to erosion.

It is important to distinguish between farmers who have some rights to land and those who are landless agricultural laborers. To date, there is not a satisfactory enumeration of the population of landless farm workers, but the Bureau of Agricultural Economics began a year ago to collect the kind of data that will make possible an accurate estimate. We have much better information on the wage levels of these workers because the Bureau has been regularly reporting wage data at least since 1956. Somewhat the same picture emerges as for workers in the Manila area. Since 1956, the real wage rate of the lowest class of farm laborer (planters) in the rice areas has declined by 30.5 percent (up to 1973). The real wage rate of a plowman and his carabao, however, declined only 10 percent during that period. Economic surpluses of carabaos are obviously much easier to avoid than the surpluses of people who drive down the wage through competition.

It is important that research carefully assess the impact of land reform on this group--one of the most vulnerable economic classes in the Philippines. If ownership of land by the tenant is successful in encouraging him to substitute his own family's labor for that of hired labor, then the plight of the landless agricultural worker may be aggravated.

The Filipino Landlord:

The often heard rhetoric about feudal landlordism in the Philippines seems to imply that ownership of land is highly concentrated among a relatively few persons. It was on this point that the government of the Philippines was most inadequately informed prior to P.D. 27. By comparison to most places in the world, landownership in the Philippines is relatively egalitarian, as it is in most nations of Asia. However, this is little consolation to the tenants, who comprise 60 percent or more of the rice farmers, and who have to give one-half to one-fourth of their harvest for the right to use the land. Tables 3 and 4 show how the estimate of the ownership and tenancy structure changed as a result of the intensive data gathering which occurred with the beginning of land reform implementation in 1972. The 1972 estimate was clearly inaccurate. Probably, there was a major shift by very wealthy owners out of land and into urban investments

Table 2. Real Daily Wage Trends of Agricultural Laborers

	Nominal Wage ^a Common Labor No Meal	Nominal Wage ^a Plowing with Animal, No Meal	Rural Price Index ^b	Real Wage ^c Common Laborer	Real Wage ^c Plow + Animal
1956-57	2.20	3.02	71.4	3.08	4.24
1957-58	2.31	3.35	73.5	3.14	4.57
1958-59	2.00	3.41	72.0	2.78	4.74
1959-60	2.24	3.27	75.7	2.96	4.32
1960-61	2.26	3.28	79.6	2.84	4.12
1961-62	2.26	3.20	81.7	2.77	3.92
1962-63	2.68	3.52	88.9	3.01	3.96
1963-64	2.29	3.43	96.8	2.36	3.54
Weeding 1972-73	3.72	6.62	173.4 ^d	2.14	3.82

^aBureau of Agricultural Economics publication of farm wages.

^bPhilippine Almanac (1973), p. 120, 1965 = 100.

^cBased upon value of the peso in 1965.

^dNEDA 1974 Yearbook (all Philippines).

Table 3. Estimated Ownership-Tenancy Structure, Rice and Corn
(Based upon Pilot Municipalities, October 1972)

Size of Landownership	Percent Tenants	Percent Landlords	Percent Tenanted Area
Over 100 ha.	12.0	0.2	19.1
50-100	4.5	0.4	9.0
24-50	5.9	1.0	10.9
12-24	7.1	2.2	11.9
7-12	5.7	3.4	9.8
Less than 7	<u>64.8</u>	<u>92.8</u>	<u>39.3</u>
	100.0	100.0	100.0

as a result of the threat of impending land reform since 1954, and as a result of the opportunity to sell land to the government at inflated prices, or to sell at normal prices after first mortgaging in amounts in excess of real value. Some of the change in ownership structure is no doubt only fragmentation of the units within the same family.

Table 4. Ownership and Tenancy in Rice and Corn Land, April 1975

Size of Landownership	Tenants	Percent Landowners	Percent	Area	Percent	Average Size Tenancy (Ha.)	
100 ha. and over	93,291	10.2	2,159	0.5	213,329	15.0	2.3
50-100 ha.	44,735	4.9	1,450	0.3	86,007	6.0	1.9
24-50 ha.	<u>57,262</u>	<u>6.2</u>	<u>3,685</u>	<u>0.9</u>	<u>97,994</u>	<u>6.9</u>	1.7
SUB-TOTAL							
> 24 ha.	195,288	21.3	7,294	1.7	397,330	27.9	
7-24 ha.	198,490	21.7	32,256	7.9	361,695	25.4	1.8
SUB-TOTAL							
7 ha. and over	393,778	43.0	39,550	9.6	759,025	53.3	
Less than 7 ha.	521,136	57.0	371,129	90.4	663,973	46.7	1.3
TOTAL	914,914	100.0	410,679	100.0	1,422,998	100.0	1.55

Source: Department of Agrarian Reform.

We do not have a good socioeconomic profile of the owners of rice and corn lands over 24 hectares. However, as a result of the research stimulated by the question of whether land reform should be extended to owners of less than 24 hectares, we do have a good picture of the small landlords.¹¹

The small landlord group contains a wide spread in economic status due both to occupation and to size of landownership. Average annual income for those landlords owning less than 1 hectare is estimated at ₱5,000, only 11 percent of which is from their land. The landlords owning from 12 to 24 hectares average over ₱17,000 in annual income, and 38 percent of this comes from land rents.

By occupation, those classified as "landlord only" have the lowest level of income. These persons were classified as "landlord only" because they did not till any land as farmers, nor did they report any occupation. This should not be interpreted, however, to mean that they are totally dependent upon land rentals. They reported that only 41 percent of their

11. This description of small landlords is derived from a study conducted in 1974 by USAID in support of the Philippine agrarian reform program and data developed by the Agrarian Reform Institute, University of the Philippines-Los Baños.

income came from land. The remainder came from a variety of sources and activities that did not define an occupation. The most affluent of small landlords by occupational category are government officials, with annual income of almost ₱15,000, 15 percent of which comes from land rents.

The average small landlord income is ₱7,775, 28 percent of which is from land rents. Thus, they are a lower-middle-class group by the measure of income. Land rents are supplemental sources of income to most. Only 21 percent state that they have no other regular source of income and 72 percent have regular occupations, including housewife. Retired persons were 8 percent of the sample.

The study did not attempt to ascertain the value of assets owned by the small landlords, but a conservative estimate of their wealth in land can be made. The average ownership size is 5.28 ha., and 34 percent of this is double-cropped. If we assume that single-crop land is worth ₱6,000/ha. and double-cropped land ₱12,000, then the asset value of land is ₱42,600 for the average small landlord. This average should not obscure the wide range of wealth in land. Using the same assumptions, the landlord who owns 24 ha. has wealth in land worth ₱192,000, while those who own less than 1 ha. have very little.

The many landlords who will depend partially or wholly upon land rents in their retirement (87 percent) pose a special challenge to the Land Bank. This income from land is a secure income and the Land Bank should provide a compensation option which would convert the landlord's capital in land into an equally secure, and inflation-proof retirement annuity.

Letter of Instruction (L.O.I.) 143, October 31, 1973, suggests the possibility of applying the land transfer to all absentee landlords while exempting those who are not absentee. DAR has presented data which show that 96 percent of landlords in the 24-to-7-ha. category are absentee. The study reported here found that only 1.3 percent of the respondents live more than 5 km. from their land. Such a wide disparity in information is probably best explained by a difference in definition of "absentee." The definition used in the DAR data is not reported, but from personal conversation we know that those landlords who were not personally tilling any of their lands were defined as absentee. By the criterion of location of residence, however, almost all of the small landlords are living in the communities where they own land, although only 15.5 percent actually live on their farms. Most live in nearby barrios and poblaciones.

Letter of Instruction 143 suggested the possibility of exempting absentee landlords from land transfer if the reasons for their being absentee were due to certain forces majeures such as military service. If absenteeism is determined by the criterion of location of residence, such possible exemption is irrelevant because exceedingly few are absentee. If we use the DAR criterion, that of personal cultivation, we find that although 17.6 are currently personally tilling, 57 percent had personally tilled some of their land at some time but had stopped doing so. The largest group (38.4 percent) stated that they stopped tilling because of poor health or old age. The next largest group left the land to take employment elsewhere (22.8 percent). The study did not ascertain how many of those went into

government service, but none were in the military service. Thus, the number of cases of force majeure which would qualify absentees for exclusion from land transfer is small.

It has frequently been conjectured that military officers are an important segment of the small landlord group, suggesting that extending transfer to them would erode a critical element of support for the New Society. The nationwide sample of the study included no members of the military, officer or enlisted. If the military has an economic interest in such lands, it is hidden in the names of their wives. The fact that so few landlords live farther than 10 km. from their land makes it unlikely that any military wives were included.

The most sensitive groups within the small landlords appear to be the teachers (9.0 percent) and government employees (6.6 percent). Their ability to influence the agrarian reform as leaders of local opinion should be recognized in programs to inform the public about land reform.

CONCEPTUALIZATIONS OF THE AGRARIAN PROBLEM

The previous section has shown the distribution of landownership and tenancy by size class and has presented a socioeconomic profile of tenants and small landlords. The following section is aimed at a broad interpretation of the nature of the tenure problem. The formulation presented here views the institution of private property in land as the result of a social evolutionary process. It asks whether the institution in its present form serves this particular society well under the present circumstances and what arrangement might serve Filipino society better.

Two Inadequate Concepts:

It is sometimes said that as a result of land reform under P.D. 27 and the substantial transfer of ownership of the large estates to the tenants, the backbone of feudal landlordism in the Philippines has been broken. The statement reflects the accomplishment of an important political objective of land reform--the separation of the tenant voter from his frequently political landlord. A more effective democracy should result from this. However, when this accomplishment is used as the basis of an argument that it is not necessary to extend land reform to the tenants of small landlords, it neglects other important goals of the reform and reflects an incomplete grasp of the nature of the land tenure problem. The problems of the dependent social relationship of tenant to landlord would continue to exist for the 79 percent of all tenants who are on landholdings less than 24 ha. Likewise, there would continue the enormous economic burden of paying one-half to one-fourth of their yields simply for the right to use the land which is the only means of livelihood available to most of them.

Another incomplete conceptualization of the tenure problem is reflected in the statement that landlords are parasites on the economy. Such a statement also contains an important truth but can be misleading when

juxtaposed with the erroneous information that 96 percent of small landowners (owning between 7 and 24 ha. of rice and corn land) are absentees, and that 73 percent of them are unemployed.

The element of truth in the statement that landlords are parasites on the economy is that the landlord's function of collecting rents is not productive. However, landlords as persons, and distinguished from their role as owners, may or may not be productive. It has already been shown in the preceding sections that 90 percent of all landlords of rice and corn land own 7 hectares or less and are people of modest means. They are mostly productive members of the communities where they own land.

Toward a More Adequate Conceptualization of the Problem:

One should ask what difference does it make whether it is landownership that is nonproductive or the persons owning the land who are nonproductive. Would not the case for land reform--which is based upon the distributive benefits to the ex-tenant, and the more dignified life for him which results from the elimination of his dependency upon the landlord--remain unaltered? Should not land reform proceed as it is now with substantial compensation paid to the landlord? To characterize landlords as unproductive parasites tends to lead to polarization of positions and rigidity of solutions and policies. An alternative, and I believe more correct, formulation of the problem would contribute to less polarization, more mutual endeavor of all parties toward solution, and more flexible solutions.

The most important reason for accurate perception of the nature of the problem, however, is to point the way toward more effective solutions.¹² Until the problem is adequately perceived, policies are more likely to provide short-term palliative effects rather than longer-run fundamental solutions.

The theory of land rent shows that investment in the ownership of land does not increase the social product. Given the institution of private property in land, i.e., land is bought and sold as "property," it is necessary for individuals to "invest" to acquire use rights in land, and that investment is productive to the individual entrepreneur as a part of the total enterprise. From the societal point of view, however, the productivity of the land is not increased one iota because one person has to pay another person for the right to use the land. Investments to increase the yield of land are a different matter from payments for access to use. Investments in clearing, leveling, and irrigation are productive from both the individual and the societal point of view if they are well designed, i.e., if outputs are greater than inputs.

12. This assertion assumes the operation of a degree of goodwill among the parties to the problem. If this is absent and positions are totally determined by short-term self-interest, then the process of solution is reduced to the realm of pure power.

To assert that payments for access to use land are not productive should not be extended to conclude that there are not some productive aspects to landlordism. The institution of property in land makes tenancy and landlordism possible (although not inevitable), but the landlord may be either productive or unproductive in his relationship with the tenant. In the Philippines, the indications that share tenants seemed to adopt high-yield varieties more quickly than owner-cultivators apparently show that landlords have encouraged the new technology and in that respect have been productive. This productive function of landlords is separate from the function of rent collection, which is not productive. The Philippine government has determined, in various laws enacted since 1963, that the negative aspects of landlordism outweigh the positive aspects. For that reason, the negative aspects are to be corrected by land reform and the productive contributions of landlords are to be replaced by institutional credit, extension, and cooperative marketing.

The modest economic status of the vast majority of landlords is convincing evidence that, although property in land makes possible landlordism and the dominant position of landlords leads to some laziness and some villainy, the problem is not that of an idle landlord-rentier class. These people of modest means have responded rationally to the incentives which exist under the institution of property in land. They have invested their savings in land because under the conditions of heavy population pressure land is a good personal investment although socially unproductive. Elsewhere in the world, where population pressures are less and where many people have economic opportunities that are not heavily dependent upon land, the institution of private property serves reasonably well as an efficient allocator of land among its various uses. There the problems which result from property in land, which loom large in the Philippine circumstances, are considered acceptable. However, even where land reform is not an issue, private rights in land are being modified by zoning codes, building codes, and environmental regulations, and the evolutionary process of defining property rights in land continues. Nowhere in the world is the institution totally static.

To identify problems that result from the institution as it operates under the Philippine circumstances is a necessary, but not sufficient, condition for advocating some change. It becomes sufficient only when some kind of change can be suggested which reasonably assures better results than present. It should be clear from the evolutionary interpretation presented here that the writer considers the changes which are most likely to give favorable results to be incremental in nature. To criticize a fundamental institution of society is not necessarily to suggest or advocate a radical change. Indeed, the more radical the change postulated, the more difficult it is to foresee its consequences and judge them to be either an improvement or not.

The present land reform has the potential to greatly redistribute landownership, with a less drastic redistribution of wealth since the farmer pays a substantial price for his land. However, the reform leaves the institution of property in land largely unchanged. To the extent that it remains unchanged, it seems likely that the problems of tenancy and landlordism will reappear because of the continuing population growth and the

absence of employment expansion in the urban sector sufficient to relieve the pressures on the land. This generation's land reform beneficiaries will probably become the next generation's landlords.

New landlords may not arise in the formal sense, but the general problem may reappear in a number of forms. Land reform titles are restricted in transfer to the government or to one inheritant. That inheritant may become the informal landlord of the property which would be operated by one or more of the other heirs. Another possibility is that all the heirs may agree to share equally in the farm work and income. In this case, the parcel is fragmented economically although not formally. Yet another possibility is that the land reform beneficiary or his one heir may operate the farm with hired labor rather than with informal tenants. The very vulnerable economic position of landless agricultural workers has already been described.

Aside from the redistribution of property, the only change in the institution of property brought about by the land reform is the limitation on transferability of titles. Just how significant this may be is not clear because the government has not indicated how it will administer the title limitations. Most important, will the government exercise its right of acquisition, with the only competitor being the one eligible heir? If the government does exercise this right, what price will it pay to the owner and what disposition will it make of the land? Answers to these questions will indicate to what extent the land reform constitutes a departure from private property and to what extent it merely amounts to a redistribution.

The main point made here is that the Philippine land reform is an attempt to evolve a solution to the problems arising basically from the institution of private property in land. Just as caciquism and encomienda evolved into private property in land, so now is the Philippines evolving a solution to the problems both by redistributing property and by modifying property rights. When the problems of tenancy are viewed in evolutionary rather than personal terms, polarization of the parties to the problem is reduced and the search for solutions is facilitated. However, under conditions of heavy population pressure on the land and limited alternative employment opportunity, the problems of landlordism must be expected to reappear unless the nature of the institution itself is changed. Redistribution of land by itself will probably provide only temporary relief from the problems of tenancy. The limitation of transferability of land reform titles is a constructive measure because it gives government the ability to reallocate land-use rights to needy persons according to the number of persons who need access to the land. However, the government needs to develop and publicize its plans for exercising its role as one of two eligible transferees.

The restrictions on transferability of land reform titles were apparently imposed primarily to discourage further fragmentation of land, and the loss of benefits to the farmer through mortgage and foreclosure. Fortuitously, however, the deed restrictions offer a potentially valuable tool of public policy for the rationalization of the growth of urban areas. For urban areas that are surrounded by land mostly under land reform titles, the government could exercise its option to buy the land and then place

such areas on the urban real-estate market as would be dictated by comprehensive land-use planning. Such control could rationalize the growth of the city and also prevent the unnecessary loss of good rice lands to urban development.¹³

EXPECTED IMPACTS OF LAND TRANSFER IN RICE AND CORN

If the problems of tenancy must be expected to arise again because of continuing population pressures on the land, it is important to assess what the current land reform can be expected to accomplish and what negative side effects there may be. The impacts will be discussed with regard to production, distribution of income and wealth, labor absorption, and social changes.

Effects on Production:

Folke Dovring, a long-time scholar of economic development, concludes (analytical paper on economic results of land reform for the USAID review in 1970) that the evidence is largely in favor of the expectation of production increases following land reform. This is particularly true of reforms based upon family-farm or smallholder agriculture. The evidence on the various reforms which have socialized the farm-management unit is largely negative. Dovring notes that some smallholder reforms have not resulted in increased production because of poor administration, failure to include reorganization of farmer support services, and insignificant scale. He also notes that in some cases a temporary decline in production apparently resulted from the disruption of the status quo, but found that some of these reported cases rested partly on faulty analysis, were overstated, and, in the case of Yugoslavia, was probably erroneously reported. In some particular cases, such as the commercial farms operated by French colons in Algeria, distribution of land in small units clearly resulted in a decline of production. In general, however, land reform seems to be followed by increased production.

Research by the Agrarian Reform Institute has turned up initial indications of the possibility of a decline in yields on the lands of farmers who have received land-transfer certificates. This might be a reflection of the phenomenon of a short-term decline that has occasionally been experienced in other reforms. One possible explanation could be that the amortizers have reduced their fertilizer inputs in an attempt to minimize their total indebtedness and thus minimize the possibility of losing their land through failure to make their amortization payments. One could well understand that a new amortizing owner would feel uneasy about the prospect of making all of his payments: amortization, Samahang Nayon (Barrio Association) dues, land taxes, and production credit. If so, he might well view minimizing production credit as a means to reduce his risk of default.

13. These ideas are further developed in my "Land Reform, Land Use Changes and Capital Gains," USAID/Philippines, August 1974.

These aggregate analyses generally do not separate the tenurial aspects of reform from the reorganization of credit, marketing, and extension. As a result, too much emphasis has frequently been given to tenurial reform as a means to increase production. Advocates frequently cite the increases in production following land reform in Japan, Korea, and Taiwan, but fail to recognize that the increase was largely a matter of regaining pre-war levels of yield; it is not clear what role tenurial change played, and the extent to which the production increase merely resulted from the recuperation of the agricultural system following the disruptions of war.

In the Philippines, probably too much of the rhetorical support for land reform is based upon the expectation of increased production. Most of the empirical studies of rice farming fail to find a significant difference in yield by tenure type. The one exception is the study by Akira Takahashi,¹⁴ which is known to be confounded by the presence of three Taiwanese extension rice specialists who worked there intensively.

The study by Mangahas, et al.,¹⁵ was specifically designed to determine yield by tenure type, but found no significant differences. This study also presents an economic theory of production which includes the roles of both landlord and tenant. It explains why empirical studies do not find amortizers and lessees more productive than share tenants when the productive functions of the landlords are included. Earlier simplistic theories of share tenancy placed too much emphasis on the incentive for the tenant to invest his labor and overlooked the productive functions of landlords.

The foregoing is a narrow and short-run view of the relation of tenure to productivity. In the broadest interpretation, land reform may be one of the requisites for breaking the stagnation of a primitive and feudalistic economy, and productivity effects might therefore be attributed to it. An intermediate view would recognize that the total package of reforms including tenure change, shift from landlord to institutional credit, and cooperative marketing frequently does stimulate production. However, Mangahas argues that this probably could be achieved without the tenurial change, and if so, then the tenurial change did not contribute to productivity.¹⁶ Another intermediate view of the relation of tenure to productivity treats quite a different aspect of economic development. This view would recognize that the income transfer effected by a tenure change may stimulate the demand by farmers for consumer goods and, through the multiplier effect, generally stimulate the rural economy. One might attribute productivity effects to such a process, but it would not refer to crop production.

14. Akira Takahashi, "The Peasantization of Kasama Tenants," Philippine Sociological Review 20: 129-33.

15. M. Mangahas, et al., "Tenants, Lessees, Owners: Welfare Implications of Tenure Change."

16. M. Mangahas, "Economic Aspects of Agrarian Reform Under the New Society," Philippine Review of Business and Economics 11 (December 1974).

Mangahas recognizes that his static analysis is not an entirely satisfactory basis for deducing the probable effects of tenure change on productivity over a longer period of time. However, he also cautions that the alternative procedure of examining the long-term results of tenure change elsewhere has research and inferential problems greater than the static analysis. First, there is the problem of separating out, in a longitudinal study, the effects of tenure change from other aspects of the agrarian reform. Second, it is at least as great a leap in inference to suppose that the experience of a reform in some other country would be duplicated in a different place and at a different time in history as is the leap from static analysis to dynamics.

In spite of his conclusions against the expectations of productivity effects from tenure change in the Philippines, Mangahas is certainly no opponent of land reform. Instead, he is generally sympathetic, but on the grounds of its impact upon the distribution of wealth and income.

Effects on Distribution of Income and Wealth:

Unlike the productivity question, on which the results are uncertain, the distributive impacts of land transfer appear reasonably certain. The uncertainty lies in the possible gap between the principles set forth in P.D. 27 and the actual implementation. Under the face-to-face tenant-landlord bargaining on price that was adopted between February 1974 and April 1975, there was some opportunity for deviation from P.D. 27, but we do not yet have evidence as to how much deviation has occurred.

In Table 5, we estimate the annual increase in income to a beneficiary who was formerly a share tenant. In this estimate, we use the average price per hectare paid in the approximately 400 landlord compensations which have been completed as of August 1975, and we assume that it reflects adherence to the P.D. 27 pricing formula of 2-1/2 times normal gross yield. Palay (rice at any stage prior to husking) is valued at ₱35/cavan which was the support price at the time of P.D. 27. The estimate further assumes the 16.7 percent average annual loss to natural causes and the 20 percent deduction for reimbursable costs to the share tenant which were used in a previous paper.¹⁷ Based upon DAR data, the average size of tenancy to be transferred in ownerships over 7 ha. is 1.9 ha. This estimate is used even though the average size tenancy transferred to date is slightly less than 1.8 ha. The income gain to the average beneficiary is ₱377 each year, or an increase of 23 percent over his income as a share tenant.

Land reform beneficiaries are required to become members of Samahang Nayon which entails three new financial obligations. Members pay a ₱5 annual membership fee, 1 cavan of palay per hectare in production to the barrio guarantee fund, and to the barrio savings fund either a minimum of ₱5 per month or 5 percent of the amount of each production loan. Even though

17. D. A. Harkin, "Some Distributional Considerations in the Philippine Land Reform," USAID/Manila, February 1975.

Table 5. Estimated Benefits of Land Transfer to Share Tenant

Price ₱6,400/ha. equivalent to "normal" gross yield, valued at ₱35/Cav. ($73C \times ₱35 \times 2-1/2 = ₱6,400/ha.$) ^a	73 Cavans
Less 16.7% average annual loss due to natural causes, = average gross yield:	61 Cavans
Less 20% for harvesting and planting costs = net average annual yield:	49 Cavans
Landlord and tenant shares - 50%	24.5 Cavans
Value of tenant share, at ₱35/Cav.	₱857.50/Ha.
Assume average farm = 1.9 ha., average income =	₱1,629/Farm
Land Reform Beneficiary Income:	
Amortization of ₱6,400/ha., 15 years, 6% X 1.9 ha.	₱659/Ha. ₱1,252/Farm
Gain in current income (₱1,629 - 1,252) =	₱377
Less Samahang Nayon payments	<u>₱219</u>
Estimated net gain current income	₱158/Farm
Present Value of Income Streams:	
Share Tenant: Capitalize ₱1,629 at 20% =	₱8,145/Farm
Amortizing Owner:	
Present value 15-year income (₱3,258 - 1,252 - 219), at 20% =	₱8,355
Plus value after amortization: (₱3,258/.20)/(1.2) ¹⁵ =	<u>₱1,057</u>
Total present value of amortizer	₱9,412
Difference between share tenant and amortizer	₱1,267

^aIn 1972 the exchange rate was about ₱6.6 per US\$1.00.

the individual farmer's contributions to these funds are jointly owned by all members, the individuals probably regard their payments as costs rather than as savings.

The average Masagana 99 loan (a government-supported production-credit program) is about ₱1,200 per hectare, and about 30 percent of the rice land is double-crop land. Thus, payments to the savings fund are estimated at ₱148 per farmer, assuming the 1.9 ha. average farm size for land-transfer beneficiaries. Total annual payments would be ₱219, based upon the ₱35/cavan extant at the time of P.D. 27. This reduces the distributive benefit to the share tenant to ₱158.

Because land taxes are known to be highly variable because of valuation and enforcement, no attempt is made to estimate this additional burden. Yet another factor working in the tenant's favor is the replacement

of landlord credit, on which the interest charge is commonly 50 percent to 100 percent, by institutional credit at 12 percent.

The estimates of the distributional impacts of land transfer on share tenants in Table 5 and lessees in Table 6 are based upon palay valued at ₱35 per cavan and do not consider the possible effects of inflation. Because the amortization payments are fixed in pesos any increase in the price of palay will tend to benefit the land reform beneficiary, and conversely, any decrease in price of palay will tend to result in a loss.

The real gain or loss due to price changes will depend upon two general factors: the amount above home consumption that is actually marketed, and the movement of the prices of the things the farmer buys with cash relative to the change in price of the palay he sells. In the Philippines, the marketable surplus of amortizing owners has been estimated at 43 percent of total production.¹⁸

In the period 1961 to 1972, the wholesale price index for food, an indicator of the price of palay, increased 2.56 times. The consumer price index for all items consumed by families outside Manila rose 2.20 times. This contains food items, so it is an imperfect proxy for a rural nonrice price index. However, the indications are that inflation does favor the rice farmer somewhat, but not by the amount of the price increase of palay because other prices are also going up.

A DAR memo of July 10, 1975, defined which of the landlords would be exempt from land transfer in the ownership size class 7-24 ha. According to this definition, an estimate was made of the total number of tenants who would come under land transfer, assuming that no other barriers arose. The revised total scope of the land-transfer program is estimated at 285,000 tenants.¹⁹ We can estimate the aggregate distribution of income by applying the ₱158 increase per farmer. But first, it is necessary to subtract the estimated number who are leasehold tenants because the distributive effects on lessees is quite different: it will be shown below that lessees probably lose under land transfer. A very rough estimate is that 15 percent of the tenants are practicing lessees paying approximately 25 percent of their crops as rental. This leaves 242,000 potential share-tenant beneficiaries of land transfer. If each enjoys an average increase in income of ₱158, then the aggregate redistribution is about ₱38 million annually. This gain by the farmers is not a loss to the landlords because their effective rate of compensation is about 92 percent. The difference between the farmer's gain and the landlord's loss is made up by a subsidy from the Land Bank.

18. Derived from Table 2, Y. Hayami and R. Herdt, "The Impact of Technological Change in Subsistence Agriculture on Income Distribution," Paper no. 74-26, International Rice Research Institute. Basis is sample survey of 58 farms in Central Luzon.

19. D. Harkin memo to K. W. Sherper, Land Reform Officer, USAID/Manila, August 12, 1975.

Table 6. Present Value of Lessee Compared to Amortizing Owner

Capitalized Income of Lessee:

₱6,400/ha. is equivalent to "normal gross yield"	
₱6,400 = (73C X 2-1/2 X ₱35/cav.) ^a	73 Cavans
Less 20% reimbursable costs	<u>14.5</u>
"Normal" net yield	58.5
25% rent (based upon "normal," not average, net yield)	14.5
Average loss to natural disasters (16.7% X 73 cavans)	<u>12.0</u>
Average Net Income (cavans)	32.0 Cavans
Average Net Income (₱35/cav.)	₱1,120/Ha.
Capital Value of Income (capitalized at 20%)	₱5,600/Ha.

Capitalized Income of Amortizer:

Normal gross yield	73 Cavans/Ha.
Less 16.7% average annual loss to natural disasters	12
Less 20% "reimbursable" costs	14.5
Less amortization at 6%, 15 years	18.8
Average Net Income (cavans)	27.7 Cavans
Average Net Income (₱35/cav.)	₱970/Ha.

Present Capital Value, 15 annual payments ₱970, discounted at 20%:

$$₱970 \times \frac{(1.20)^{15}-1}{.2(1.20)^{15}} = ₱4,535$$

Plus

Value after amortization, discounted to present:

$$\frac{46.5 \text{ cav.} \times ₱35}{.20} / (1.20)^{15} = ₱527$$

Total Capital Value of Amortizer's Income:

$$₱4,535 + ₱527$$

₱5,062/Ha.

Loss to Amortizer: ₱5,600 - 5,062 (capital value)

₱538/Ha.

Annual value of loss/ha. (time preference rate = 20%)

₱107.60

Annual loss per farm, 1.9 ha.

₱204/Farm

^aIn 1972 the exchange rate was about ₱6.6 per US\$1.00.

The analysis above refers only to the distributive impact during the 15-year amortization period. At the end of that period, the farmer enjoys a further increase of income because payments stop. However, the present value of this benefit is very little if discounted at 20 percent.

Table 6 shows the process of estimating the difference in capital value and income of lessees and amortizers under P.D. 27. The same basis was used here for estimating the distributive effects of land transfer as for the case of the share tenant in Table 5, i.e., average land valuation of ₱6,400/ha., which implies a normal gross yield of 73 cavans, assuming the

application of the P.D. 27 formula of 2-1/2 times normal gross yield. We find that the lessee incurs a capital loss of ₱538/ha. due to land transfer. If the farmer's time preference rate is 20 percent, this loss is perceived as a loss of ₱107.60 in annual income per hectare or ₱204 annual loss per 1.9-ha. farm. In addition, he has Samahang Nayon payments of ₱219.

Caution must be exercised in using these estimates. The deduction of 20 percent for "reimbursable" planting and harvesting costs is based upon extensive research,²⁰ but the 16.7 percent deduction for the average annual loss to natural disasters is only an estimate and needs to be verified by research. For the purposes here, the empirical question is: by how much does the average gross harvest differ from the "normal" gross harvest set in the valuation of land for transfer under the reform?

As has been pointed out in a previous paper,²¹ the lessee enjoyed the benefits of reform when his rent was reduced by conversion from share tenant to leasehold. It appears that that benefit was greater than the benefit from conversion of share tenant to amortizing owner. Similarly, the land-transfer program has the effect of belatedly compensating the landlord whose tenants were converted to leasehold. There is no compensation for the reduction in income under leasehold.

Distributive Impact Upon Landlords:

The foregoing section presented the distributional effect from the point of view of the farmer-beneficiary. The landlord's view is quite different. It would be the reverse of the farmer's view if only the compensation option specified in P.D. 27 were available, in which the farmer pays the landowner. Here the farmer's gain is the landowner's loss. However, the promulgation of the additional compensation options by the Land Bank has greatly changed the situation.

The situation is changed in several ways and, in my opinion, largely for the good. First, the additional options have greatly changed the effective redistribution of wealth. Under P.D. 27, the landlord would be compensated at about 68 percent of the agricultural value of the land. Under the option of 10 percent cash and 90 percent Land Bank bonds, the effective compensation is about 92 percent, based upon sale of the bonds at 78 percent of face value.²² In view of the fact that most landlords are not of the true landed aristocracy and have invested their savings in good faith, the improved compensation is appropriate. It is further appropriate that the cost of this improved compensation fall on the general public as embodied in the Land Bank rather than being passed on to the farmer. The farmer needs the distributive benefit, and the problems which result from the operation of the institution of property in land are problems of

20. Mangahas, et al., "Tenants, Lessees, Owners."

21. Harkin, "Distributional Considerations."

22. Ibid.

the whole society--both in terms of their wide burden and in terms of the responsibility for their resolution.

I would have preferred a graduated compensation scheme in which the large landowners would be compensated at a lower level and small landlords fully compensated, with perhaps some graduations in between. But it is probably too late to make this change.

The second way that the new compensation options changed the situation was to interpose the Land Bank between the farmer and the landlord. This further separation is desirable for its social consequences, as will be developed in a later section. The interposition of the Land Bank, in which the Bank effectively buys the land from the owner and resells it to the farmer, makes the land transfer much more like an expropriation. It provides the opportunity for better monitoring of payments and should prevent reversion of amortizers to tenancy. However, the Bank must impose discipline to assure amortization payments. The Land Bank cannot carry a wholesale default and if default is not disciplined early, others will be encouraged to default.

From the point of view of its distributional effect above, leasehold conversion is just as good as, or perhaps even better than, land transfer. Apparently, the 700,000 tenants not eligible for land transfer will be subject to conversion to leasehold. These comprise the majority of tenants on ownerships from 7 ha. to 24 ha., and all tenants on ownerships below 7 ha. However, even though the distributive benefits are a little better than land transfer, and the incentives for innovation and production are essentially the same as for owner-operators, we must recognize the continual problems of enforcing the leasehold contract. The fact that so many who are nominally lessees are actually share tenants illustrates the problem. Further, even if enforcement were good, the residual bond between lessee and landlord would reduce the social and political benefits of eliminating the patron-client relationship.

If there is landlord opposition to land transfer in favor of the alternative of leasehold tenancy, such a position must surely be based upon the assumption that enforcement of leasehold will be weak. Under a fully enforced leasehold conversion, the loss of value to the landlord is much greater than the loss under land transfer because there is no compensation to the landlord for the rent reduction of his lessee while there is almost full compensation for land transfer. Unfortunately, the record of weak enforcement of lease contracts from 1964 to 1972 contributes to this apparent assumption on the part of the landlords, and the very soft record of enforcement of landlord evictions and evasions under P.D. 27 exacerbates these expectations.

Of course, one could point to sentimental attachment in the land and wanting to maintain the good relationship of tenant and landlord as explanations for opposition to land transfer. The weakness of this position can be shown by asking whether most landlords are willing to forego ₱6,400 per hectare as the price of sentimental values, and tenant-landlord camaraderie. More substantive are the arguments that landlords do not want the tenant relationship severed because it provides an opportunity to lend money at

interest rates of 50 percent to 100 percent, and that landlords do not want to forego potential capital gains from land speculation.

Relation of Land Reform to Labor Absorption:

All evidence points to the fact that the most critical long-term problem of the Philippine economy is finding productive employment for the rapidly growing population. This is the whole thrust of the ILO study, "Sharing In Development." It is apparent in the agricultural sector in the fact that growth of riceland area stopped about 1968 and the average size of rice and corn tenancy fell from 2.08 ha. in 1960 to 1.6 ha. at present. The children are already born who will reduce this to approximately 1.20 ha. in the next 15 years.²³ Thus, not even miracles in the family-planning program can avert a further substantial reduction in farm size.

It has been shown above that over the last 25 years the real income of major segments of the Filipino population has declined while the gross national product has been growing modestly. Probably this unfortunate circumstance results in some degree from exploitative practices, of which the many forms of "land grabbing" are an example, practices that extend far back into Filipino history and continue today. Probably some of the income problem results from such well-intended but erroneous economic policies as inflated monetary-exchange rates which subsidize imports, and low-interest-rate policies which encouraged capital-intensive, labor-displacing forms of production. However, the major source of the problem is probably the rapid growth of the labor force.

Fortunately, the Philippine land reform maintains the labor absorption of the family-farm unit. Unlike some land reforms which break up large farm units, the Philippine reform breaks up only ownerships and does not affect the operating decision unit, which is the tenancy. It cannot be criticized for reducing economies of scale. Throughout the high population density areas of Asia, the clear evidence is that the smaller farms produce more per hectare and employ more people per hectare. The reasons for this have been explained by Georgescu-Roegen.²⁴ In simplest terms, they are that in land-scarce areas with limited off-farm employment the family adds its labor to the farm enterprise up to the potential point where the last addition produces no increase in yield because the family is committed to feeding its members. Added units of production from added labor do not have to be equivalent to a wage rate because the family member will be fed regardless of how much or how little he produces. So labor is intensified in order to add to the total fund available to the family unit. In contrast, in commercialized farm operations, each worker must produce at least enough to meet his wage payments. In economic terms, the marginal cost of labor in a family-farm organization is either zero (or a little more if he

23. The rationale of this projection will be presented in a later section.

24. N. Georgescu-Roegen, "Economic Theory and Agrarian Economics," Oxford Economic Papers, vol. 12 (1960).

eats more because of working more) or equivalent to his opportunity wage in other employment. If there is no other employment, then the opportunity wage is zero. In commercialized agriculture, the marginal cost of labor is equal to the wage rate.

The theory of share tenancy indicates that under leasehold or ownership, there will probably be some shift to increase family-labor inputs and decrease hired-labor inputs. The amount of the hired labor under share tenancy is somewhat inflated by the opportunity to decrease landlord shares and increase the share to the farm community. Such excess hired labor is really traded labor in which each farmer hires his neighbors and gets hired in return. To the extent that hired labor is only traded labor, then the incentive of ownership to replace hired labor with family labor will not reduce the income of the community. However, to the extent that the hired labor is from landless families, then replacement by family labor of amortizers will aggravate the income-distribution problem. Landless laborers will be worse off. This possible effect of land reform must be carefully monitored.

Small farm units make the most of scarce land and plentiful labor resources, but they are disadvantageous in mobilizing capital and facilitating the application of new technology. It is expensive to provide credit and extension services to so many small units. The various experiments in a group approach to certain of the farm activities, while maintaining the labor incentives of the family unit, are groping in the right direction. The ideal situation would be to combine the advantages of smallness with the economies of scale. It should not be necessary to point out (but the point might be missed) that compact farms that approach the collectives and state farms of the socialist world are not likely to be successful. Collectives and state farms clearly continue to have severe problems as institutions for the organization of agriculture.

Social Impacts of Land Reform:

The land reform has been described as "the most radical program of the New Society." I believe that this is true and that it is the potential social impacts which make it so. It is not a radical program in its economic impacts. It has a significant and desirable distributive effect, but the farmer pays a substantial amount to acquire ownership and the landlord is almost fully compensated. The reform leaves the institution of private property in land largely unaltered except for the limitations on transferability of land reform titles. This is obviously a subjective judgment, but I believe that the effective severance of tenant-landlord ties due to land transfer, and the substantial severance due to leasehold, will be the aspect of the reform that will bring about the most fundamental changes. Since the land reform in Taiwan there have been major changes in a number of social indices showing a great increase in the participation in political life and community affairs. There seems to have been a release of human energy. As a result of watching from a distance the operation of the patron-client relationship in Filipino society, I expect a similar release of energy here if there is a substantial land reform.

THE RELATION OF LAND REFORM TO POPULATION-RESOURCE ISSUES

The Philippine land reform holds the potential for a substantial redistribution of wealth from the general public (not from the landlords) to the needy tenant-farmer class. It also holds the promise of substantially restructuring social relationships and the release of human energy and initiative. However, in so doing it mainly just gains some time for the more fundamental adjustment of population to resources.

It was previously asserted that continuing population growth will aggravate the plight of landless agricultural workers and force the reappearance of the problems of tenancy in one form or another. It is estimated that the average size of rice tenancy will decline to about 1.2 ha. in 1990. The data and assumptions which lie behind this estimate are as follows:

An estimate of the past absorption of labor into industry and commerce is made by subtracting the labor force in agriculture, forestry, and fishing from the total number of employed persons, Table 7. After curving the data, the labor force in industry and commerce is estimated to have grown from 3.05 million in 1956 to 6.10 million in 1972. This is equivalent to a compound annual growth rate of 4.75 percent. If this growth rate is projected from 1975 to 1990, the estimated employment of 7.00 million in 1975 will grow to 14.04 million, absorbing 7.04 million new workers.

Table 7. Absorption of Labor into Industry and Commerce

	<u>Employed Persons All Industries</u>	<u>Agriculture, For- estry, Fishing</u>	<u>Employed Industry and Commerce</u>	
1956	7,702	4,548	3,154	
1957	8,199	4,997	3,202	
1958	8,329	5,276	3,053	(recession)
1959	8,575	5,298	3,277	
1960	8,539	5,224	3,315	
1961	9,095	5,514	3,581	
1962	9,603	5,898	3,705	
1963	9,764	5,779	3,985	
1964	missing			
1965	10,101	5,775	4,326	
1966	10,936	6,290	4,646	
1967	10,867	6,330	4,537	
1968	10,471	5,631	4,840	
1971	12,543	6,321	6,222	
1972	12,582	6,863	5,719	(floods)

Source: National Economic and Development Authority, Statistical Yearbook, 1974.

In 1960, there were 12.4 million persons in the age bracket 0-14 who are potential labor-force participants in the period 1960 to 1975. Rounding this down to 12 million to allow for some mortality, and applying a labor-force participation rate of .55, I estimate a growth of workers of 6.6 million. Using the curved data of the industrial and commercial labor force, I estimate absorption of 3.3 million between 1960 and 1975. The labor force of 3.3 million in 1960 grows at 4.75 percent to 6.6 million in 1975, absorbing 3.3 million. This left a balance of 3.3 million to be absorbed in the primary sector, mostly in agriculture. The reader is cautioned about the coincidences of data in this estimate. The industry and commerce labor force was 3.3 million in 1960 and, by coincidence, the absorption in the following 15 years was about 3.3 million each in the primary sector and the secondary/tertiary (industry/commerce) sector.

In 1975, there were 4.29 million persons in age bracket 15-19 and the annual rate of increase of this number over the previous five years was 3.1 percent. Dividing by 5, we estimate an annual potential labor-force increase of .86 million. Applying the .55 labor-force participation rate, the estimate of entrants in 1975 is .47 million. If this figure is projected over the next 15 years to be growing at 3.1 percent, then the labor absorption needed from 1975 to 1990 is 8.85 million. Commerce and industry will absorb 7.04 million if growth continues at 4.75 percent, leaving 1.81 million to be absorbed largely in agriculture. Absorption of 3.3 million in agriculture from 1960-1975 drove down average size of rice and corn tenancy from 2.08 to 1.55, a decline of .53 ha. A simple estimate of the expected decline in average size of rice and corn tenancy is made by assuming the same proportionate decline in the future. Thus, if 3.3-million absorption reduced average size by .53 ha., then in the next 15 years absorption of 1.81 million would force average size down by .29 ha. Actually, this is an underestimate of the probable decline because there is much less possible absorption of farmers on remote and public-domain lands in the future than there was in the period 1960 to 1975. The simple ratio method of projection assumes the proportion of farmers absorbed on old rice lands and new lands to be the same from 1975 to 1990 as it was from 1960 to 1975.

Another reason that the estimated decline of .29 ha. per rice farm is probably an understatement is in the assumption of continued growth of employment in industry and commerce at 4.75 percent. The enormous increase in the cost of energy and the worldwide shortage of investment capital seem almost certain to reduce the employment growth and impose an added burden on the land resources.

Of course, there are some considerations which tend to attenuate the pessimistic implications of the foregoing projections. The Taiwanese are making a much better living on their 1-ha. farms than are Filipino farmers on their 1.6 hectares. There is some potential for expanding irrigation although much potential has been foreclosed by abuse of the forested watersheds. Experimental data and the production of a few very outstanding farmers show the existence of an undeveloped potential.

There are inadequate data on the amount of unused lands of agricultural potential. The general impression, however, is that the public-domain lands are rapidly filling up. Bureau of Lands data show that 26 percent of

the remaining public domain classified as alienable and disposable is already under some sort of claim by private interests. One resource type which seems to offer considerable opportunity for expanded production is the estimated 3 to 5 million hectares of grass land that currently is at a very low level of production. The problems of bringing such lands into production should not be underestimated. If they were easily solved, the lands would now be occupied. Most of these lands are remote and have poor access and for that reason are unattractive for settlers. Much of the area is under pasture lease, frequently to prominent persons, and these leases would need to be vacated. The livestock interests regularly burn the grass, and any agriculture and tree-growing enterprises would have to contend with this problem. The topography is diverse and successful operations will require intensive planning and extension to adapt the cropping systems to the ecosystem.²⁵

THE RELATION OF POPULATION-RESOURCE BALANCE TO DEVELOPMENT

By relieving the economic stress on tenant farmers land reform buys some time for, and is part of, the process of adapting the population to its resources, and that adaptation is yet only a part of the more general process of economic development. In general, other things being equal, the more favorable the population-to-resource ratio, the more likely is economic development at a high level of income. There are many cases which seem to contradict this principle, but other factors than population-resource balance are responsible. There are examples of countries poor in resources, but with a high level of income per capita: Switzerland, Iceland, Denmark, Japan, Sweden. Conversely, there are many nations which are rich in resources but which have been unable to organize their economies effectively: Zambia, Brazil, Peru. Stagnation is possible under any population-resource situation. Yet it is obvious that a favorable natural resource provides a better chance for a nation to achieve a high level of income.

Control of population, reducing or ending the increasing pressures on the available resources, removes only one constraint to economic development. Stabilization of population can assist in economic development by several mechanisms. In addition to reduction of the burden on the available natural resources, it reduces the ratio of economically dependent population to productive workers. One aspect of this is the reduction of cost of schools for an ever-expanding population. This is particularly important in the Philippines where education is the prime means of upward economic and social mobility. With a reduction in school costs, the available funds could be diverted to other productive infrastructure. A resettlement study²⁶ concluded that, in the remote areas, investment in improved roads is the single best means to improve the life and income of farmers.

25. The research of Michael Bengé, USAID/Manila, is an important first step in developing cropping systems and settlement patterns for such lands.

26. Interagency Resettlement Study Team, "Resettlement in the Agrarian Reform Program of the Philippines," Manila, April 1974.

The experience of the Japanese economy is instructive. They failed to solve their problems of a growing population in the face of very limited resources by efforts at imperial expansion through war from the 1930s to 1945. Later, they achieved spectacular success through a combination of positive population-control policies and reorganization of the economic system.

Japan and Taiwan and other countries have made good economic progress based in part upon the availability of cheap labor. The recommendations of the ILO study to take advantage of the labor resource, and avoid policies that would artificially raise wage levels, are certainly appropriate. However, the suggestion²⁷ that rapid population growth contributes to economic development and should be encouraged, surely points in the wrong direction for the Philippines. There are many competitors on the road to economic development based upon cheap labor.

THE FUTURE OF AGRARIAN REFORM

With the recent redefinition of the scope of land transfer, the Philippine land reform now appears to be moving toward leasehold conversion. DAR reports that land-transfer certificates have been printed in the name of over 200,000 tenants out of the total 285,000 eligible as the program has been redefined. There is still much clean-up work to be done in land transfer; we still do not know how many of the 200,000 farmers have actually received their certificates, even though this problem surfaced early in 1974.

In balance, there seems to be little justification for leasehold conversion. Its economic benefits to the tenant appear to be somewhat better than those under land transfer, and lessees have essentially the same production incentives as owners. However, the separation of the patron-client bond is less and there remain the very great problems of enforcing the lease contract. Most conclusively, leasehold conversion, as it is presently defined in Philippine law, would result in a grossly inequitable treatment between small and large landlords. Leasehold conversion would impose a substantial economic loss on the smallest of the landlords without compensation, whereas the large- and medium-sized ownerships are being almost fully compensated under land transfer. The law could be amended to provide compensation of landlords subject to leasehold conversion, but, if this is done, why not for the same price extend land transfer to zero retention as originally proposed by the P.D. 27 drafting committee?

Agricultural policy in the Philippines seems to be moving in two divergent directions. On the one hand, land reform is consistent with the central needs of the rural population for a better level of living and the needs of urban workers to maximize per-hectare food production and minimize

27. Reuben Mondejar, Daily Bulletin (Manila), 1975: July 27; August 3, 10.

the competition from surplus rural workers moving to the cities for better opportunity. On the other hand, there are policies for expanding large-scale commercialized agriculture. The Secretary of Natural Resources has been directed to reserve suitable areas of the public domain for large-scale farming under joint ventures with foreign interests. Such lands have not been available for addition to the resettlement program which would allocate the land in family-operated units. Second, General Order 47, which requires large employers to go into rice production or to import sufficient rice for their employees, is probably working largely at cross purposes to the need to maximize employment and per-hectare production. Apparently, only 3 of the 129 G.O. 47 operations involve contracts with family farmers and the impacts of these on the family farmers need to be evaluated to determine whether some are being displaced from the land. The remainder seem to be large-scale operations, probably employing a minimum of labor. One must wonder how many small farmer squatters on public domain have been displaced by such G.O. 47 operations. The Agrarian Reform Institute, University of the Philippines-Los Baños, has proposed research on the impacts of the G.O. 47 operations. Such research may confirm or deny the expected adverse impacts, but so long as the population growth rate remains serious such policies as G.O. 47 are highly questionable.

Tenurial Reform in Other Crops:

Filipinos often ask why land reform applies only to rice and corn lands. The answer is, of course, largely political. Peasant unrest and effective organization of farmers for protest have been historically restricted largely to the rice regions. In addition to this, the great power of the sugar interests makes it unrealistic to expect major reforms to be carried out here, at least until farmer organizations can effectively raise their voices.

The answer is also partly an economic one. In sugar production, it is likely that there are important economies of scale that might be lost if it were converted through land reform into a smallholder type of agriculture. This needs to be verified by research. Republic Act 3844 exempted sugar-tenancy reform on the grounds of protecting foreign exchange earnings. It left coconut farming to be covered under the earlier R.A. 1199 which retained share tenancy, but imposed a rent ceiling of 30 percent of the crop to the landlord.

I am informed that the Office of the President has inquired of the Department of Agrarian Reform what the government should be doing in coconut and sugar lands. In view of the inadequate data base that existed for the proper design of the reform in rice and corn, a research advisor would be grossly remiss if he did not give some attention to the needs in other crop areas.

Coconut: Coconut groves occupy approximately 2 million hectares, ranking third in crop area behind rice with 3.1 million, and corn with 2.4 million. The census of 1960 reported 1 million coconut farms, two-thirds less than 4 hectares in size, and only 2 percent larger than 20 hectares. Tenancy is common in coconut farming, but is described as a

form of tenancy that is very different from that in rice. Two conditions suggest the existence of tenurial problems. A large proportion of the groves are overage and should be renovated. The average level of production is only one-half ton of copra per hectare, only one-fifth of that achieved in the Ivory Coast. The hypothesis is that the particular form of tenancy so diffuses the potential profits from improved production methods that no participant has the incentive to provide the capital and management to improve production. Other problems are indicated in the apparent concentration of income in the hands of the traders, to the detriment of the growers. This may be made possible by the operation of the traders as local monopsonists.

The brief literature review that has been made indicates, pending a more thorough search, that the existing studies of coconut do not provide information of sufficient detail to form any recommendations as to the potential need for reform or what kind of reorganization of coconut production would be beneficial. Accordingly, studies are apparently needed on landownership, tenancy, farm-management decisions, and distribution of the total value of the product. The Agrarian Reform Institute now has before PCAR one research proposal that would begin this task.

Sugar: Sugar production is much more varied in its organization than rice, corn, or coconut in that it includes important amounts of land under plantation management, under tenancy, and under owner-cultivators. The frequent assertion that economies of scale would be lost if large sugar plantations were broken up needs to be verified by research. It also needs to be determined whether family-farm units achieve the greater labor absorption in sugar that they do in rice. The relationship of yield to tenure type also needs to be measured, and its underlying causes analyzed.

AGRARIAN REFORM INSTITUTE

The Agrarian Reform Institute was established in 1972 to provide research support to the Department of Agrarian Reform. Since its move in 1973 to the University of the Philippines-Los Baños, and its addition of a master's-degree study program, it has taken on the larger responsibilities of intellectual leadership in the organizational aspects of agriculture appropriate to an academic institution.

The staff of the Institute began with little experience or training in agrarian issues. However, since that time they have become immersed in the research program and have met the issues in the field. The task of reinforcing their training has begun through a liberal policy of providing study leaves with pay for advanced training leading to higher degrees. This policy needs to be maintained over a sufficiently long period of time to build a staff with sufficient academic training in a balance of disciplines appropriate to its task of guiding the reorganization of Filipino agriculture.

The ARI staff is particularly deficient in economics capability. However one member is now a Ph.D. candidate in agricultural economics and should add greatly to the program upon his return from the U.S.

The research program of the Institute has in the past lacked focus on the critical issues. This is partly due to the lack of experience of the staff and partly due to the inevitable need of a new institution to develop procedures for discussion of priorities and review and approval of research proposals. These shortcomings are now being worked out. Another problem has been that faculty transferring into the Institute from other places have carried with them some responsibilities not directly relevant to the work of the Institute. This problem is declining as those residual commitments are fulfilled.

The agricultural sector will continue to be the dominant element of the Philippine economy for many years to come. Continuing population pressures on the land resource will inevitably cause stresses in the system. Thus, agrarian reform will be a vital subject for a long time, and the Institute must continue to build its staff and program to meet this long-term task. It would benefit from a continuing relationship with scholars with experience in other parts of the world.

