Assessing the Prospects for Market-Mediated Land Reform: Evidence from South Africa

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Abstract

Traditional land redistribution efforts tended to be variations on state-led land reform models; in the 1990s, the market-mediated model was adopted in various countries as a response to some of the perceived failings of state-led models. The market-mediated model purports to be non-confrontational, but at the same time must provide strong incentives to landowners to sell their land; this tension lies at the heart of the market-mediated model. Using evidence from South Africa over 1995-2005, we argue the market-mediated model can have adverse outcomes similar to those under the state-led models pursued in Latin America over 1950s-1970s.
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1 Introduction

Land redistribution from large landowners to small, family-sized units is widely regarded as having several substantial long-run benefits. At the most basic level, there is evidence, albeit contested, of an inverse-relationship between farm size and farm productivity.

Though there are examples of extraordinarily successful attempts to redistribute land from large to small farmers, as in South Korea and Taiwan, such successes have rarely been replicated, with the role of landowners in stalling land reform efforts cited in numerous cases. In the 1980s, relative failures of many land reform efforts led de Janvry and Sadoulet (1989) to declare pessimistically the land reform game in Latin America had been lost.

In the 1990s, a new means of effecting land redistribution utilising market mechanisms was embraced in various countries, including Colombia, Brazil, and South Africa. Market-mediated land reform differed from traditional state-led efforts in several ways. Instead of seeking to overcome the failures of land markets by restricting them, the new approach sought to remove sources of market imperfections and empower potential beneficiaries to purchase land. Rather than pursue an adversarial approach to landholders, reforms sought to instigate transfers whereby landholders voluntarily decide to sell; landholders were to be remunerated at market value, maintaining the existing property rights regime.

The case of South Africa is the focus of this paper. With a target to redistribute 30% of landholdings over 1995-1999, only about 3-4% of land has been redistributed thus far. Various reasons have been put forward for this disappointing progress, including administrative and budgetary shortcomings, and the continued dominance of large landowners in rural areas. While taking onboard these arguments, we advance the literature on South African land reform and the market-mediated process by considering the interactions of the state, current landowners, and potential beneficiaries at the macro-level.

Many analyses of market-mediated land reform tend not to apply the lessons of previous land reform experiences. We argue the outcomes of market-mediated land reform efforts in South
Africa bear striking similarities to those which characterised many traditional state-led land reforms in Latin America, which we demonstrate by considering land reform in the context of the wider development of South African agriculture. In both contemporary South African and historical Latin American cases, land reform was intended to relieve social pressures in rural areas rather than restructure farming around small-scale family-farming units; in both cases, policies ostensibly intended to improve the lot of the rural poor instead became associated with net welfare losses, while large farms underwent rejuvenation powered by export markets; and in both cases, the opportunity to achieve land reform may have been lost as large farmers were able to maintain and improve their economic positions.

Our structure is as follows. We first examine the case for land reform, and consider how many state-led attempts have failed looking in particular to Latin American experiences. We then discuss market-mediated reform and how it proposes to overcome these failures, outlining several critiques of the model. In our empirical section, we outline the structure of South African agriculture in the early 1990s and the adoption of the market-mediated model, highlighting crucial shortcomings in the policy package adopted. We then consider the land reform process in South Africa, presenting data demonstrating the slow progress of redistribution, the rejuvenation of commercial agriculture in South Africa, and evidence suggesting this has been characterised by land evictions and increased mechanisation on large farms. We then consider government policy has been dominated by the intention to maintain the commercial farm structure, and that land reform may be interpreted as an attempt to induce improved performance in commercial farming rather than its restructuring. We then discuss prospects for future land reform in South Africa and elsewhere based on the market-mediated model.

We add to the literature on market-mediated land reform by arguing that though conceptually market-mediated land reforms can achieve land transfers from large to small farmers through a series of interventions that empower markets and that fall short of expropriation, there is a tension at the heart of the model in that it must provide landowners with strong incentives to sell while its most fundamental attraction is its non-confrontational aspect. Overcoming this tension in finding means to provide incentives for land transfers while maintaining its non-
confrontational nature is a primary challenge for policy-makers seeking to implement market-mediated land reforms.
2 Theory and Literature Review

2.1 Inverse-Relationships

There is a conceptual and empirical case suggesting the presence of an inverse-relationship between farm size and productivity when the latter is measured as Total Factor Productivity. A vast empirical literature, accumulated over almost a century (Ven den Brink et al. 2005), supports the notion that family farms tend to use relative combinations of factors of agricultural production (land, labour, capital) more efficiently than large landowners (notable reviews of and contributions to this literature are found in Berry and Cline 1979 or Binswanger et al. 1995).

Conceptually, there are two major complementary accounts for the inverse-relationship between farm size and productivity. The first concerns different access to credit and labour markets faced by large and small farms (Berry and Cline 1979), with large farms argued to face relatively higher labour costs and better access to credit than small farms. Thus small farmers face incentives to use labour intensively, while large farmers face incentives to use capital intensively.

The second concerns why labour-intensive farming may be more productive than capital-intensive farming. Formalised by Feder (1985), this argument considers the costs of labour supervision on large farms compared to small. Farmers who hire labourers face additional monitoring costs over the wage rate; without an adequate system of monitoring, wage labourers may supply less effort than they would if the fruits of their labours accrued solely to them. In this explanation, it is the incentives facing the labourer that are important; the optimal farm size becomes that where the returns on labour can be internalised within an individual family unit.

The inverse-relationship is the most common justification for redistribution of large farms to small in developing countries. Numerous other reasons exist also as to why improving access to land may be pursued, summarised in de Janvry et al. (2001:4-7). Improving access to land
may help increase incomes for poor households, allow diversification of income-earning activities, allow households to produce their own food and insulate them from price fluctuations in food markets, or possibly provide a source of insurance and facilitate increased access to credit.

One second-order effect concerns changes in local power relations. Land redistribution is also a redistribution of power, taking concentrated power of landowners and disbursing this amongst the peasantry (El-Ghonemy 2001). This point is often raised in comparisons of divergent developmental paths in East Asia and Latin America (eg, Wade 2004, Kay 2002, Ranis 1990). These analyses stress early land reform in East Asia had deep political-economy effects, the breaking of landlord power allowing the establishment of a centralised, developmental state able to direct industrialisation without the interference of old landed elites.

We also consider long-run determinants of economic growth and the institutions literature. Early development economists considered the distributional impact of growth (eg, Kuznets, quoted in Ray 1998:23); more recent scholarship (eg, Engerman and Sokoloff 1994, 2002; Alesina and Rodrik 1994; Deininger and Squire 1998; Acemoglu, Johnson, and Robinson 2000; Easterly 2001) has considered the long-run impact of quality of institutions on economic performance, and the role initial levels of inequality in income and wealth have played in the development of economic and other institutions. The general finding is that initially high levels of inequality are less conducive to long-run economic performance than lower levels of inequality.

At least two important contentions may be levelled against efforts to redistribute land. First, objections to the inverse-relationship still abound, often suggesting technological progress and the evolution of capitalism allow a degree of mechanisation which may make large farms more efficient than smaller ones (eg Byres 2004, Dyer 2004).

Second, considering land reform traditionally consists of the destruction of a property rights regime, it might be objected the institution of property rights is worth preserving even
though it protects inefficient production. To overcome this problem, which Lipton (1993:641) labels a ‘neoclassical dilemma’ (as neoclassical economics traditionally took rural institutions as given, tended to approve of constancy, and distrusts the state to reallocate property rights), it must be demonstrated the positive effects of land reform on agricultural efficiency, the long-run development of an economic institutional framework, and long-run economic performance outweigh the more immediate effects of the destruction of a property rights regime.

2.2 Land Markets and the Chicago Question

We now consider why land reform is necessary. After all, if family-sized farms are more efficient, then land markets should facilitate Pareto-improving transfers until the efficient equilibrium has been reached; owing to the inverse-relationship, land sales from large to smaller farmers should allow purchasers to compensate sellers above the latter’s valuations of the land. Carter and Mesbah (1993:282) term this the ‘Chicago question’, as such an objection may be expected if it is taken that markets naturally exhaust possibilities for mutually beneficial exchange. In addressing the Chicago question, there are numerous explanations for the thinness of land markets, each with some plausibility. To be sure, an alternative hypothesis is that transfers do not occur simply because large farms are more efficient than small ones, which though we disagree with, must be acknowledged.

The first concerns the incomplete nature of markets in rural areas; peasants may face restricted access to credit and insurance markets, which may prevent opportunities to borrow enough to finance purchase or meet operating costs once a transfer has occurred.

Mookherjee (1997), however, considers a case of complete contracting where such capital constraints do not exist, concluding that imperfect information would still prevent transfers. If a peasant purchased a tract of land, the lender (either a formal lender or landlord) who finances the purchase is subjected to unbearable risk. Having purchased the land, output is a function of labour applied; if this has to be repaid to the lender, there is a problem in that the
The persistence of debt may provide disincentives to supply maximum effort. The new owner has limited liability and also a moral hazard problem, able to default on the loan used to finance the purchase, the lender unable to discern whether default was voluntary or involuntary. Thus imperfect credit markets may not be enough to explain why productivity-enhancing land sales fail to occur.

Binswanger et al. (1995) posit a similar explanation. Both landowners and potential buyers evaluate the income-earning stream of land, and potential small farmers would be expected to value this higher than large farmers. Yet Binswanger et al. suggest there is also a collateral value: landowners value land to the extent it can be used to obtain credit in formal markets; for potential buyers, this value cannot be realised with the purchase of the land made with a loan. As long as the debt remains outstanding, the new owner cannot use the land as collateral. Thus potential sellers and buyers value land differently: landowners value land as the sum of a discounted income stream and its collateral value, potential buyers only as a discounted income stream; if the collateral value dominates the difference between the discounted income streams, the transfer cannot occur.

Bardhan (1997:41) posits other reasons why large landowners may value land above its productive value, suggesting ownership offers the following benefits to large landowners which cannot accrue to smaller farmers and therefore cannot form part of the latter’s evaluation: social and political influence which owning large tracts of land offers; reliability as a store of wealth which land provides; hedge against inflation and theft; and possible tax advantages of investing in land. Above we considered redistribution of land from large to small landholders as dispersion of economic and political power; in this sense, Bardhan’s argument is that large landholders wish to prevent such dispersion.

The above reasons address why land markets may be thin under conditions of essentially neutral government policy towards the rural sector. However, another major explanation as to why transfers from large to small farmers do not occur spontaneously is that government may exhibit a policy bias which favours large commercial farms (Binswanger et al. 1995).
This may take the form of farm subsidies which encourage increased production, or rural investment projects such as irrigation or road-building favouring large landowners.

2.3 State-led and Market-mediated land reform

Following the above, there are two polarised responses for policy-makers wishing to redistribute land to the rural poor in developing countries: they can bypass market mechanisms altogether and seek redistribution using state instruments, or they can seek to correct the sources of failure in land markets. Other responses are of course possible. For example, reforms to tenure security as a means of improving rural livelihoods without redistributing land have been pursued in many countries, and are part of the over-reaching land reform strategy in South Africa.

Both state-led and market-mediated land reforms are interventions designed to overcome barriers to efficient workings of markets. Over the 1950s-1970s, land reforms tended to be variations on state-directed, non-market transfers, often relying on land ceiling legislation and state expropriation of land with compensation below market prices.

We now outline some major problems which have befallen state-led land reform programmes, looking particularly at Latin American efforts over 1950s-1970s. We then discuss how market-mediated land reforms differ from state-led reforms.

Historical Experiences with State-led Land Reform

There are numerous examples of land reform since the 1940s. Traditionally, the most successful (eg, South Korea, Taiwan, Japan) have been those which have arisen out of social upheaval, where political necessities and alliances formed so that the peasantry and central state, and sometimes external powers, have forced landed elites to give up their land. The
spectacular successes of East Asian land reforms, however, are comparatively rare; the general experience of developing countries with land reform has been far more torrid.

Two important land reform instruments have been land ceilings, which prohibit ownership above a certain size, and tenancy reforms, which seek to improve livelihoods for existing tenants through strengthening their tenure security. For both, the experience of India is informative. The literature on Indian land reforms (summarised in Besley and Burgess 2000) and land ceilings in general (eg, Binswanger et al. 1995, Ray 1998), suggests ceilings have been at best ineffective, and at worst associated with surges in tenant evictions as landowners sought to re-consolidate land under the large farm, re-parcelling land deeds and titles to members of extended families; rather than achieve redistribution of land, such efforts are often associated with consolidation of large farms and expulsion of the poor from the land. The experience with tenancy reforms, which affect contract relations but not ownership patterns, has been somewhat different, though some accounts (eg, Gough quoted in Besley and Burgess 2000:395) suggest tenancy reforms were sometimes met with increased evictions as landlords sought to avoid such legislation.

Latin American land reforms over 1950s-1970s produced intriguing results. Carter and Mesbah (1993) compare efforts in Nicaragua, Peru, and Ecuador. In each, various trade-offs and constraints served to halt land reform processes; in Ecuador, land reform constraints were argued to have resulted from the government’s relative political weakness which limited the scope for reform, whilst in Nicaragua and Peru economic constraints put paid to redistributive efforts (Ibid. 292). In Nicaragua, agriculture grew at around 7% a year, powered by growth in agricultural exports. Meanwhile, land ownership became more concentrated, the share of land operated by large farmers growing from 59 to 63% between 1963 and 1971, with no evidence of transfers from large to small farmers. Three structural changes are highlighted in relation to this period of agricultural growth: dispossession, with the distribution of land ownership becoming more concentrated; expulsion, with large farmers shedding permanent labourers and moving towards systems of wage labour; and mechanisation, which fed back into the expulsion process (Ibid.).
Castillo and Lehmann (1983) analyse land reform in Chile over 1964-1973, also demonstrating efforts were ultimately associated with expulsion of permanent labourers and their replacement by wage labourers, mechanisation, and the strengthening of exporting commercial farms. Reforms served to decrease the size of the largest and most inefficient estates, but not to the benefit of smallholder farmers; instead, medium-sized commercial farmers gained most, avoiding land ceilings and engaging in more intensive mechanisation as a result of improved access to credit and technical assistance (Ibid.).

Perhaps the classic analysis of the dynamics of land reform in Latin America is de Janvry’s (1981), which considered land reforms within the overall development of the agricultural sector, arguing such efforts could be interpreted as attempts at forcing modernisation on large farms. Thus policies ostensibly designed to redistribute land resulted instead in reducing access to land, with the distribution of land ownership becoming more concentrated over the 1940s-1980s. Rather than becoming landowners, the rural poor faced increased evictions as large farmers engaged in defensive strategies and increased mechanisation and commercialisation; this in turn increased the efficiency of large farms (from relatively low starting points), and increased their political and economic power. This made future land reforms more difficult for two reasons. First, processes of dispossession and expulsion make identification of land reform beneficiaries more difficult, decreasing the number of persons with independent farming experience, whilst the perpetuation of an infrastructure and investments in physical capital geared towards a commercial structure provides further disincentives against the establishment of smallholder cultivation (Binswanger et al. 1995:2732). Second, consolidating the economic and political power of medium and large farmers allowed them to reinforce their privileged access to the state and helped halt land reform efforts; though redistribution of land could still have had net social gains, it was no longer possible in the new political context. This was the strategy of ‘nonexpropriation-if-modernization’ (de Janvry and Sadoulet 1989:1397).

Grindle (1986) adds to de Janvry’s analysis, focusing on how reform efforts following this pattern benefited the state, analysing policies and their ideological determinants, and mapping ideology to policy to outcomes. Grindle argued Latin American policymakers over
1940s-1980s understood modernisation of agriculture as the development of large-scale commercial farming, intensive in capital and utilising mobile, skilled workforces, and that the policies pursued should be analysed within the context of these ideological determinants.

*Market-mediated land reform*

Proponents of market-mediated land reform have criticised state-led approaches on numerous grounds. First, they have argued state-led approaches necessarily provoke landlord resistance to expropriation and engage in actions that pervert the programme, as described above. Second, the approach has been criticised as supply-driven, starting with identification of lands for expropriation and then seeking beneficiaries (World Bank, quoted in Borras 2003:368). Third, in using state-led instruments the land market continues to be distorted, which may prevent the exit of inefficient farmers and lead to informal land market transactions that encourage rent-seeking and corrupt behaviour within state agencies, serving to drive land prices upwards (Banerjee 1999, Gordillo quoted in Borras 2003:369). Finally, implementation under state-led models has been criticised as neglecting further policies to restructure agricultural relations and support the smallholding farm sector, failing to deliver credit institutions and preventing post-reform development (Deininger and Binswanger 1999, quoted in Borras 2003:368-369).

While state-led reforms repressed market mechanisms in seeking to achieve redistribution, market-mediated reforms attempt land redistribution through empowering markets and increasing the capacity of potential buyers to make purchases while simultaneously providing incentives to landowners to sell. This means addressing each aspect of the Chicago question outlined above: a market-mediated land reform must remove distortions that encourage large-scale commercial farming; they must find means of providing funds to beneficiaries to finance land purchases, with grants preferred over loans so as to ensure immediate transfers and overcome the problems arising from indebtedness; and they must change the incentives facing landlords in order to lower their valuations of the land, most obviously through progressive land taxes.
The strategy of market-mediated land reform does not consist solely of empowering the market to work; rather, it means empowering market mechanisms and simultaneously providing incentives for transfers to be made through those mechanisms. It is a strategy of intervention in markets but one which does not involve the destruction of a property rights regime. Indeed, one of our major contentions is that empowering land markets cannot in itself allow land transfers from large to small landowners. In land markets in agricultural settings already characterised by large farms, policies which remove market restrictions without addressing the other elements of the Chicago question may even allow increased concentration of large farms rather than transfers from large to small.

Using government policy to affect landowners’ incentives, making large farms relatively less profitable through policy instruments such as progressive land taxes, inheritance taxes, or even conceivably land ceilings provided that compensation is paid at 100% market value (Lipton 1993), does not violate the market-based aspect; what distinguishes market-mediated land reform is that it preserves the existing property rights regime, potentially making reform far less adversarial, and making international organisations and donors more likely to support such projects. The model is also demand-led, allowing potential beneficiaries to self-identify and choose the land they wish to purchase. This is important in that land reforms in agricultural structures built around commercial farms differ from ‘land-to-the-tiller’ reforms pursued for example in East Asia, where land could be quickly transferred without much disruption to production; without a large class of tenants to redistribute land to, it is not obvious who potential beneficiaries will be. Allowing beneficiaries to self-select means potentially those who gain will have some experience with farming, and could help minimise disruption during the restructuring of production relations.

**Criticisms of the Market-mediated model**

The strengths of the market-mediated model are also its weaknesses. First, remunerating landlords at 100% value means costs are likely to be high for governments (Ray 1998,
Griffin et al. 2002, Banerjee 1999). This likely reduces the scope of such programmes, possibly making market-mediated land reform inherently modest compared to state-led efforts. Indeed, limited budgets and the overall expense of redistribution at market prices are often cited as problems with land reform efforts in South Africa (Hall 2004a, Lahiff 2007).

Second, there is the possibility land transfers may be protracted under the market-mediated model. Banerjee (1999) suggests the lack of intertemporal and spatial coordination between land transfers in the market-mediated model, as opposed to models which seek one-off, coordinated transfers of ownership, could put market-mediated reform at a substantial disadvantage. There is some evidence from South Africa that the process of agreeing transfers and sale prices, forming a farm development plan, and having these approved by independent evaluators under the land reform programme, can take between three and twenty-four months to complete (Lahiff 2007:9).

Third, there is the possibility the conception of market-mediated land reform and its non-confrontational nature greatly underestimates the potential for landowner resistance. Putzel (2001) draws on the experience in the Philippines, noting even market-mediated reforms require at least the threat of state power over negotiations between potential buyers and sellers to ensure the ‘fair market value’ of land is agreed upon quickly and allowing the transfer to proceed; pure negotiations between landowner and potential beneficiaries otherwise allow the former to hold out for inflated land prices. In Borras’s (2003) comparison of market-mediated land reform outcomes in Brazil, Colombia, and South Africa, it is contended that landowners have indeed overpriced land, and that this may be a function of the dynamics of local power relations which may prevent peasants and landowners from being able to negotiate transfers at market value.

This paper advances the literature on market-mediated land reform in addressing the reactions of landowners to reform efforts, using the case study of South Africa. The market-mediated land reform model is theoretically less adversarial than traditional state-led approaches; this implies a tension in that the market-mediated model stresses the need to provide incentives to landowners to sell, but at the same time one of the attractions of the
model is its non-confrontational aspect. In South Africa, this tension has been manifested in the contradictory policy goals of government, which have sought to improve efficiency in the commercial sector and have therefore not sought to provide incentives to landowners to sell. Such incentives, likely taking the form of progressive land taxation, would constitute a disruptive influence on the sector and come into conflict with the intention to improve efficiency and integrate South African farming into international markets.

However, failing to provide incentives to landowners in South Africa to sell their land has contributed greatly to the failure of the programme. We add to the literature on South African land reform by considering the interaction between policies pursued and reactions of current landowners at the macro-level. In Latin American state-led efforts, the adversarial nature of programmes provoked defensive strategies from landlords, with the outcome that reforms were associated with increased mechanisation and commercialisation of large farms. Improved efficiency on these farms then helped bring about the end of reform efforts. In the market-mediated model, which is voluntary and relies on the cooperation of landowners responding to rational economic incentives, rather than defensive strategies land transfers should occur from large to small farmers, theoretically overcoming the problem of landlord resistance. However, in our empirical section, we consider that in South Africa not only have substantial transfers failed to take place, but large farmers have engaged in strategies of mechanisation and commercialisation, while commercial farming has undergone rejuvenation since the introduction of land reform.

We build our explanation as follows. First, through considering the actual policies pursued by the South African government, we argue the land reform programme was incomplete, empowering market mechanisms and providing grant funding and expanding credit opportunities for potential beneficiaries, but not seeking to affect incentives facing landowners. Large farmers felt no compulsion to sell. In the absence of interventions to correct this aspect of the Chicago question, the combination of the other elements of the programme did not overcome the thinness to land markets to allow transfers from large to small farmers. Indeed, we argue that wider agricultural policy, such as the removal of market restrictions through deregulation and liberalisation programmes, may have put upward
pressure on farm sizes and helped induce more intensive mechanisation in commercial agriculture.

We also consider why the government failed to pursue the market-mediated strategy in full. We argue land reform was part of a general strategy of forcing modernisation on commercial farms so as to increase their efficiency and generate export revenues; to the extent the South African government under the African National Congress (ANC) is interested in land reform, it is to produce partial deracialisation of commercial farms rather than to restructure agriculture around small, family-sized units. These policies translated into a failure on the ground for potential beneficiaries and current landowners, on the whole, to engage in mutually beneficial land transfers. We speculate the opportunity to achieve land redistribution in South Africa, which presented itself in the 1990s at the end of apartheid, has now passed.
3 Methodology

We use lessons derived from analyses of Latin American land reforms to consider market-mediated land reform using the case study of South Africa over 1995-2005 (these dates chosen because we have reliable data on the dynamics of land transfers over this period, and because there were movements away from the market-mediated model in 2005 at the National Summit on Land Reform – see NDA/LDA 2005), so as to understand how such efforts have proceeded, and why they have proceeded in this way. The analyses of Latin American experiences suggest that land reform efforts need to be considered within the context of the development of the agricultural sector as a whole (de Janvry 1981, de Janvry and Sadoulet 1989), and policies should be analysed within the context of state goals and ideologies (Grindle 1986).

Conceptually, we do not believe market-mediated land reform is impossible. However, successful market-mediated land reform requires a series of complementary policies, which if not implemented fully could have unwelcome effects. We begin with a discussion of the structure of South African agriculture at the start of reform, and then outline theoretically possible mechanisms by which the implemented land reform policies could operate. Our approach predicts the incomplete land reform programme pursued may have led to strengthening and consolidation in the commercial agricultural sector.

Our empirical section and associated discussion consists of three parts: first, we assess the actual experience of land reform in South Africa by considering trends in the amount of land transferred since the beginning of the programme.

The second part considers the evolution of the agricultural structure in South Africa. Land reforms in Latin America were characterised by dispossession, expulsion, and mechanisation, all within the context of improved economic performance in the agricultural sector; we look for evidence of the same in South Africa.
The third discusses government policy towards agriculture since the early 1990s. Conceptually, we treat the state as an autonomous actor within a loosely pluralist framework, in keeping with Grindle’s (1986, 1991 with Thomas) analysis. This allows us to integrate our findings into the wider literature on the political economy of land reform in South Africa (eg Hall 2004a, 2004b; Cousins 2007), which has argued the government has pursued policies favouring partial deracialisation of commercial farms over restructuring. We add to this literature by hypothesising land reform fitted into wider agricultural policy as a means of inducing improvements in efficiency on commercial farms.

Our data on the progress of land reform comes from analyses conducted at the Programme for Land and Agrarian Studies (PLAAS) at the University of the Western Cape, and where possible from original data sources at the Department for Land Affairs (DLA) and Statistics South Africa (Stats SA). In considering indicators of increased commercialisation, we use data from Stats SA, the OECD, a study conducted by Wegerif et al. (2005), and the academic literature.
4 Empirical Considerations

4.1 Agriculture in South Africa

The development of agriculture in South Africa is well-documented (e.g., Feinstein 2005, Hendricks 1990, Marcus 1989, Binswanger and Deininger 1993). The origins of the dualistic farm structure can be traced to European dispossession of indigenous land, formalised with legislation such as the Glen Grey Act 1874 and Natives’ Land Act 1913. These restricted the extent of land ownership in ‘reserves’ by establishing communal tenure, banning the sale, rental, and sub-division of land therein (Binswanger and Deininger 1993). Outside reserves, Africans were banned from purchasing land from white landowners, with sharecropping and cash rentals prohibited (Ibid.). This reduced two-thirds of the population to access to only 7.3% of the land by 1913, limiting the extent for economic improvement and independence for Africans and preventing competition with white agriculture, reducing the African population to the status of permanent labour and subordinates (Feinstein 2005:43-44).

Relations between African labourers and white landowners persisted. During the inter-war years white landlords used labour tenancy, specifying an amount of labour to be contributed by African labourers to the commercial farm in return for which labourers could cultivate plots of land. Wage labour, however, superseded such informal tenancy arrangements, especially after the Second World War. As the farm structure underwent commercialisation, large landholders found hiring permanent labourers preferable to tenancy arrangements, expropriation of tenured land allowing the expansion of commercial farms and the utilisation of skills that could be acquired by permanent labourers to operate increasingly complex farm machinery (Feinstein 2005:61-62). Agriculture was the only exception to the Mines and Workers Acts (1911, 1936) which prevented Africans from holding skilled jobs, its labour force dominated by African and other non-white groups (Binswanger and Deininger 1993:1462).
Within reserves, agriculture organised around communal tenure faced collapse under pressures of over-population, poorly organised incentive structures and property rights, lack of financial support, and lack of access to markets (Feinstein 2005:73).

Suppression of African agriculture was accompanied by heavy support for white commercial farmers. The Agricultural Development Acts (1904, 1907) were early attempts to provide cheap credit and marketing assistance to white farmers, in addition to measures assuring access to cheap labour (Binswanger and Deininger 1993:1462). These efforts were met by subsidies to production and mechanisation, including the provision of credit and generous tax provisions, which encouraged the development of large-scale farming, with stringent restrictions on sub-division imposed with the Subdivision of Land Act 1970. Further assistance included marketing boards with broad powers to purchase and dispose of excess produce. Despite supporting white commercial agriculture, successive governments were unable to provide incentives to make the sector profitable, and it became characterised by huge and economically unviable debts by the 1980s-1990s (Binswanger and Deininger 1993:1463, Marcus 1990:31).

As apartheid came to an end, rural areas were characterised by vast inequality in land ownership. In 1991, about 60,000 white landowners were estimated to hold about 87% of agricultural land in South Africa, with 13% held by the African population and other groups in then-reserves (van Rooyen and Njobe-Mbuli, quoted in Borras 2003:384).

4.2 Land Reform Policy

Considering the contribution suppression of market mechanisms made to the creation of the dualistic and racialised farming structure, it is not surprising that as negotiations to establish democracy proceeded in the 1990s, land options were envisaged to involve some empowerment of markets. Empowering market mechanisms, through abolishing inefficient subsidies and repealing restrictions on African agriculture, was necessary, but would not achieve land transfers. A wider land reform programme was needed.
The model chosen was a policy set containing three pillars: market-mediated redistributive reform, consisting of abolition of market restrictions, provision of grants to potential beneficiaries, and abolition of subsidies to large landowners; land restitution, which intended for persons dispossessed since 1913 to reclaim such land or equivalent compensation through an arbitration process; and tenure reforms, which both strengthened the formal rights of commercial farm labourers, and sought to establish private property in former homelands (DLA White Paper 1997). The policy set was intended to provide a non-confrontational means to transfer land.

Above we argued empowering beneficiaries to buy land with the provision of credit or grants is insufficient, because the value of land depends on more than its productive value. White commercial farmers had no intention of giving up their land unless forced to either through a real threat of expropriation or through active government policy (most likely in taxation) that would provide financial incentives to sell. Successful market-mediated land redistributions likely require an inter-linked series of policy reforms. The policy package must encourage land transfers mediated by the market, and a policy environment that re-organises agriculture around family-sized farming. If the package does not line up incentives correctly for transactions from large to small farmers and for restructuring of production relations, it is possible the reform can go badly wrong by forcing increased mechanisation and commercialisation on large farms (see below). The minimum policies needed for successful land reform programmes relying on market-mediation are summarised in Table 1 below; many of these were unfulfilled in South Africa. In particular, the policy package can be criticised for failing to implement the repeal of the Sub-division of Land Act, for failing to instigate a progressive land tax (indeed, Van den Brink 2004 demonstrates the land tax is in fact regressive), for its limited grant size and general limited budgets, and also lengthy approval processes (Lahiff 2007).
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<tr>
<th>Reform Measure</th>
<th>Nature of Reform</th>
<th>Pursued in South Africa</th>
</tr>
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<tbody>
<tr>
<td>1. Abolish restrictions on market opportunities</td>
<td>Remove distortions/restrictions, market empowering</td>
<td>Yes; apartheid-era restrictions (eg Glen Grey and Natives’ Land Act) have been repealed</td>
</tr>
<tr>
<td>2. Abolish subsidies to commercial farmers which promote over-production and</td>
<td>Remove distortions/restrictions, market empowering</td>
<td>Yes; deregulation and liberalisation have proceeded since late 1980s, accelerating in 1990s</td>
</tr>
<tr>
<td>which pervert efficiency concerns</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Abolish other outstanding laws (such as restrictions on sub-division)</td>
<td>Remove distortions/restrictions, market empowering, restructuring of production relations</td>
<td>No; though Subdivision of Land Act was repealed in 1998, no announcement has been made as to when it comes into force</td>
</tr>
<tr>
<td>preventing operation of an agricultural sector organised around family-sized farms</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Improve access to credit for the rural poor</td>
<td>Increasing opportunities for the poor to purchase land</td>
<td>Yes</td>
</tr>
<tr>
<td>5. Introduce grants for land purchases paid for by government revenue and</td>
<td>Increasing opportunities for the poor to purchase land</td>
<td>Yes; however budgets have been limited; since early 2000s, grants have been used increasingly to fund development of commercial agriculture among beneficiaries</td>
</tr>
<tr>
<td>possibly external agencies, targeted to the rural poor</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Introduce progressive land taxes and inheritance taxes which discourage</td>
<td>Shifting incentives for landowners to sell land; basic restructuring of production relations</td>
<td>No; land taxes remain regressive</td>
</tr>
<tr>
<td>accumulation of large landholdings and which encourage their sale</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Consider introduction of land ceilings, but fall short of full expropriation</td>
<td>Shifting incentives for landowners to sell; basic restructuring of production relations</td>
<td>No</td>
</tr>
</tbody>
</table>

Table 1 Constituents of a successful market-mediated reform programme

As a function of the incomplete policy package, combined with conflicting overall goals in agricultural policy, we argue agricultural development in South Africa has continued to be dominated by large-scale commercial farming and has shown no tendency towards restructuring of production relations. Let us consider why the incomplete land reform
programme could have been predicted to be associated with intensified commercialisation in South Africa.

South African commercial agriculture was built upon state suppression of market mechanisms. However, those policies also helped suppress the types of efficiency which could be reached on commercial farms, even if these are below what we would expect from labour-intensive, small-scale farming. As detailed in Binswanger and Deininger (1993) commercial farming in South Africa was in serious trouble by the 1990s, characterised by economically unviable debts which exceeded levels of government support, within the context of general distress in the South African economy. International sanctions likely provided additional constraints, greatly restricting access to international markets and imported farm equipment. In this context, the removal of market distortions would likely have contradictory effects. First, it could have allowed for a successful market-mediated programme provided there were potential beneficiaries willing to purchase land, that adequate funding was available, that other policy instruments would be used to help induce sales, and that land could subsequently be sub-divided. The reasons to expect that with these elements successful transfers could occur were related to the troubled position of commercial farmers at the end of apartheid, facing financial distress and fearing for their claims to land, which may have provided the critical aspects to allow transfers.

However, the expectation was incorrect both because the full policy package required was not in place and because of the second effect of the removal of distortions: liberalisation provided commercial farmers with access to international markets and imports of machinery and inputs. Rather than exposing inefficient farmers to conditions that would force land sales to small farmers, it allowed the more efficient among the commercial class to improve their efficiency and squeeze out the least efficient (Marcus 1990 predicted this may occur). Vink and Kirsten (2000) state that a priori, predictions as to the effects of deregulation on farm size would be at best ambiguous. Deregulation, liberalisation, and the removal of other market restrictions would always have been unlikely to achieve large changes in land distribution, both because the effects of those policies are ambiguous and because they would not overcome the thinness of land markets; they would have to be accompanied by
policies to change incentives to commercial farmers to sell, and to potential beneficiaries to enable them to purchase land. Increased opportunities in export markets and to import machinery, combined with a fear of the three land reform pillars (especially of obligations under land tenure reforms and the potential for facing claims under land restitution), and the pressures of new social obligations such as minimum wages and new housing standards, meant those commercial farmers who could benefit from the post-apartheid economic climate could engage in more extensive mechanisation and commercialisation.

To examine this empirically, we consider the following testable implications:

First, we should expect evidence of decreased use of labour on commercial farms and increased use of machinery.

Second, we should expect commercial farms have improved their economic performance since the early 1990s when the reform package was conceived.

Third, we should expect the basic structure of South African agriculture is essentially unchanged, with no movements suggesting restructuring.

Beforehand, we address overall patterns of land transfers since 1995.

4.3 Performance of Land Reform 1994-2006

The land reform programme has proceeded very slowly, consistently falling behind targets (Lahiff 2007). The initial target to redistribute 30% of white landholdings to ‘previously disadvantaged’ persons by 1999 was extended to 2014, and has so far proved elusive.

Total land transfers as of 2006 under the three pillars are summarised in Table 2 below from Lahiff (2007) with data from unpublished DLA figures. The total of 3.4 million hectares (about 4.2% of the 1996 distribution of holdings) transferred under all programmes
overstates the amount of white landholdings redistributed, as it includes state land
disposal, which Lahiff estimates to be about 760,000 hectares. This still falls short of
the revised transfer target.

<table>
<thead>
<tr>
<th>Programme</th>
<th>Hectares redistributed</th>
<th>Contribution to total (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Redistribution</td>
<td>1,477,956</td>
<td>43.8</td>
</tr>
<tr>
<td>Restitution</td>
<td>1,007,247</td>
<td>29.9</td>
</tr>
<tr>
<td>State land disposal</td>
<td>761,524</td>
<td>22.6</td>
</tr>
<tr>
<td>Tenure Reform</td>
<td>126,519</td>
<td>3.7</td>
</tr>
<tr>
<td>TOTAL</td>
<td>3,373,246</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Table 2 Total land transfers under South African land reform programmes, 1994-
2006, reproduced from Table 1 in Lahiff (2007:8), data from DLA

Figure 1 from the OECD (2006)’s data\(^1\) on the progress of land reform demonstrates
the divergence between expectations and performance of the land redistribution
programme:

\(^1\) There is a discrepancy between OECD and Lahiff’s data as to total land transfers, the former
suggesting 1,683,000 ha redistributed by 2004, the latter suggesting only about 1,488,000 ha
by 2006; this likely owes to difficulties in separating out land transfers conducted under the
three pillars and under state disposals; Lahiff’s estimates, undertaken at PLAAS, are likely
more reliable; in any case, the broad trend depicted is the same
4.4 Development of Agriculture 1993-2005: Intensified Commercialisation

The commercial farm structure survived the end of apartheid and developed in good health overall. Despite declining as a relative share of GDP, the sector grew between 1993 and 2002 from a gross income of Rand 39 billion to Rand 53 billion at 2002 constant prices (Stats SA 2005). This occurred as agricultural policy stressed increased integration into global markets, with sharp growth in agricultural exports, and the removal of state support for commercial farming which opened up entrepreneurial opportunities and introduced more competition (OECD 2006). Overall, commercial farming seems characterised by stability; there is no evidence of restructuring from large-scale commercial farming to a smallholder structure.

Over the period, the number of active commercial farming units declined from 57,980 units to 45,818 units (Stats SA 2005); both the OECD (2006) and Wegerif et al. (2005) reported the contraction of farm units was part of a rationalisation of commercial farms, with the least efficient being overtaken by larger farmers as part of a defensive strategy of consolidation. The pattern discerned in the OECD study is of a sector dominated by the largest farms, with about 20% of the total number of units contributing about 80% of total value of production. Although the number of commercial farm units has decreased, these studies comment this should be interpreted as a smaller number of larger farms.

Further, the number of paid employees in commercial farming declined over the 1994-2002 period, from 1,093,265 to 940,815 (Stats SA 2005; comparable data covering the rest of the period was not available, but general employment trends in Stats SA 2007 suggested employment continued to decline in the agricultural sector through 2005, increasing slightly in 2006). The data from the Agricultural Census is summarised in Table 3.

<table>
<thead>
<tr>
<th></th>
<th>1993</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Active Commercial Farms</td>
<td>57,980</td>
<td>45,818</td>
</tr>
<tr>
<td>Gross Income (2002 Constant Prices)</td>
<td>R 39 billion</td>
<td>R 53 billion</td>
</tr>
<tr>
<td>Paid employees</td>
<td>1,093,265</td>
<td>940,815</td>
</tr>
</tbody>
</table>

Table 3 Indicators from Agricultural Census, source Stats SA (2005)
The reported falls in paid employees fits into a general pattern of declining farm employment in South Africa since the 1970s, as farms have become more capital-intensive and relied less on permanent workers. Wegerif et al. (2005) report that over 1995-2004 farmers tend to rely more heavily on temporary workers; the OECD study similarly states that structural changes in agriculture since the end of apartheid have resulted in an increased demand for fewer, more-skilled workers.

Data on the extent of mechanisation over the 1995-2005 period was not available. Qualitatively, interviews with commercial farmers and representatives from agricultural unions in several provinces suggested that the lifting of embargoes on imports of heavy farming equipment in the mid-1990s drastically changed the technology available, allowing fewer workers to cultivate more extensively over a shorter time (Wegerift et al. 2005:83). The same study suggests that as larger farms are consolidating by taking over smaller farms, they are also turning to more large-scale mechanisation.

The data thus far is consistent with our interpretation that the land reform period has been associated with increased commercialisation and mechanisation of large farms.

Perhaps the most important evidence, however, comes from Wegerif et al.’s (2005) data on tenant evictions. This study presents evidence that suggests that compared to the ten-year period prior to the introduction of reforms, the period 1994-2004 has been associated with increased evictions from commercial farms. Table 4 is reproduced from their work, demonstrating total numbers of evictees and displaced farm dwellers in each year, and the percentage these represent of the 20-year total 1984-2004:
<table>
<thead>
<tr>
<th>Year</th>
<th>Evictees</th>
<th>Displaced Farm Dwellers</th>
<th>Significant Events</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>Number</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Number</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1984</td>
<td>9.5</td>
<td>159,996</td>
<td>Protracted Drought, 1982-4</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1985</td>
<td>3.3</td>
<td>53,153</td>
<td></td>
</tr>
<tr>
<td>1986</td>
<td>5.9</td>
<td>97,684</td>
<td></td>
</tr>
<tr>
<td>1987</td>
<td>2.1</td>
<td>35,463</td>
<td></td>
</tr>
<tr>
<td>1988</td>
<td>2.9</td>
<td>48,918</td>
<td></td>
</tr>
<tr>
<td>1989</td>
<td>3.8</td>
<td>63,591</td>
<td></td>
</tr>
<tr>
<td>1990</td>
<td>4.1</td>
<td>68,435</td>
<td></td>
</tr>
<tr>
<td>1991</td>
<td>1.1</td>
<td>16,513</td>
<td></td>
</tr>
<tr>
<td>1993</td>
<td>0.4</td>
<td>6,784</td>
<td></td>
</tr>
<tr>
<td>1994</td>
<td>7.4</td>
<td>122,626</td>
<td></td>
</tr>
<tr>
<td>1995</td>
<td>5.1</td>
<td>83,575</td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td>6.8</td>
<td>111,651</td>
<td></td>
</tr>
<tr>
<td>1997</td>
<td>7.7</td>
<td>126,196</td>
<td></td>
</tr>
<tr>
<td>1998</td>
<td>3.8</td>
<td>63,771</td>
<td></td>
</tr>
<tr>
<td>1999</td>
<td>5.4</td>
<td>87,503</td>
<td></td>
</tr>
<tr>
<td>2000</td>
<td>3.4</td>
<td>57,030</td>
<td></td>
</tr>
<tr>
<td>2001</td>
<td>1.5</td>
<td>22,924</td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td>3.6</td>
<td>59,878</td>
<td></td>
</tr>
<tr>
<td>2003</td>
<td>8.2</td>
<td>138,308</td>
<td></td>
</tr>
<tr>
<td>2004</td>
<td>3.4</td>
<td>56,813</td>
<td></td>
</tr>
</tbody>
</table>

Table 4 Eviction Trends 1984-2004, reproduced from Table 4 in Wegerif et al. (2005:46)

Table 5 represents the above data aggregated into the periods 1984-1994 and 1994-2004.

<table>
<thead>
<tr>
<th>Period</th>
<th>Total Evictees</th>
<th>Total Displaced Persons</th>
</tr>
</thead>
<tbody>
<tr>
<td>1984-1994</td>
<td>607,486</td>
<td>1,832,339</td>
</tr>
<tr>
<td>1994-2004</td>
<td>930,275</td>
<td>2,351,087</td>
</tr>
</tbody>
</table>

Table 5, Evictions as Periods, totals calculated by this author, data from Wegerif et al. (2005)
This data is notable for numerous reasons. From sample data, it estimates total evictions and total displaced persons on commercial farms over the land reform period were higher in the period since the land reform programme was introduced than in the previous ten-year period. Indeed, considering there were two sub-periods of heavy drought over 1984-1994 which contributed heavily to eviction trends at that point, the increased rates of evictions and displacement in the 1994-2004 period is even more striking.

The events listed in the final column of Table 4 represent responses from commercial farmers and displaced persons regarding the general economic, social, and political factors at the time which may have contributed to eviction activity. Clearly, these do not imply the land reform programme was the only cause of evictions over the latter period, as overall changes in the agricultural sector resulting from, for example, deregulation and the lifting of international sanctions, also contributed to these patterns, but Wegerif et al.’s qualitative evidence is suggestive.

Commercial farmers interviewed in various provinces reported the fear of potential land reform programmes as the negotiations to introduce democracy occurred, and the actual obligations they faced under land reform (in particular the tenure reforms pillar) and other social policies, were factors contributing to their decisions to rely less on permanent or tenant labour, and to engage instead in increased mechanisation and often more reliance on temporary workers (Wegerif et al. 2005:78-89).

We further note (as Lahiff 2007: 8 highlights) the total number of displaced farm dwellers over the 1994-2004 period is higher than the total number of land reform beneficiaries (almost 2.4 million of the former compared to about 1.2 million of the latter). Finally, we note the decline in permanent labour and increased use of agricultural machinery reported in the Wegerif et al. study is consistent with the trends depicted in official South African statistics which reported a decline in agricultural employment over the period (Statistics South Africa 2005, 2007).
The above is consistent with our hypothesis that the land reform period in South Africa has been associated with increased commercialisation and mechanisation of large farms, and not with a restructuring of agriculture around family-sized farms. This is consistent with the generalised Latin American experience over 1950s-1970s, as is the observation that the surviving commercial farms have improved their economic performance while squeezing out the least productive among themselves. Just as Latin American land reforms over the 1950s-1970s were associated with expulsion and mechanisation within the context of growth in agriculture powered by growth in exports, we have evidence of similar phenomena occurring in South Africa.

4.5 Government Policy: Partial Deracialisation of Commercial Agriculture

In this sub-section, we briefly consider the political economy of land reform policy in South Africa, so as to integrate our findings into a much wider literature. The political economy of land reform policy has been widely researched, stressing policy-formation was heavily influenced by the ANC, the National Party, commercial farmers through unions such as AgriSA, various NGOs, and the World Bank (Weideman 2004). Noticeably missing were representatives of the rural poor and landless (Ibid.). We focus here on the ANC and AgriSA.

In policy documents, the ANC has stated consistently its intention to use land reform to achieve social goals such as poverty alleviation and empowerment of black South Africans while preserving commercial agriculture. There has been no intention to re-structure agriculture around small-scale farming units. The ANC national election manifesto in 1994 committed an ANC government to “encourage large-scale farming, and ensure security of tenure and all basic rights for farm workers...”; meanwhile the 1999 national election manifesto claims that, “Opportunities have been increased for white commercial farmers to become more efficient and to enter international markets” (ANC 1999), and states the intention to ‘speed up’ this process. In the White Paper on Land Policy (DLA 1997), no
references are made to re-structuring of agriculture; land reform efforts are justified as redress for historical crimes in dispossession and suppression of the black population.

The ANC commits itself to social goals but not at the expense of the exporting commercial farming sector; indeed, a major contention in the literature is that at best it is committed to empowering a new class of black commercial farmers, as reflected in the evolution of land reform policy since its inception (Hall 2004a). For example, the 1999 Ministerial Review of the programme replaced the original Settlement/Land Acquisition Grant, which had provided funds to poor rural persons for land purchases, with the Land Redistribution for Agricultural Development grant. This latter programme greatly expanded the number of potential beneficiaries, designed to encourage the establishment of black commercial farms (Ibid.). It was at this point AgriSA became most receptive to land reform, finally assured reform meant not the destruction of commercial farming but rather its partial deracialisation; indeed, Hall (2004:8) details how AgriSA began working with the black farmers’ union Nafu to develop a strategic plan to assist redistribution to emerging black commercial farmers.

AgriSA’s influence in the formation of policy and attitudes towards agriculture is detailed by Cousins (2007:227-228). Cousins argues the commercial farming lobby succeeded in having the following viewpoints embraced by the ANC. First, that only commercial agriculture is ‘real agriculture’, and that successful small-scale farming can only be a scaled-down version of technologically sophisticated and profit-maximising commercial farmers. Second, that poverty will only be addressed by relocation to urban areas; redistribution of land around small-scale units is not seen as a means of reducing poverty levels, with small-scale farmers portrayed as inefficient and unproductive. Finally, that the primary purpose of land reform in South Africa should be deracialising commercial agriculture. The policy programmes, stated intentions, and overall record of the ANC since coming to power in 1994 suggest these viewpoints have been taken onboard. Indeed, in our discussion we contend not only is government policy geared towards supporting commercial agriculture, but land reform policy itself may be interpreted as a means of forcing improved performance of commercial farms.
5 Discussion

The data on the extent of land redistribution suggests the market-mediated land reform strategy pursued in South Africa failed to generate substantial transfers from large to small landholders. Placed within the context of wider policy goals, this is not surprising. In an agricultural sector built around large-scale commercial farming, and which because of wider economic policy goals of deregulation, liberalisation, and integration into international markets was able to rejuvenate itself, it was unlikely the government would provide appropriate incentives to allow for redistributive land transfers to occur through land sales. The wider market-empowering policies instead provided opportunities and incentives to commercial farmers to engage in further mechanisation, which may have been contributed to by fears of the land tenure reforms and land restitution elements of the over-arching land reform policy.

It may be contended the market-mediated model was not then necessarily at fault; having not been fully implemented, it is difficult to make definitive judgements as to its true potential. However, the evidence from South Africa suggests that to the extent the model was implemented, it was associated with social losses in terms of increased land evictions and decreased access to land while the large farm structure underwent improvements, much like traditional land reform efforts in Latin America.

The improved performance of commercial agriculture does not bode well for future land reform efforts in South Africa. In Latin America, increasing the economic position of commercial farmers helped bring about an end to land reform programmes as those actors became more politically and economically powerful. This was the strategy of nonexpropriation-if-modernisation. As a simultaneous process, driving workers from the land made identification of beneficiaries and future sub-division of large farms more difficult, whilst the infrastructure remained committed to commercial farming. Likewise in South Africa land reforms could be labelled nonredistribution-if-modernisation. Expulsions likely decrease the pool of persons with independent farming experience, whilst the improvement in commercial agriculture vastly weakens the case which could have been
made for redistributive reforms and agricultural restructuring. With the severe economic hardship facing commercial agriculture in the early 1990s, there was a strong economic case for redistributive reform, which should have been met with policies designed to achieve this.

The failure of land reform in South Africa resulted from contradictory policy goals, generated by a government whose support for redistribution and agricultural restructuring were non-existent; these created an incomplete policy package which fitted into the larger goal to increase efficiency in commercial agriculture and only sought partial de-racialisation rather than re-structuring.

This does not imply market-mediated land results are always likely to fail, but does stress the importance of addressing the structural elements of the Chicago question, as well as the incentives facing commercial farmers. Part of the tragedy of land reform in South Africa is that placed within a policy package which guaranteed compensation for land expropriated and which provided post-reform support to small-scale farmers, policy tools such as progressive land taxes and possibly land ceilings (if compensating at 100% market value) may have been able to achieve transfers under the market-mediated model. Considering the distress commercial agriculture was in during the early 1990s, transactions may have occurred if correct incentives were provided to potential buyers and sellers. Yet rather than introduce land ceilings to encourage transfers, restrictions on sub-division remained; instead of progressive land taxes to remove non-productivity-related sources of land valuation, the tax structure remained regressive. Implementing these would have disrupted commercial agriculture and placed downward pressure on farm sizes, both at odds with the government’s overarching agricultural policy.

This represents part of the tension at the heart of market-mediated land reform: the policy package must change the incentives facing large landowners to induce sales, but at the same time seeks to avoid confrontation. In South Africa, the unwillingness to confront landowners, which would have risked substantial disruption, dominated any desires which may have existed to induce land transfers.
6 Conclusion

In this paper, we considered why land markets failed spontaneously to make productivity-enhancing transfers of agricultural land from large to small farmers, building on the logic of the inverse-relationship between farm size and productivity. We considered that correcting land markets needed to address three areas: the structural context of the rural economy; the financial position of potential small farmers; and incentives facing large landowners.

We considered the problems of traditional state-led land reforms, and addressed how market-mediated reforms sought to overcome these. We argued the market-mediated model was distinguished by its preservation of existing property rights regimes, and its potential to be non-confrontational.

Comparing the generalised Latin American experience to the contemporary South Africa one, we found striking similarities between the outcomes of state-led reforms in the former and market-mediated land reforms in the latter, focusing on how large commercial farmers reacted to land reform programmes in both experiences. Outcomes in both were characterised by failure to redistribute land within the context of general improvements in economic efficiency in large-scale agriculture and more concentrated farm ownership, increased eviction activity and mechanisation on commercial farms, and decreased access to land for the rural poor. Our explanation for failure to redistribute land in South Africa considered the incomplete nature of the programme and the ambiguous pressures this had on land size patterns in the context of overall agricultural policy, which we linked to the government’s preferences in favour of commercial agriculture. We argued this resulted in the rejuvenation and intensified commercialisation of the large farm sector, which may have represented the loss of the opportunity for land reform in South Africa.

This stresses the future design of land reform policies cannot contain such conflicting goals as maintaining a commercial structure and pursuing redistribution. The South African experience does call into question much of the market-mediated land reform model, our own contribution highlighting how failing to provide a complete reform package can interact with
other policies to produce adverse outcomes. Considering the complexity and expense of the market-mediated model compared to state-led reforms, it may be that governments genuinely committed to redistribution of land and the re-structuring of agriculture may consider state-led reforms preferable.

However, the advantages of the market-mediated model are that it does not involve any destruction of existing property rights regimes, that it is demand-led and allows beneficiaries scope to select land for purchase, and that properly implemented it may overcome disincentives for landowners to sell. In this case, finding means to make market-mediated reforms work may still be worthwhile. Land markets in developing countries are notoriously thin, and empowering market mechanisms and the use of appropriate complementary tools may still have the potential to achieve land redistributions, but the importance of the political will of governments and translating this into coherent policies remains all-important. In particular, governments have to overcome the tensions between pursuing a non-confrontational strategy with landowners while providing incentives for them to sell land. Future policies based on market-mediated reforms should consider the goal to be redistribution; that this involves increasing the capacities of beneficiaries to purchase land through overcoming incomplete credit markets, likely involving the provision of grant funding from government or external actors; that incentives to current landowners to sell must be pursued through government policy such as land taxes and land ceilings, because of the differential means by which potential beneficiaries and current owners value land; and that the overall agricultural structure must be geared towards small-scale family-sized units.

These tasks require considerable effort and expense. Market-mediated land reforms may be just as difficult to achieve as state-led reforms, and possibly more so. If any aspects of the policy package are neglected, the South African experience suggests land reform can have disastrous results.
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