BOOK REVIEWS

The Peasant Betrayed
John P. Powelson and Richard Stock
Boston: Oelgeschlager, Gunn, & Hain
for the Lincoln Institute of Land Policy,
1987, 302 pp.

In its dream version, land reform releases peasants from the iron grip of rapacious landlords, supplies each with a modest but sufficient plot of land, and lays the foundation for an agricultural economy of productive, self-reliant yeomen, the bedrock of future democracy. The real world, as portrayed by John P. Powelson and Richard Stock is quite different. It brings to mind Macauley's exclamation: "Reform! Don't speak to me of reform, sir. Things are bad enough as they are." Virtually everywhere, land reform appears instead to have replaced multiple rapacious landlords, in at least implicit competition with each other for tenants, with a single rapacious landlord—the state.

Typically the state grants the supposed beneficiaries only a fragmentary title—they lose it if they cease to farm, so they cannot leave without abandoning whatever wealth the farm represents. They are tied to the land nearly as tightly as the medieval serf. Then the state squeezes them at both ends of the production cycle. It commonly establishes monopolies over the sale of fertilizer and over purchase of the important crops. Selling high and buying cheap, the state denies the peasant what the market would allow him. Finally, it interferes in credit markets, sometimes monopolizing them, sometimes merely using subsidies to sap private markets of the ability to compete.

That's average. Some countries do worse. Bureaucrats in the national capital decide for the farmers what to plant, and when, what fertilizer to use, and when and where to sell. Thus the farmer in Egypt functions as no more than an employee of the state. Agricultural production in Egypt has *fallen* an average of 0.4 percent a year for 19 years. Mexico's agricultural output was less in the mid-1980s than in the early 1960s.

Even the occasional nonexploitative government agency brings ill. When an agency provides an input below cost, demand typically exceeds supply. Bribes and influence-peddling are needed to align them. The bribes are

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costly, and the atmosphere of corruption and favoritism diverts energy from productive activity.

Why such a dreary record? Powelson and Stock develop the thesis that land reform will succeed only where the peasant has already achieved considerable economic power and can seize it for himself; where the state "gives" him land reform, it will betray him.

The authors' thesis has a good deal of intuitive appeal. Peasants will have power where they have developed the skills of self-reliance and enterprise that make for success in the economic and political realms. If they have those skills, they will be likely to be able to fight off the manipulations of those social classes in whose interest the state establishes monopolies and microsupervision over agriculture. (These assertions of state power are of course done in the name of helping the peasant; even apart from their evident failure to do so, the fact that they shift power away from the peasant producers would give ample ground for skepticism.)

If Powelson and Stock are correct, it is utterly quixotic to exhort Third World countries to adopt "sound" land reform. If the conditions of sound land reform exist, the peasants will bring it off. If they do not, those who control the state will twist it to their own purposes. Thus such exhortations would fall into a class with John Kenneth Galbraith's idea that socialist enterprises should be managed according to profit-seeking criteria, an idea that simply ignores the problem of how an enterprise in the political realm could ever be free of politics' normal system of rewards and penalties.

The character of past western interventions underscores these doubts about any possible future exhortations. In South Korea, for example, the American supply of grain under Public Law 480 provided political cover for an outrageous (but quite common) policy. The government monopoly over grain purchases paid the peasants below-market prices, thereby discouraging production. American grain filled the artificial gap.

The World Bank is also active in pushing Third World countries in doubtful directions. It promotes the idea that government must supply credit and "complementary inputs." Its thesis seems to be that these needs could not possibly be met either by existing indigenous institutions or by ones that would arise if government kept out. (The evidence is the other way, in the few situations where the state has left some room—such as Kerala (India) and parts of Bolivia.)

As is so often true, the authors' proof of their central thesis is not so strong as one could hope. Consider South Korea, which they rank high, as do most others. Their key explanation is that the largest landowners were tainted by collaboration with the Japanese, so that "no strong rural elite remained to co-opt government institutions." Together with the peasants' sense of self-reliance from their own anti-Japanese activities, this suggests a relatively powerful peasantry and fits the thesis. But the book does little to establish the unspoken premise that elsewhere it was the ousted landlords who manipulated land reform into a device for enhancing state power at the expense of the peasants. The chapters on land reform in other countries only rarely

discuss those individuals' social or economic origins. One supposes them to be a Third World version of Irving Kristol's "new class," but where do they come from?

Further, some of the evidence of peasant independence in South Korea appears forced. The authors note that many peasants actually bought out their landlords. To the extent they did, land reform was indeed a product of the peasantry, operating within a constant system of private property rights, rather than of the government. But Powelson and Stock also point out that the peasants' bargaining power was enhanced by the government land acquisition plans, that the government delay in redeeming bonds used for land purchases warned landlords that they would not receive full market value, and finally that a peasant rent strike (evidently enjoying the benefit of government failure to enforce landlords' rights) undercut the landlords' expectations from continued ownership. It was bargaining, but the government thumb was on the scale.

In addition, the South Korean success is itself somewhat blighted. As the story of underpricing reflects, even there the government took over related economic activities at the expense of the peasantry. Taiwan, the other reputed success story, also introduced government fertilizer and rice monopolies, and pursued the usual price-squeeze policy. The authors note that both South Korea and Taiwan introduced these monopoly programs well after the land reforms and in some sense independently of them. But the programs were still destructive, though delayed, and their adoption shows that the peasantry lacked the political power needed to protect themselves.

Supporting the authors' thesis, however, is the fact of rapid industrialization in South Korea and Taiwan. Peasants' economic opportunities off the farm represent a basic source of protection; they need not tolerate treatment that makes them worse off than under an alternative. Successful industrialization raised the returns to alternative activities.

The authors cite one other partial success—areas of Bolivia where the rebellious character of the peasants, and land's barrenness and distance from population centers, left the government disinclined to meddle. There, a fairly complex set of peasant institutions developed, including a union, meeting the peasants' needs for marketing and credit. If Powelson and Stock are correct, the World Bank's skepticism and condescension have no basis.

Another bizarre case is that of Kerala, India. A nominally Marxist regional government, functioning under India's version of federalism, expropriated its rentier class of owners and redistributed the land among working farmers. Rich peasants gained the most, followed by poorer ones, with the smallest (but not invisible) gains going to the *kudikidappukars*—the poorest of the poor. For reasons not altogether clear, the defects of the government credit system were at least milder in Kerala than elsewhere in India and the Third World. The authors believe that "participatory democracy," not described in detail, enabled the local farmers to keep control. The relative prosperity of the farmers whose interests prevailed also tends to support the authors' theme: where the peasant beneficiaries have a fair bit of economic and political power at the outset, reform is less likely to be captured by the state.

The Peasant Betrayed is a somewhat formidable book, not to be undertaken by the faint-hearted. But, besides amassing an abundance of information, it raises vital questions for anyone concerned with Third World development and the role of the West.

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A Nation in Debt: Economists Debate the Federal Budget Deficit
Richard H. Fink and Jack C. High, eds.
Frederick, Md.: University Publications of America, 1987, 300 pp.

Twenty years ago, economists were asking: "Does money matter?" At the time, the international monetary system was rooted in the gold standard and a system of fixed exchange rates under the Bretton Woods agreements. This provided for some degree of stability and predictability of monetary policy that persisted until the system broke down in the early 1970s. The remainder of that decade witnessed a failed attempt in the United States to manage the nation's monetary policy. The consequences were high inflation and interest rates, volatile and generally slow economic growth, and sagging productivity. By the end of the decade, the uncertainty and pessimism about the future seemed to be a confirmation (for those who needed it) that the answer to the question is "yes." Money not only matters, but it can matter a great deal.[1]

During the 1980s, it could be argued that there has been an improvement on the monetary side of U.S. economic policy. That is, while price stability has not been restored and uncertainty over policy decisions remains, both the level and the volatility of inflation have fallen. However, the economy is now exposed to the large structural budget deficit of the federal government. This suggests that some of the earlier mismanagement may have shifted to the fiscal side of the nation's economic policy-making. As a consequence, economists are now asking an old question with renewed interest: "Do budget deficits matter?" The timely collection of essays assembled by Richard Fink and Jack High addresses this question.

There seem to be two overriding concerns that went into the selection of these essays. One is to provide a historical perspective on the issues surrounding deficit spending. In this regard, the book is very successful. Even those intimately familiar with the current debates will likely find something new and of interest, particularly in the first two chapters. I was surprised to learn, for example, of the important role that government debt issues played in the early development of organized capital markets in Great Britain (pp. 52–57).

[1]This is not to suggest that *only* money matters. Other policy- and non-policy-induced shocks, for example, those related to regulatory uncertainty and OPEC pricing, also had significant effects on the real economy during the 1970s.