AGRARIAN REFORM, LAND PURCHASE AND INDUSTRIALIZATION IN PERU

By

John Strasma

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To some people, agrarian reform is basically a wholesale real estate transaction. To others, it is a profound process of political, economic and social change.

Those who prefer the second viewpoint see agrarian reform in terms of the rural families who benefit directly. Campesinos in many nations still lack schools, political rights and social mobility, and present tenure systems provide no incentives to save, produce more or innovate. Land titles alone are not enough for the illiterate and poverty-stricken: capital, better seeds, livestock and tools, and access on fair terms to markets are all essential. Changing farming practices and reorganizing credit and marketing takes far more talent, resources and effort than does a mere change in the legal ownership of land. In Latin America, extension workers are few, though lawyers are often in over-supply.

The "realtors," however, think of agrarian reform in terms of the interests of the present landowners, who cherish both the land and the power and status which land ownership confers. If they must go, it is taken for granted that the ex-landlords will be compensated generously. For scholars of this persuasion, the essential question in agrarian reform finance hinges

1/ I appreciate comments on an earlier draft by various colleagues, and especially by Lander Pacora and Pablo Salmon, of the Agrarian Reform Institute in Lima, and by Peter Dorner, William Thiesenhusen and Daniel Stewart of the Land Tenure Center, University of Wisconsin, Chile project.


2/ Graduate Program of Latin American Economic Studies (ESCOLATINA), of the Institute of Economic Research, University of Chile; 1964-65 Visiting Professor, Department of Agricultural Economics, University of Wisconsin.
on what the ex-latifundistas will do with the compensation payments. Will they invest in urban housing, or commerce, or new factories, or will they buy dollars and move abroad?\footnote{3}{What can be done to influence this decision?} Given their expected behavior, in what form should compensation be paid?\footnote{4}{This "real estate" approach to agrarian reform is taken in a recent paper by members of an AID-sponsored team at the Peruvian Agrarian Reform Institute. Their proposal, which influenced the drafting of the Agrarian Reform Law enacted in May, 1964, suggests that agrarian reform in Peru be financed through the creation of a mutual investment trust which, the authors feel, would also further industrial development. The authors suggest that the trust fund idea may be useful in other countries as well, and it has received some attention in international agencies. The present paper describes the scheme, doubts that it will further either agrarian reform or industrial development, and suggests alternate means to prevent capital flight while promoting agrarian reform and economic growth. We also ask whether international agencies (or the United States Government) should underwrite land reform bonds, directly or indirectly.}


\footnote{4}{A third group insinuates that agrarian reform should be put off until exhaustive study has decided how to cope with the inflation which it is certain reform will produce. See, for instance, "Inflación y Reforma Agraria", a paper presented by Dr. José Marull to the Seminar on Financing Agrarian Reform, organized in Panama, in May 1964, by the Inter-American Center for Agrarian Reform.}

\footnote{5}{Fred Mann, Melvin Blase and Luis Paz, "A potential institution and procedure for financing agrarian reform and stimulating industrialization in Peru," published by the Iowa Universities-AID Contract Group in Lima, and presented (with slight modifications) to the Seminar on Financing Agrarian Reform. (See note 4.)}
I. The Agrarian-Industrial Investment Trust

In their opening paragraph, Mann, Blase and Paz make clear their notion of agrarian reform. Underdeveloped countries, including Peru, are characterized by concentrated land ownership and a lack of industry. They need Agrarian-Industrial Trusts, to:

"1. Provide an institutional means for financing agrarian reform.
2. Stimulate non-agricultural industrial development.
3. Make agrarian reform more acceptable by minimizing risk.
4. Utilize existing public institutions.
5. Minimize the extent of public control in accomplishing these objectives."cer

The authors found "the total cost of the agrarian reform program in Peru" to be about 8.2 billion soles, or US $308 million. Since transfer payments of this size might go into capital flight, they recommend that the Trust woo the money instead into domestic industrial investment, exchanging its shares for their bonds. Agrarian reform will take at least ten years for lack of technical staff, so annual land takings would be valued at about 10% of annual net private investment, which should easily be absorbed in industry.

The "risk" to be minimized refers to landowner arguments that bondholders are "vulnerable" to inflation, whereas landholders are not. Mann et al. do not mention the present vulnerability of Peruvian hacienda owners.

8/ The Plan Nacional de Desarrollo Económico reports net average private sector investment, 1950-60, as 9 billion soles, and private sector savings as 8 billion soles (at 1960 prices). By 1965, the Plan calls for private savings of 16 billion soles, but no indication is given as to how this is to be achieved.
who now risk invasions and loss of more than land, should reform be delayed.

Since existing public institutions would do all the work of land transfer, the only new bureaucracy created would be the Trust itself. Public control of agrarian reform would be minimized by giving considerable autonomy to the Trust, whose Board would include representatives of the private sector.

As assets, the Trust would have budget appropriations, bonds exchanged by ex-landowners, and grants and loans from abroad. It would buy shares of new or expanding industrial firms, subject to 1) approval of the project by the National Planning Institute, and 2) acceptance by management of "industrial reforms" favoring workers and minority stockholders, and giving workers a voice in management decisions. The Trust would also lend up to 75% of the nominal value of bonds deposited with it, to ex-landowners wanting to start or expand their own industries. The equity investments of the Trust would increase the supply of Peruvian risk capital, which should attract more private loans and partnership investments from abroad.

The bonds will sell below par if inflation is expected or if the market is swamped by would-be sellers, so the Trust should not sell bonds to obtain cash to invest in industry. Instead, AID is "expected to provide a long-term loan, below private interest rates...," equal to the face value of the bonds held (and of shares given out) by the Trust. This cash would be invested in stocks. The Trust would wind up with long-term foreign debt (to AID) equal to its holdings of land compensation bonds, and shares outstanding equal to its stock portfolio. To the extent that industrial stocks

2/ Mann, Blase and Paz, op. cit., p. 8.
rose with prices, Trust shares would protect the ex-landowners against inflation. They could not lose: the Peruvian Government would pay increased debt service requirements in the event it devalued the currency.

As the government redeems land bonds (about 5% a year), the Trust would redeem the same proportion of its own shares. It would pay the cash to the international lender, and distribute stocks to shareholders. When the last bond matures, the Trust would have repaid its borrowings and would have distributed its entire portfolio to its shareholders. 10/

Finally, the authors would form similar funds in other countries, seeking a "common market effect." A new Agency for Interamerican Investments would make loans "secured" by land reform bonds, to national trusts which would reinvest in industry. The amount loaned each country would depend first on the extent to which tariffs to Latin American Free Trade Association (LAFTA) members were lowered, and secondarily, on the merits of the investment proposals as such. (The merits of the agrarian reform behind the bonds are not even mentioned.) This incentive would speed tariff liberalization, widen markets, and thus make industrial investments more profitable. The authors conclude,

"... the type of recent economic gains made in Western Europe due to the Common Market can be enjoyed in Latin America, through the proper structuring of an international agency." 11/

10/ The authors do not say whether AID and the Peruvian Government receive shares in exchange for subsidized loans and budgetary appropriations. If not, this value would also go to the ex-landowners on liquidation of the Trust.

11/ Mann, Blase and Paz, op. cit., p. 13. It isn't that easy. See, for instance, Carlos Wessad and John Strasma, La Zona de Libre Comercio, algunos problemas por resolver (Santiago: Institute of Economic Research, University of Chile, 1961).
II. Provisions for Expropriation and Compensation in the Peruvian Law

To evaluate the Trust scheme, we should first look at the provisions and scope of Peru's Agrarian Reform Law. On its surface, the law is notable in providing three chances for the landowner to influence the Institute's technicians, and yet the Institute can theoretically have effective possession in as few as some 90 days after the procedure begins.

The Institute is to work by zones, and the process begins by the publication of tentative expropriation plans for a given zone. Owners then have 60 days to declare their holdings in other parts of the country, and to file objections to the proposed boundaries between the land to be expropriated and that which they are allowed to retain. A second plan is then surveyed in the field, and published with the Institute's idea of the value of land to be taken. Further objections are heard by the Institute's superior council, which will consider alleged errors of fact of classification of properties, but not valuations nor boundaries. The Institute then sends the final plan to the President, through the Minister of Agriculture, for proclamation.

The owner then has fifteen days to sign over the property, whether or not he likes the boundaries or the valuation. If he refuses, a court will carry out the transfer anyhow. The Institute may permit delay to harvest crops if it chooses, but the procedure cannot be delayed by court appeals of any kind by owners or third parties. Compensation awards can be appealed for years, but the Institute gets the land first.

12/ Ley de Reforma Agraria, no. 15037, promulgated May 21, 1964.
13/ Articles 62-74 (of the Agrarian Reform Law).
Some types of landholdings are to be expropriated in entirety:

1) Public lands not used directly by the agency owning them;

2) Church lands not used "directly and efficiently" in teaching, social welfare, research, or "support of church institutions." (All church land investments theoretically support institutions, so the last phrase appears to let the Catholic Church escape agrarian reform for now. In Chile, on the other hand, that church is a leading promoter of reform, starting with its own lands.)

3) Unexploited land. (Undefined. Do two sheep per 1,000 hectares constitute "exploitation"?)

4) Rented lands up to three "family units," (Larger units may continue rented, subject to reforms in lease conditions and to partial expropriation just like owner-operated haciendas).  
   All irrigated coastal land except sugar plantations, which are exempt, will be subject to progressive expropriation:

   The first 150 hectares of the next 350 ha., of the next 500 ha., of the next 500 ha., of the next 500 ha., and of all over 2,000 ha., will be exempt; 30% will be taken; 50% will be taken; 70% will be taken; 90% will be taken; 100% will be taken.  

Other coastal lands are converted into equivalents, as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Equivalent Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Irrigation unreliable</td>
<td>2:1</td>
</tr>
<tr>
<td>Cultivated land, no irrigation</td>
<td>3:1</td>
</tr>
<tr>
<td>Natural pasture lands</td>
<td>15:1</td>
</tr>
</tbody>
</table>

Landholdings anywhere in the country are added together to determine the amount to be taken; false declaration or failure to declare may lead to fines up to half the value of lands taken. So far as possible, buildings and plantations will be left in the owner's portion. In dividing the land, however, the owner and the Institute must take proportionally of the good and the bad.

14/ Articles 9, 14, 15 and 16.
15/ Articles 38-47.
16/ Article 30.
17/ Articles 24-26 and 63. Pro-rata shares in corporate or partnership lands are added in; bearer shares are outlawed.
18/ Article 62.
If an entire property is efficiently exploited, pays taxes, provides schools and good wages, and is a model farm in the region, the Institute may reduce the amount expropriated by as much as 20%. In the highland Sierra, the land left to owners varies by provinces; the norms were to be announced by the Government later in 1964. In the headwaters of the Amazon (selva), owners may keep three times the acreage they now cultivate efficiently.

Compensation for land taken will be an average, capitalized, of 1) average taxable income declared for the last five years, 2) potential net output as estimated by the Agrarian Reform Institute, but deducting from the capitalized value the investment required to put idle land into production, and 3) commercial value as estimated by a certified appraiser. Payment terms vary. The lowest down payments (50,000 soles, equal to US $1,850), lowest interest (4% on the unpaid balance), and the longest amortization (22 years), go to owners who left the land idle or rented it. The middle group get 100,000 soles cash and the balance over 20 years, at 5%, and the best farmers get 200,000 soles, 18 years, and 6%. Livestock, plantations and installations taken will be valued separately and paid for in cash.

19/ Article 31. 20/ Articles 32-36.
21/ Peru has no property tax yet. Owners are supposed to declare gross income from urban and rural property; one-sixth is deducted for presumed costs and the balance is subject to a proportional income tax at 7%. There is also a realty transfer tax of 4 to 5.5%, varying by locality, and a capital gains tax of 1 to 15% according to the ratio of gain to purchase price. Informants said both income and transfer prices are grossly under-reported.
22/ When "commercial value" includes prestige and inflation-hedge values, inclusion of this element in the average tends toward a regressive redistribution. Either the new owners or taxpayers in general will have to pay more compensation than the land is worth in production. See Pedro Alibert, "Comment on the paper by Mann, Blase and Paz," in the Panama Seminar on Financing Agrarian Reform.
23/ Compensation is covered in articles 75-77 and 233. The capitalization rate is not specified in the Agrarian Reform Law. Figures from 6 to 12% were proposed in the debates, but it seems to have been left to the Reglamento, which is determined by the President.
III. The Real Cost of Agrarian Reform

Scholars of the "realtor" school often have little interest in agrarian reform as such. Everything that does not concern the legal transfer of title to land or the payment of compensation to the former landowner is lumped off into "public welfare considerations" outside their scope. This bias appears in "the cost of financing agrarian reform," which Mann et al. see only in terms of the payment of compensation to some 250 to 300 families and companies who will lose a part of the land they are now farming.

Other Peruvian studies of the cost of agrarian reform stress instead credit and technical assistance for new farm families. For example, in one project (Lurín), involving the expropriation and distribution of just 1,500 hectares of cultivated land along the coast, reform will cost nearly US $1 million just in 1965:

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expropriation (10% of total price)</td>
<td>Soles 4.5 million</td>
</tr>
<tr>
<td>Infrastructure improvements</td>
<td>6.8 &quot;</td>
</tr>
<tr>
<td>Technical assistance</td>
<td>1.5 &quot;</td>
</tr>
<tr>
<td>Administration (Lima and on-site)</td>
<td>1.4 &quot;</td>
</tr>
<tr>
<td>Net credit to be extended</td>
<td>11.3 &quot;</td>
</tr>
<tr>
<td><strong>Total budget, 1965</strong></td>
<td><strong>Soles 25.5 million</strong></td>
</tr>
</tbody>
</table>

24/ Mann, Blase and Paz, *op. cit.*, p. 17.
25/ This is my own estimate; Mann et al. do not mention how few families would participate in the proposed Trust. The thirty largest hacendados control 28.7% of the cultivated land in the rich coastal area. All coastal properties over 500 ha., and thus almost certain to have significant lands taken, are held by only 190 families and companies. The sugar plantations, however, are exempt. With 36 owners more, 66% of the land concessions in the Eastern jungle region can be added; there may be some overlapping with families having land on the coast.

Ownership data for the highland Sierras is poor, but only 99 properties are larger than 1,000 ha., and again overlapping is possible. It thus appears that reform will take some land from not more than 250 to 300 families. Obviously, this is nothing alongside the 130,000 to 200,000 families that will receive land in the process.

Another group of absentee owners of small properties will be expropriated, as well as some lands of institutions. For these, however, expropriation with compensation is merely the substitution of one financial investment for another.

The cost of agrarian reform varies from country to country and zone to zone, according to the size of parcels, the infrastructure investments needed, and the extent to which the reform program proposes to finance equipment, materials, and initial living expenses. Limiting study of "the cost of financing agrarian reform" to indemnization schemes is as myopic as reforming tenure systems with no thought whatever for production and marketing.

IV. Savings, Taxation and Compensation in Peru's Agrarian Reform

In their economic aspect, agrarian reforms usually aim to increase national savings and transfer them from agriculture to industry. Modern reforms, however, also seek a just wealth redistribution, just as progressive income taxation seeks to redistribute income. Justice apart, the redistributive aspect of agrarian reform is also a spur to industry on the demand side: a more even distribution of wealth and income, in city and countryside, provides a wider market for domestic manufactured goods. Before reform, much of the rural population buys little produced off the hacienda, while the landowner prefers imported goods. The inefficiency of hacienda food production keeps city food prices so high that urban wage-earners spend most of their earnings on food, minimum clothing and sub-minimum housing. Thus neither city nor country offers a promising market for manufactures.

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26/ Instituto de Reforma Agraria, "Programa de Trabajo para el año 1965," ditto process, table 5. The 10% for expropriation includes an average 5% down payment, plus an average six months' accrual of interest and amortization at 5% per year apiece. Over the next 20 years, an additional 40.5 million soles, plus interest, will redeem bonds given landowners. The new landowners will cover most of this in their own land payments.

27/ Edmundo Flores carries this reasoning to a logical conclusion, that ex-landowners should not be compensated at all, any more than the rich are now compensated for the effects of progressive income taxes. Tratado de Economía Agraria (Fondo de Cultura Económica, Mexico, 1961), p.324.

28/ For a careful study of redistribution and agrarian reform, see Thomas F. Carroll, "Reflexiones sobre la distribución del ingreso y la inversión agrícola", Temas, Interamerican Development Bank, August 1964, pp. 19-40.
A. Savings and payments by new landowners

When recipients pay the government for their land, it is obviously possible to finance more agrarian reform and economic development than if the land is given gratis, taxation and other government spending constant. Payment for land or a heavy land tax are substitutes: either reduces consumption and can divert part of the added income of the campesino to public purposes. However, it may be possible to get the new landowner to save and transfer more of his new income through land payment plus taxes than through either alone. To feel more secure in his possession, he pays for the land and pays taxes on it — a traditional requisite of ownership.

"Free land" is an easy promise for demagogues, but it may be expensive in terms of savings and economic growth. The exemption of new landowners from taxation would be equally unwise, since peasants spoiled by exemption will not later accept taxes even when relatively prosperous. (Witness postwar French experience.) Indirect taxes would then be the only way to collect revenue from this sizable part of the population, and indirect taxes favor continued subsistence farming, less use of purchased inputs, and less demand for city products.

In determining total tax-plus-land-purchase charges, planners should also have in mind credit resources and repayments scheduled.

29/ In determining the size of a "family unit," the Peruvian Commission for Housing and Agrarian Reform recommended that campesino families have a parcel on which they could earn double the present average wages for working members of the family. La Reforma Agraria en el Perú, Documentos, I (Lima, 1963), p. 54.

30/ Bolivian agrarian reform officials told in 1961 of campesinos who did not believe the government could give them land titles. They wanted to pay, and they wanted a receipt signed by each ex-owner. Many also wanted to pay taxes, an act which they understood to go with ownership. Strasma, "Tax Reform in Bolivia, 1961" (ICA, multilith).
In any case, payments by beneficiaries of agrarian reform need not relate to compensation paid ex-landowners; they fall more properly in the realm of tax and savings analysis.

B. Down payments and the Peruvian Agrarian Reform

Peruvian land grants are to be paid for in 20 equal annual installments, with no down payment and a grace period determined by the Agrarian Reform Institute, of up to five years. The price is "not more than" the purchase price plus the cost of infrastructure investments. Interest rates will also be set by the Institute. Since the present value of farms is believed to reflect past abuse of labor, the law provides that the Institute shall apply "up to 30%" of compensation awards to the purchase price of land assigned tenants and workers, reducing the owner's compensation accordingly.\footnote{Article 239, Agrarian Reform Law.}

Land will be repossessed if two yearly payments are defaulted; recipients are also obliged to join cooperatives, cultivate the land themselves, and may not sell or transfer the land for ten years.\footnote{Richard W. Patch rightly observes that this leaves the new owners as "tied to the land" as present tenants and laborers are. "The Peruvian Agrarian Reform Bill", American Universities Field Staff Reports Service, Vol. XI, no. 3, p. 11.}

At death, the parcel must be taken over by just one son. If the heirs disagree, a court will choose one or the land will revert to the Institute; the Institute will in any case try to help the other children obtain land.\footnote{Articles 100-108. This will be difficult, since there are already many times more candidates than land available. Patch, \textit{op. cit.}, p. 9.}

The absence of any down payment assumes either that the campesino has no savings, or that he needs and will use them for initial working capital. If supervised credit were really provided new landowners for
their working capital needs, down payments might be desirable. 34/

C. Political opposition and compensation

Those who would sweeten compensation to remove political opposition to agrarian reform, assume that reform can be achieved only on the terms of the large landowners. Is such a "reform" worth the trouble? There are in Latin America some countries where a small landed oligarchy is firmly in control of what it claims is "constitutional, Christian, Western democracy," and none has had a genuine agrarian reform. In such countries, true reform becomes possible only when pressure for it becomes overwhelming. This may be expressed in land seizures by peasants and Indian communities or by a smashing defeat of the oligarchy at the polls, and it may be helped by delicate arm-twisting by international organizations and Uncle Sam. 35/

Since reform will undermine their present power base, landowners will hardly accept it happily. Persons who consider themselves the elite or nobility of a nation can hardly volunteer to reduce their social political and economic predominance—a leveling which is one basic aim of agrarian reform movements in Latin America. Merely offering inflation-proof securities in place of long-term bonds will not make landowners accept a social revolution similar to the upheaval in status

34/ Some scholars are convinced that peasants in the Andean highlands have substantial liquid savings in their mattresses. If true, and if these are normally spent for ostentatious weddings, funerals, or other "luxuries," down payments would reduce consumption.

35/ Invasions in Peru have already affected about 50,000 hectares, and Haya and Bélaúnde, both pledged to reform, won over 60% of the votes in the 1963 elections.

36/ Solon Barraclough, "Lo que implica una reforma agraria," in La Reforma Agraria y el Desarrollo Económico y Social de los Pueblos Latinoamericanos (Santiago: Institute of Economic Research, University of Chile, 1963), pp. 323-358.
relations now going on between Negroes and segregationists in the United
States.

D. Tax reform and Latifundistas

In underdeveloped nations, including Peru, income taxes tend to
be weak, poorly administered, and full of exemptions available only to
the rich. Only wage and salary earners pay their full share; it is
withheld by the employer. There is no property tax as such in Peru,
though an earlier agrarian reform bill proposed a tax graduated from
6 to 45 per mil on realistic land values. In exchange for compen-
sation, landowners should at least be willing to pay taxes on their
remaining land. Better still, and nondiscriminating, would be an annual
tax on personal net wealth, as in Colombia.

Tax reform is closely related to the value of the compensation
bonds. If the Congress votes tax reform sufficient to finance the
Belaúnde program, there is no reason to expect inflation and the bonds
will be sound investments. However, if tax reform is blocked, it will
be by substantially the same people who receive bonds for land. Why
then should AID or anyone protect them from loss in value of their bonds
through inflation?

37/ Peter Dorner and William Thiesenhusen, "Relevant Research Programs
to be conducted in Developing Countries," paper presented at the
American Farm Economics Association meeting, August 18, 1964, p.2.
38/ See papers presented at the Conference on Fiscal Policy, Santiago,
1962. (Sponsored by the Joint Tax Program, OAS/IDB/ECLA).
39/ Comisión para la Reforma Agraria y la Vivienda, La Reforma Agraria
en el Perú (Exposición de motivos y proyecto de ley), Lima, 1960.
40/ Colombia is just beginning to enforce this thirty-year-old tax.
As Thomas Carroll has written "The Colombian experience shows that
little can be achieved through a land tax if there is no effective
E. Bond marketability and capital flight

The "flight" of compensation payments can be slowed by exchange controls, annual accounting for proceeds (with penalties for unacceptable uses), or by making domestic investment extremely attractive. The latter is the aim of the Trust idea. The simplest, however, is not to compensate at all, to put off issuing the bonds (as in Bolivia), or to make the bonds non-marketable. 41/

In incipient capital markets, bond prices depend on shocks and external factors much more than on "quality" as evaluated in U.S. markets. Friends of the hacendados often imply that quotations below nominal value would prove, by a "test of the free market," that the agrarian reform is a failure. Therefore, they reason, interest paid must be high and AID or the government must support bond prices no matter how many ex-latifundistas try to sell all at once. This, of course, is substantially the same as paying cash for expropriated land!

Marketable or not, the bonds are a government obligation and will therefore be paid. 42/ There is doubt as to the value of the money in which they will be paid, but that depends largely on the attitude of the rich toward tax reform. The simplest way to avoid quotations of the bonds below par is to prohibit their sale, except for limited, specific situations such as the liquidation of an estate. Such cases would

41/ Other wealth can still flee, but non-marketability locks in at least the value of expropriated landholdings, without saddling the whole economy with exchange controls.

42/ If even this is doubted, Latin American governments could give a reciprocal, multilateral guarantee of payment, of interest only, in case of default, in their own currencies.

43/ Non-marketability would be waived to permit the pledging of bonds as collateral with banks, for industrial loans.
provide securities to build up a capital market without swamping it; perhaps some years later, the bonds could be made fully marketable. \textsuperscript{43/}

Since we wish to restrain consumption as well as capital flight, the compensation bonds ideally would not be amortized either. With perpetual bonds, the yield determines whether justice is done the holder, and the average 5\% yield in Peru coincides with that of the external debt. \textsuperscript{44/} Trust fund shares, if exchanged for bonds, should likewise be non-marketable. \textsuperscript{45/}

The Peruvian bonds are to be marketable and amortizable with annual coupons. If this cannot be changed, the price should be allowed to fall at once, enough to discourage most ex-landowners from trying to sell the bonds. Payments by new landowners may be made in bonds; a low market price will provide some redistribution of wealth as the campesinos acquire bonds below par, once the grace period ends and they begin paying for the land. \textsuperscript{46/}

Since the campesinos are unfamiliar with bonds and capital markets, the Banco Agrícola or other institution serving their credit needs should take the initiative of suggesting and carrying out such transactions. For the present, the appropriate strategy is to lead ex-landowners to hold the bonds as though they were not marketable, or to give them so little for them that the effect is similar to not compensating. Those who buy

\textsuperscript{43/} Non-marketable would be waived to permit the pledging of bonds as collateral with banks, for industrial loans.

\textsuperscript{44/} The 6\% bonds were quoted at 121 in London on April 20, 1964.

\textsuperscript{45/} Mann et al. came to see this problem, and might agree to make the Trust permanent instead of distributing its portfolio. See their participation in the Panama Seminar on Financing Agrarian Reform.

\textsuperscript{46/} If they do in fact pay. Patch doubts that they will. \textit{Op.cit.}, p. 11.
up bonds at prices below par will earn a handsome interest plus a taxfree capital gain at maturity so there is no reason for intervention to raise the price.

Unfortunately, part of the Trust scheme found its way into the Peruvian law, which permits pledging land bonds at full nominal value for projects financed by a "Special Fund for Industrial Investments." This Fund, run by the Industrial Bank, will finance only projects presented by ex-landowners or others who first buy bonds (thus supporting the quotations and helping the latifundistas get cash out).

F. Will the Trust attract more foreign capital?

We have already suggested more efficient ways of slowing capital flight than giving Peru's industrial sector to ex-landowners. If more Peruvian equity is needed to attract foreign investment, this too is easy to achieve: the Industrial Bank should simply be instructed to include equity investments in its own portfolio.

For that matter, not all Peruvians agree that more direct private foreign investment is a "good thing", because it produces a perpetual drain on foreign exchange for profit remission. Technical aid, "start-up" management, personnel training, process and product licensing, and credit should be sought abroad, but not equity finance. This strategy would spare both Peru and the USA one source of conflict and of demagogic attacks, and would probably improve the future balance of payments of Peru.

47/ Articles 223-228.

48/ The Peruvian plan thus differs radically from the Taiwan reform, in which landowners could swap up to 30% of their bonds for shares in existing government-owned industry. See Tang and Hsieh, "Land Reform and agricultural development in Taiwan," The Malayan Economic Review, April, 1961, pp. 49-54.
The present political situation in Lima is already such that the Trust would probably be under fire from the first day, for protecting ex-landowners against devaluation and inflation, when no one protects the rest of the population. Constant threats to dissolve the Trust, limit its earnings, tax it to death, etc., would destroy all confidence ordinary investors might otherwise have.

G. The Trust and Industrial Reform

The Trust proposal aims to do a lot for Peruvian industry. Besides promoting new firms, it would reform relations of companies with their workers and with minority stockholders, improve the local capital market, and hasten Latin American economic integration. Yet at no point does the Mann-Blase-Paz proposal consider social, economic and human relations within agriculture. The proposal thus looks like one more red herring dragged across the path of agrarian reform, though this is surely not the intention of the authors.

Throughout the proposal, there is no discussion of the future role of hacendados in Peruvian agriculture. They will keep about 800 hectares of irrigated, cultivated land, which is a very substantial farm. What will they do with it? Should not compensation payments be channeled into increasing output from this land? Given the unfilled pressure for land, is this too large a unit to leave untouched.

49/ Dr. Pedro Alibert suggests that some agrarian reformers seek to punish a class which seized the land through unfair dealings and exploitation of Indian communities. They will certainly try to destroy a scheme which aims to defend the economic power of this class.

50/ This is ten times the amount which Chilean reform groups feel should be the upper limit of land anyone individual should control. See Juan Carlos Collarte, Análisis de una Alternativa de los Sistemas de tenencia de tierras en Chile (Santiago: Faculty of Agronomy, University of Chile, 1964), p. 76.
For that matter, does it make sense to convert an overwhelming concentration of land among a few families and foreign-owned firms into a similar concentration of industry? Even without a Trust, 39 out of 47 directors of the National Agricultural Society already have very substantial interests in industry and urban realty. 51/

V. Should international agencies lend for land purchase?

International and bilateral agencies have made countless loans and grants for agricultural development, including seeds, livestock, fertilizers, pesticides, marketing improvements, roads, irrigation, research, etc., but they have thus far refused to lend foreign exchange with which to buy off the present landowners. One reason is that new political majorities in countries undergoing reform might well repudiate foreign debt incurred in order to help out their former landlords. Another is that the mere transfer of land ownership neither increases exports nor substitutes for imports, and hence generates no capacity to serve debts.

The Trust scheme, for all its industrial development trappings, is simply an elegant effort to circumvent this policy. Ex-landowners get bonds. They give them to the Trust to hold. It borrows abroad, on the "security" of the bonds, and invests the proceeds on behalf of the ex-landowners. Since there is an apparent link with agrarian reform, foreign credit is obtained on better terms than if the ex-landowners had sought it directly, so the Trust shares turn out to be better than the land compensation bonds as investments. They even isolate

51/ Malpica, op.cit., lists land and other investments in detail. Directors are chosen in an election in which votes are weighted by the amount of land owned by the voter.
the ex-landowner from the inflationary consequences of his successful opposition to tax reform. In addition, by keeping many bonds off the market, the Trust helps other ex-latifundistas get better prices for the bonds they sell.

However, most agencies assign quotas to each country according to rough estimates of debt-serving capacity. Loans to the Trust will compete with other uses of foreign credit. Peru must decide what part of available credit to channel to industry, and what part to agriculture. It must also decide whether lending for industry will be more or less efficient if ex-landowners must get a subsidy in the process.

VI. Summary

Peru's new law is the basis for a real beginning on agrarian reform, if it is well-administered and adequately staffed. It is generous with latifundistas, giving them marketable securities and allowing them to retain substantial acreage, yet it contains some clauses favoring tenants and others that permit the expropriation of land without endless delays in court appeals. Unfortunately, the law includes a scheme to borrow abroad for land purchase, under the pretense of promoting industrial development. 52/

The proposal to finance land purchase from abroad via the formation of Agrarian-Industrial Investment Trusts is almost irrelevant to agrarian reform. Its backers seek only to compensate the former landlords well, when the essence of agrarian reform concerns the new

52/ The Peruvian Government may have been convinced that it is all right to borrow abroad for land purchase. U.S. commercial banks are said to have loaned $1 million soles for the purchase, mostly for cash, of the Algolán hacienda. Hispanic American Report, July, 1964, p. 439.
farm families. In industry, the scheme does nothing that existing Industrial Development Banks couldn't do as well with a change in their statutes to permit equity investments.

Those who propose international financing of land purchase seek, perhaps unconsciously, to soften reform until no latifundista actually suffers a redistribution of his wealth or income. Reluctantly conceding that cash-on-the-line is impossible, they offer the equivalent: marketable securities, inflation-proof, with support or guarantees by international organizations or foreign governments. Each of these features is undesirable or unnecessary. For example, if inflation comes, it is likely to be a result of successful opposition of the very same ex-landowners in blocking tax reform. Why should they be protected from the consequences?

Generous compensation means payment at or near "commercial value," which often exceeds capitalized net farming income because non-farmers seek land for speculation or prestige. This overpayment then means that either the new owner or the taxpayers compensate the ex-landowner for the loss of very dubious values — redistribution in reverse.

The payment of compensation requires resources, which must be obtained from the new landowners, from taxation, or from abroad. Any resources the government can get its hands on, however, have various alternative uses. If industrial development is the top priority objective, available resources should be channeled into it and land compensation can wait or move more slowly. If the best available entrepreneurs are ex-landowners, and want to go into industrial development, they should be given the resources. But not just because they happen to be ex-landowners.