



# **AGRICULTURAL POLICIES AND RURAL DEVELOPMENT IN ECUADOR: A CRITIQUE OF ESTABLISHMENTARIAN POLICIES**

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ECUADOR: A CRITIQUE OF ESTABLISHMENTARIAN POLICIES**

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**Abstract**

This paper is a review article concerning rural development in Ecuador. As such, it brings into focus the differences between two conflicting views about policy approaches: the establishmentarian position and what the author of this essay believes to be a reasonable and feasible policy alternative. It demonstrates that the establishmentarian policies introduced in Ecuador have been a failure that has led to the further impoverishment of the population at large; that the key to economic advancement is to motivate rural development combined with means for increasing the purchasing power of the low income population; that policies for assisting commercial agriculture are ineffective for the relief of the large and growing marginal farm sector; and that land reform and employment creation through rural public works are called for.

## Introduction

Even though this is a review article, it was written to bring into focus the differences between conflicting views about policy approaches to rural development in Ecuador: the establishmentarian position represented by the authors of the two volumes referred to in the title of this paper's original Spanish language publication (see endnote 1), and what I believe to be a reasonable policy alternative. Accordingly, it can be read even without a firsthand knowledge of the cited volumes, or access to the specific citations in the text.<sup>i</sup>

These two volumes [referred to subsequently as the Report] were prepared for the Ministerio de Agricultura y Ganadería and the Instituto Interamericano de Cooperación para la Agricultura, with financial assistance from the BID, PL480 and USAID, and with the cooperation of IDEA. They are an overview of the changes in the Ecuadorean economy since 1992, a year in which certain hard policies for stabilization were undertaken, or accelerated. The effects of the policy changes on the agricultural sector and their contributions to the national economy are discussed in that context. Because of its high level sponsorship, and because of the wide use of statistical information in support of its arguments, the Report is a potentially influential document for political economic policy design. Hence, its conclusions and recommendations call for careful consideration.

The approach to stabilization discussed in the Report is essentially similar to that adopted elsewhere in the hemisphere: reduction of the public sector and the deficit, freeing markets from government controls, privatization, liberalization

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<sup>i</sup> This paper was originally published in Spanish as "Políticas Agrícolas y Desarrollo Rural en el Ecuador: con Referencia a Morris D. Whitaker (Evaluación de las Reformas a las Políticas Agrícolas en el Ecuador, VOL.I y II, IDEA, 1996)" in Ecuador Debate, (Quito, No. 43, April 1998), and reprinted in Martínez, L., Antología de Estudios sobre el Desarrollo Rural, (Quito: FLACSO, 1998). The citations in the text refer to the two volumes edited by Whitaker cited in the Spanish title.

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of capital markets, devaluation, move toward free trade. The argument focuses on narrowly conceived economic effects, the implicit assumption being that whatever promotes economic growth also advances social welfare and democratic political interests. In this sense the review is strongly ideological. This is reinforced by an underlying dualistic, not to say, Manichaeist principle: market based decisions and policies that promote outward or trade orientation are intrinsically good, and market controls and policies for the promotion of inward, or domestic market orientation, are intrinsically bad. Accordingly the Report places an all pervading emphasis on trade orientation, which is to bring about export based development and which, through the mechanism of an assumed trickle-down effect, would naturally also benefit the working population and lower income classes. Even the original promoters of this ideology, the World Bank in particular, have by now qualified their ideas in this respect.

With its particular orientation, the Report provides an overview of a very broad range of macro- and microeconomic policies in recent historical and current perspectives. In what follows, I will not endeavour to discuss the opinions and conclusions of the authors about most of these wide ranging matters, even though the context in which they are presented includes, and refers to, agriculture. I will rather concentrate on those issues that relate more directly to what I believe to be the basic policy problems of agricultural development.

Furthermore, even though I disagree with the Report's contentions concerning the central role of export orientation in promoting development, or the proper functions of governments and markets, I do not intend to argue the polar opposite of many of the views expressed by the authors. In various cases my disagreement is not with their decision that there is a problem in need of solution, but with their particular approach to a solution.<sup>ii</sup>

Focus on the development of domestic markets should not imply a neglect of trade. Policies for encouraging exports are important for generating foreign exchange for needed imports

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<sup>ii</sup> For example, I strongly disagree that austerity should be a policy for improving the trade balance. Instead, I would favour taxing luxury consumer goods, the majority of which are imported and not domestically produced.

and meeting debt obligations. One also has to recognize the calamitous effects of the excessive and frequently contradictory set of controls that have characterized the Ecuadorean economy in general and its agricultural sector in particular. Some of these controls were instituted because of an inadequate understanding of the workings of the economy, and others for the explicit or implicit defence of particular interests. Furthermore, there can be no rational justification for the type of import substitution that followed from a misunderstanding or misapplication of the Prebisch/Singer thesis of development, or those subsidies for public services and other activities that are provided not for enhancing efficiency or improvement of social welfare, but because of a lack of political will to resist pressures from particular interest groups.

It has to be recognized that markets have a positive social-economic function in the organization of the economy but, to paraphrase a now defunct Indian economist, Sukhamoy Chakravarty, they must not be the masters, but the servants of the public interest. This calls for actively raising the purchasing power of the lower income classes and intelligent uses of controls, as was done first in Japan and then South Korea and Taiwan.<sup>iii</sup>

## The Evidence of Asian Development

The suggested prototypes of successful export based development, Korea and Taiwan, have actually developed under conditions that included trade orientation only as one component of a complex set of initial factors. Primary among these was improvement of income distribution, that is, growth of low income purchasing power, brought about by conscious government policies, such as land reform. In Japan it was the breakdown of the highly concentrated feudal land ownership and incomes corresponding to its military-industrial economic structure that made possible the post-war change to a broadly based domestic market and trade development. This has been

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<sup>iii</sup> See Lefeber, Louis, "What Remains of Development Economics?" in *Indian Economic Review*, Special Number, Vol. XXVII, 1992.

reinforced by the still on-going subsidies provided for the maintenance of the traditional sectors which continue to make up almost forty per cent of the Japanese economy.

An important lesson is how changes in ownership patterns and income and wealth distribution change the power structure. They undercut the economic and political power base of the land owning and other dominant classes that hinder democratic development processes. In the process they also change the structure of demand from luxuries toward basic mass consumption.

Japan and the successful so called "Asian tigers" have made effective use of the market while also maintaining strong direct and indirect controls on trade and investment.<sup>iv</sup> In Japan and Korea, and to some extent also Taiwan, the financing of economic development has been essentially from domestic sources through state supported credit. And even though the recent market collapses have affected all the Asian market economies, those that failed to improve their skewed income distributions, and did not develop institutions for maintaining effective controls on investment and trade--as for example Indonesia, Thailand and the Philippines--will likely experience greater difficulties in rebuilding their economies than those that have solidly established domestic markets. Of course, the conditions for financial support dictated by the IMF--austerity and dismantling some of the institutions of domestic control--have further aggravated the current problems of the Asian economies.<sup>v</sup>

Even with the prevailing trend to globalization the primary source of demand has to be domestic rather than international. This is because domestic demand is subject primarily to domestic controls and domestic purchasing power rather than uncontrollable international demand fluctuations.<sup>vi</sup>

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<sup>iv</sup> See, for example, Bienefeld, Manfred, "The Significance of the Newly Industrializing Countries for the Development Debate," *Studies in Political Economy*, 25 (Spring, 1988), and North, Liisa, "Que Pasó en Taiwan? Un Relato de la Reforma Agraria y de la Industrialización Rural," in Martínez, L., ed., *El Desarrollo Rural Sostenible* (Quito: FLACSO), 1997.

<sup>v</sup> Interestingly, in this case the World Bank has not been in favour of the IMF demand for austerity measures.

<sup>vi</sup> It is interesting to note that the World Bank's *Ecuador Poverty Report*, 1995, lists vulnerability to external shocks--

## The Evidence of Ecuador

The Report reviews the policy moves that have been undertaken to liberalize the Ecuadorean economy. It recognizes the Borja regime's initial efforts toward freer trade, but gives high credit to the Durán Ballén government for its macroeconomic and sectoral reforms, even though the latter, as implemented, have not measured up to the original promises. Even so, the Report argues that the economy has responded favourably. As evidence, it claims that the rate of inflation diminished by 60 per cent over the period between 1992 and 1996, while the economy grew at an average rate of 3.2 per cent between 1988 and 1995. Exports, with growing participation by industrial and non-traditional agricultural products, increased at a rate of about 13 per cent during the period. Nonetheless, the bulk of the growth of exports came from primary agricultural products, which represented nearly 50 per cent of total exports.

As to the agricultural sector itself, the Report indicates a sectoral growth of an average annual 2.9 per cent for 1988-1995 and 3.6 per cent in the last year of the period, that is, 1995. In contrast, according to the indicators of the World Bank's WDR 1997 (table 11) the annual growth rate of agriculture was 4.4 % for 1980-90 and 2.5 % for 1990-95. Because of averaging over different time periods, the differences between the two sources may not be contradictory in numerical terms. However, the Report's presentation fails to reveal that the average annual growth rate of agriculture actually fell in the period in which stabilization policies were introduced. If the growth rate was 3.6 % in 1995, the average of the preceding four years must have been even below 2.5 %. The growth of flower exports and processed foods is undoubtedly impressive, but it reflects the fact that in absolute terms both started from very low initial levels.

It might perhaps be argued that agriculture's higher growth in 1995 was the consequence of liberalization. It is more likely, however, that it is a previously depressed market's

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along with low domestic savings rates, lack of technological innovation and low returns to investment--as an explanation for "Ecuador's dismal record of past growth" (Vol. I, p. vii).

response to a rapid increase in US import demand and the broadening of the Andean markets. In any case, neither the growth of flower exports and processed food, nor 1995's better performance affected agriculture's relative share in the distribution of GDP: the sector's value added was 12 % of GDP in 1980, and was still 12 % in 1995 (WDR 1997, table 15).<sup>vii</sup> And this, taken together with the available population and labour statistics, is an indication of a fundamental policy failure.

While the population increase was an annual 2.5 % during 1980-90, and 2.2 % for 1990-95, during the same period the labour force grew by 3.5 % and 3.2 %, respectively. However, the corresponding increase in labour force participation rates cannot be ascribed to increased employment opportunities. The statistics of poverty suggests that the growth of the participation rate is most likely indicative of a need to search for additional income earning opportunities by persons (family members) who previously were not members of the active labour force.

Per capita incomes have increased marginally, but over-all productivity, measured by the ratio of total labour force to output, did not. Furthermore, as stated in the Report (p. 11, vol. II), in 1994 the above cited 12 % of agriculture's share of GDP was produced by 37.8 % of the total labour force. At the same time, the proportion in the informal sector was 25.7 % of the total labour force. Taken the two sectors together, 63.5 % of the labour force was engaged in low productivity activities; hence the median had to remain significantly under the per capita income level.<sup>viii</sup>

The statistics of income and consumption

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<sup>vii</sup> The Report shows contradictory figures for the GDP share of agriculture. Table 1, Vol. II, p. 11, gives 12 % for 1994, which is consistent with the WB figure for 1995, as cited above. In contrast, figure 1 of Vol. II, p. 77, shows something above 17 % both for 1994 and 1995. It is reasonable to assume that the lower figure is correct, since it is also consistent with the information available for earlier years

<sup>viii</sup> The WDR 1997, with a different definition of labour force and employment gives for 1980 and 1990 respectively 40 % and 33 % of total employment in agriculture, and 20 % and 19 % in industry. The remainders correspond to services and the informal sector. The implication is that during the decade there was a 20 % increase in service and informal employment.

distribution confirm this conclusion. In 1994, with a Gini index of inequality of 46.6, the share of consumption of the lowest 10 % of the population was 2.3 %, and that of the lowest quintile 5.4 % of the national total (WDR 1997, table 5). Given that most persons in the lowest income groups are rural residents, the level of rural poverty, as confirmed by the WB's Ecuador Poverty Report (1995), has been significantly worse than the poverty in urban areas. Not surprisingly, the excessive hardship of rural life motivated a high rate of migration to urban areas. This is confirmed by the rapid rate of urban population growth between 1980 and 1995. This was at an annual average of 3.9 %, a figure that is significantly higher than the average growth rates of the population over the same period (WDR 1997, table 9).

Even under the best of circumstances urban development could not advance at a sufficiently rapid rate to absorb this level of rural migration in reasonably high productivity activities. Without adequate income earning opportunities, unemployed or underemployed migrants are bound to become financially dependent on family, or wards of municipal governments or, as the growing urban crime rates indicate, in some cases criminals. Accordingly, there is a significant social cost to the failure of developing a broad based programme for rural development. This cost, which is measurable, should be taken into account in policy decisions concerning resource allocation between urban and rural areas.<sup>ix</sup>

Contrary to the Report's contention, the blame for the continuing social and economic problems cannot be placed on the government's failure to fully implement the so called stabilization programme that was first promised by the Durán Ballén government. The latter would have amounted to a shock treatment, the hardship of which would have gone much beyond the tolerance of a democratic polity. The destruction of traditional forms of rural and artisan production would have caused very great, possibly explosive increases in joblessness and underemployment.

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<sup>ix</sup> See Lefeber, Louis, "Trade, Employment and the Rural Economy," in Yamada, M., ed., Ciudad y Campo en América Latina, (Osaka, Japan: The Japan Centre for Area Studies), 1997.

The social resulting instability could have turned into class war, with unpredictable consequences.

In reality, such policies could only be implemented by totalitarian means, as was the case in Chile, where social protest was suppressed by military and police power. In any case, the social costs of drastic neoliberal restructuring are immediate and very high, and the initial economic repercussions may very well be negative. The benefits, if any, may only show up with considerable lag.<sup>x</sup>

It is undeniable that for broad based social and economic development the structure of Ecuador's economy needs to be changed. Change is called for, if for no other reason, because the current structure is not conducive to growth, least of all that kind of growth that is compatible with the betterment of basic living standards. With the prevailing less than one percent annual growth of the per capita income, it would double in over seventy years. If the relationship between per capita and median incomes were to remain unchanged, the median too would require the same time to double. But, due to the effects of neoliberal policies, the gap between the two can be expected to grow over time.<sup>xi</sup>

This is evidently unacceptable. Growth has to be accelerated, and the relationship between per capita and median incomes must be changed in favour of the latter. In other words, massive income redistribution is called for.

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<sup>x</sup> For example in Chile the per capita incomes have only recently regained their 1973 level, that is, more than twenty years after the imposition of military rule and neoliberal restructuring. Furthermore, since many of the Allende government's wealth and income distribution policies were reversed, it is a reasonable conclusion that the median income in Chile is still below its pre-coup level. The arguments extolling the economic benefits of the change-over are ideological: the coup was motivated not by the state of the economy but by a severe class conflict. Had the country been permitted to continue on a democratic path, over the past twenty five years even a modest economic growth would have raised its social and economic welfare to a higher level than it enjoys now.

In the case of Argentina, the expected benefits from the neoliberal reforms introduced and implemented by the Menem government have failed to materialize.

<sup>xi</sup> Assuming a two per cent population growth rate, a four percent annual income increase would double per capita income in 35 years

Effective change will not come about in any meaningful way by completing the implementation of the Durán Ballén government's originally proposed reform package. This is not to say that the Report's call for the elimination of certain types of subsidies and socially unjustifiable government expenditures does not merit consideration. Whether they are eliminated with policies suggested by the Report, or in some other ways, it is clear that in the longer run per capita and median incomes cannot be increased, and social stability cannot be maintained by democratic means, without a sustainable relationship between productivity growth and budgetary and trade deficits.

This does not imply, however, that restructuring has to follow neoliberal prescriptions. If the productivity growth is sufficiently high, the economy can, as it were, grow out of temporal deficits of both kinds. The question is then, how to generate adequate productivity growth on a sufficiently broad scale to bring about the desired result.

For this type of restructuring the Report provides no guidance. On the contrary, it calls for the elimination of deficits and for other neoliberal reforms as a prerequisite, or a condition of the attainment of productivity growth. In other words, in line with the traditional wisdom of the international financial establishment, it stipulates a causal sequence that is the polar opposite of the above.<sup>xii</sup>

Instead, the approach to restructuring would have to be such as to permit a gradual transfer of labour from low to higher productivity activities without destroying or undercutting the

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<sup>xii</sup> . In this connection it is important to clarify the meaning of productivity and productivity growth. The productivity of employed workers may very well increase in response to neoliberal market policies. Then employers in the private sector, particularly those in relatively capital intensive industrial and agricultural processes, would benefit. But if these neoliberal policies were to be accompanied by increased unemployment or underemployment, as it frequently has been the case, over all productivity measured by the ratio of national income to total labour supply (that is, the sum of employed and jobless labour) could very well decrease. Furthermore, if the private and public costs of maintaining the increment of jobless persons were to be included in the measurement of productivity change, the latter could signal a catastrophic economic loss in response to the introduction of neoliberal policies. See Lefebvre, op. cit. 1977.

economic base of the lowest income groups. The latter being primarily rural or rural-urban migrants, the effort naturally must focus on the rebuilding of the rural economy. This, in turn, requires an understanding of the interaction among national and sectoral social, political and economic factors, and first and foremost, on political will.<sup>xiii</sup>

## The Importance of Agriculture

The Report recognizes the significant role of agriculture in the Ecuadorean economy (p. 53 ff., Vol I). The sector straddles the coastal (Costa), the mountain (Sierra) and the low lying eastern regions. It employs about forty per cent of the labour force, generates nearly fifty per cent of foreign exchange, and produces a wide range of goods for domestic consumption and industrial use. Nonetheless, with some exceptions, the sector's efficiency is not commensurate to its importance for the economy. As mentioned above, its value added has been 12 per cent of the country's GDP. Evidently the combined effects of population growth and poverty have placed great pressure on the availability of even marginally suitable land for farming and/or animal husbandry. The areas cultivated have increased to the point where by 1990 practically all high quality land, as well as most marginal lands were brought into production.

The extension of cultivation to marginal lands--including protected public lands--has had high social costs and low average yields. Among other things, the government has had only very limited control over the use of protected public lands. The private costs of colonization and exploitation of the latter were small relative to the costs of increasing the productivity of the already cultivated lands. However, the social costs were very much higher.

Compared to other Latin American countries, over all productivities have been low in a broad range of farm outputs. Yields have primarily increased for production for export markets (banana and coffee), while with some

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<sup>xiii</sup> See in this connection Lefebvre, Louis, "The Paradigm for Economic Development," in World Development, January, 1974, and "Critique of Development Planning in Private Enterprise Economies," in Indian Economic Review, Vol. IX (New Series), No. 2. 1974.



exceptions they have diminished for products for domestic consumption. The increases of 1.4, 0.8, and 1.9 per cent in rice, potato and hard corn production were below the population growth rate.

The Report confirms that the overwhelming part of the output growth has come from the extension of cultivation to additional lands, instead of productivity growth. It faults the earlier restrictive macroeconomic and sectoral policies that resulted in low prices and significantly reduced incentives, the inadequacy of the scientific base, and the limited access to improved techniques. There has been insufficient investment in research, extension services and human capital, as well as a reliance on natural instead of modern industrial inputs.

## **Policy Considerations for Commercial Agriculture**

These are important observations which merit consideration. However, for policy analysis one must differentiate between the conditions and requirements of commercial farm sectors and those of marginal farming. For what follows, I will designate as commercial all those farms that sell a substantive part of their output in the monetized, commercial markets, and consider all others as marginal farms.

As the Report claims, for the commercial farm sector a price policy is called for that insures sufficiently high real returns for motivating producers to undertake the effort needed for increasing productivity. The real terms of trade between the industrial sectors (including imported inputs) and agriculture would have to favour the latter. The outcome in reality has been the reverse.

Furthermore, the returns would have to be high enough to provide a margin of security against the risks and uncertainties caused by the vagaries of both nature and markets. The capacity to bear risk increases with the size of the farm operation and access to credit. But the willingness to adopt new technologies that may require increased use of capital and industrial inputs, that is, the willingness to bear risk, is function of expectations with respect to profitability.

The adoption of new technologies may be a two edged sword. The demand for labour may

not increase commensurately with productivity growth, and in many instances it may even decrease.<sup>xiv</sup> If urban-industrial development is not capable of absorbing the growth of rural surplus labour, and if there are no suitable government policies for employment creation, unemployment and the marginal farm sector have to increase. Marginal farmers have, of course, no capacity for risk bearing and hence, cannot be counted on to undertake investments based on their own resources.

In reality, in response to the stabilization policies of the Durán Ballén government, real returns to commercial farmers fell significantly. Between 1993 and 1995 the prices of fertilizers increased precipitously while prices received declined for a broad range of products. Prices of products for domestic consumption were particularly affected. (Vol. I, p. 62-63). While price decreases for exportables have contributed to increasing exports, commercial farm production for domestic consumption has suffered. Hence, output increases-whatever they amounted to--were mostly due to the expansion of marginal farming.

## **The Need for Improved Income Distribution**

The above phenomenon lies at the heart of the fundamental and, at the same time, contradictory policy problems of the Ecuadorean economy. It adds up to a dilemma that is unrecognized and unexplored by the Report.

The problem is the source and strength of demand. It is undoubtedly correct, as the Report suggests, that the fall in prices of products for domestic use reflects the low rate of income growth and the low income elasticities of staple consumption. But the low income growth has been

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<sup>xiv</sup> This may very well be the case in the Ecuadorean commercial farm sector; regrettably the available information is inadequate. I can quote, however, a great Ecuadorean landowner's comment that goes to the heart of the matter: "the importance of industrialization is to relieve the estates of unwanted labour." In this connection it is to be noted that while the share of agriculture has remained constant, industry's share of value added in Ecuador's GDP declined from 38 per cent in 1980 to 36 percent in 1995 (WDR 1997, table 12). So much for industry's capacity to absorb labour.

a consequence of the stabilization policies, which have significantly augmented unemployment and the immiseration of the already poor working classes. The demand for domestically produced staples is function of the purchasing power by the low income population. It was undercut by the policies for the specific purpose of restricting domestic demand.

As to the question of income elasticities of demand for staples, they are low as a reflection of the prevailing income distribution. But the statistical conclusion and the argument based on it hold only as long as the current inequality of income distribution remains unchanged. The middle classes and workers in stable employment have indeed low income elasticities for basic farm products. Policies that result in increasing the incomes of the latter will not translate into significant increases in the demand for farm products. But this is not the case for the impecunious poor who are badly in need for improving their basic nutrition. Give them purchasing power and they will become buyers of staples. Their income elasticity for staple consumption is, if not one, near to one.<sup>xv</sup>

The development of commercial agriculture is evidently a central concern of the Ecuadorean government and its domestic and foreign advisers. Hence, the Ecuadorean policy makers and their advisers will have to confront this fundamental reality: there is no price policy that can maintain stable market prices for staples, and adequate market returns to farmers, without first insuring adequate demand by domestic consumers. Lest this statement be dismissed as one that is ideologically motivated, it is a basic proposition that conforms to the analyses of any and all types of market economies.

Of course, stable floor prices that guarantee minimum acceptable returns and protection against the vagaries of markets can be maintained by the government. That would motivate increased levels of commercial staple production for domestic markets. But that, in turn, would raise the question of absorption, which cannot be resolved without first improving the income distribution. It follows that one way or

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<sup>xv</sup> See Lefebver, "The Paradigm for Economic Development," op. cit., 1974.

another, the income distribution lies at the heart of the problem. Expectations based on shop-worn ideas of trickle-down theories would only delay the institution of those policy measures that would put purchasing power in the hands of the poor.

## **Policy Considerations for the Marginal Farm Sector**

The problems of marginalisation and the marginal farm sector require direct government intervention. The Report, in line with its ideological commitment to minimizing government expenditures and direct intervention in the economy, does not recognize that policies that may advance the development of commercial agriculture are mostly irrelevant to the marginal farm sector.<sup>xvi</sup> Nor does it recognize that the adoption of new technologies in commercial farming may cause displacement of labour. This has been the case, for example, in Mexico, where the intrusion of multinational companies into export oriented farm production has resulted in increased capital intensities and reduced employment.<sup>xvii</sup> In alternative cases, where high labour intensity has been retained by advanced commercial producers, for example in the consolidation of the Chilean fruit export sector by the multinationals, unstable seasonal work with no benefits and high incidence of agro-chemical poisoning has kept the workers (fruit pickers) at the margin of existence.<sup>xviii</sup>

Whether it is substitution of capital for labour, or unacceptably poor working conditions, the advancement of commercial agriculture may very well lead to, or be paralleled by, a process of marginalisation. This is not an argument against policies that encourage the growth of the commercial farm sector, but a recognition of the need to institute measures that counteract the

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<sup>xvi</sup> I use the term "mostly" in recognition of the fact that marginal farmers who manage to take some small proportion of their product to commercialized or monetized markets would also benefit from better prices.

<sup>xvii</sup> See e.g. Lefebver, op. cit., 1977.

<sup>xviii</sup> See Swift, R., "Interview with A. Alvarez Cerda," in The New Internationalist, December 1977.

potentially deleterious side effects of the growth of commercial agriculture. Marginalisation, the extension of subsistence farming into marginal lands and the misuses of natural resources by subsistence farmers can be reversed only by effective policies for the improvement of income distribution.

Even though the prevailing tax system and the implementation of tax laws can undoubtedly be made more efficient and also more equitable, the primary means for the improvement of income distribution are not direct transfers of income. They consist of wealth redistribution in the form of land reform and various measures that increase the demand for labour in wage and self-employment with acceptable minimum earning power.

## Land Reform and Cooperative Farming

For establishing the preconditions for rural development, land reform has to play a central role. This is particularly true for Ecuador where in spite of several past land reform efforts the distribution of land ownership has remained shockingly skewed. In 1994 the Gini coefficient of land operated in the rural areas of Ecuador was a very high .86 (and .89 in terms of land owned). In the Sierra 1.6 per cent of the farms occupied 42.9 per cent of the land, and in the Costa 3.9 per cent commanded 55.1 per cent of the land (World Bank, Ecuador Poverty Report, 1995, Vol.II. pp. 105-6). In view of the continuing increase of marginal farming, the statistics of land distribution could not have improved since then.

Even though the Report recognizes the existence of unemployment, poverty, and the private and social costs of encroachment on marginal and protected lands, it roundly condemns the Borja government's efforts in 1991 and 1992 to break up some of the large land holdings. At the same time, it also dismisses collective and cooperative farming as relatively unproductive, "as was the case in any other part of the world" (my translation).<sup>xix</sup>

The Borja government's efforts can indeed be faulted, but for reasons other than stated in the

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<sup>xix</sup> The Spanish original is "como ocurrió en cualquier otro lugar del mundo (Vol. I, p. 105)."

Report. The intention was correct, but the planning and execution were faulty. The invasions, forcible occupations and sales of some large estates, and the resulting insecurities were the consequence of inadequate plans for redistribution and ineffectual implementation. It should have been understood that if the expectations of the landless are raised and frustrated, the consequence would be disorderly and potentially violent response.

Plans have to be properly prepared and implemented without undue delay if disorder is to be avoided. Furthermore, the necessary infrastructure and basic capital must also be provided along with transfer of land ownership.<sup>xx</sup>

As to the alleged inefficiency of collective or cooperative farming "anywhere in the world," the authors of the Report would have to make themselves acquainted with the cooperative experience in Hungary, which turned the country into the bread basket and tourist centre of the former Warsaw pact countries, or the success of the cooperatives in the district of Comilla in the former East Pakistan; or those in the Indian state of Maharashtra; or the cooperatives of Taiwan; or Mondragon in the Basque region of Spain, to mention some illustrative examples.<sup>xxi</sup>

As with the case of land reform, cooperatives also have to be planned carefully and structured according to the particular purposes they are expected to serve. They can range from marketing and purchasing organizations to joint cultivation of individually or communally owned land. They work best in areas that have already established commercial experience, which is the case of most areas in the Sierra and the Costa.

In this connection it should be emphasized

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<sup>xx</sup> In Chile, for example, there was a well prepared plan for land reform, which was legislated but only partially implemented by the Frei government. By the time the Allende government got to implementing the plan, the patience of the potential beneficiaries was exhausted and a disorderly land occupation ensued. The process also suffered from a less than adequate transfer of animal and other productive capital to the beneficiaries.

<sup>xxi</sup> There is ample literature on the subject which is too large to cite here. For a list of references, prepared in connection with Ecuador related research, see Cameron, J., and North, L., "Las asociaciones de granjeros y el desarrollo agrícola en Taiwan: su (ir)relevancia para otros contextos socio-políticos?" Ecuador Debate 42, December 1997.

that cooperative organizations or movements are not inconsistent with market based development, even though they work outside the framework of rampant individualism characteristic of North American capitalism. Incidentally, the institution of "gremios de productores agropecuarios" is just one step removed from cooperative organizations, and many of their actual and potential functions overlap with the latter.<sup>xxii</sup> The Report itself is in favour of strengthening the institution of gremios.

Whether the beneficiaries of land reform prefer to farm as individual family units or within a cooperative framework, the reform itself would significantly contribute to the relief of poverty and unemployment. It has been well established that labour intensity and productivity are inversely proportional to size of land holding.<sup>xxiii</sup> Even if the growth of labour intensity were to be due mostly to increased participation by family members, the rate of unemployment would decrease, because those who would otherwise seek work in local or urban labour markets are retained on the farm.

## Public Works

Judging by the Report's underlying ideology, the authors would not want to subscribe to the use of government for employment creation. And they would be entirely in the right if such government expenditures would amount to nothing more than make-work for political, or even humanitarian purposes. Public works for pyramid building can be acceptable under Keynesian conditions of market failure when the means (capital and other inputs) exist for full employment production. But in cases of surplus labour, when the private sector does not have the means for employing the potential labour force, public works for productive investment is the only alternative to sustained unemployment.<sup>xxiv</sup>

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<sup>xxii</sup> The word *gremio* means guild, union or association. For their roles in Ecuador, see Flores, Rubén, "Diagnostico de los Gremios de Productores Agropecuarios: Una Propuesta de Trabajo para el Fortalecimiento de los Mismos (mimeo, Programa Sectorial Agrícola, FLACSO, Quito, July, 1996).

<sup>xxiii</sup> See e.g. Sen, A.K., "Size of Holdings and Productivity," *Economic Weekly*, v. 16, 1964.

<sup>xxiv</sup> Perhaps I should not say "only alternative" to

Agriculture in general, and the subsistence farm sector in particular, provide ample scope for productive public works. The measure of productivity is the increase in the output of the farms or regions targeted by public investment creation. The primary requirement for crop enhancement is water control, that is, irrigation and drainage.<sup>xxv</sup> These are infrastructure works that enhance productivity and directly contribute to soil conservation.

To the extent possible, the use of imported inputs need to be avoided. But more importantly, these infrastructure works can and should be built with local or regional surplus or marginal farm labour, and with labour intensive methods. This is to be emphasized, because on various past occasions rural infrastructure construction in Ecuador was done by construction companies and workers with heavy equipment contracted in, and brought to the site from, Quito or Guayaquil. In other words, instead of local labour and labour intensive methods, capital intensive technology was used with, as it were, imported labour. This defeats the purpose.

Labour intensive public works contribute to employment and low income purchasing power for basic consumption. If the resulting increases in farm production match or exceed the real cost of the wage-consumption of the workers engaged in rural infrastructure construction, the corresponding government expenditures and additional demand for basic consumables are not inflationary.<sup>xxvi</sup>

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unemployment. The possibility exists for subsidizing the payroll of enterprises, so as to bring labour's revenue productivity in line with some agreed upon minimum wage. If the subsidy is given for numbers of employed, and financed out of profit taxes, it is in the profit interest of the producers to increase employment above the market level. By doing so the subsidy offsets the amount paid as profit taxes. See Lefebvre, L., "Planning in a Surplus Labour Economy," *American Economic Review*, Vol. LVIII, June, 1968.

<sup>xxv</sup> For example terracing and water catchment basins cut into the hillside (lined with polyester, as e.g. in some Himalayan regions of India) are very effective for productivity enhancement and soil conservation in mountainous areas.

<sup>xxvi</sup> Labour intensive public works could also be used to generate local employment and income in connection with the reconstruction of the devastation caused by *el Niño* both in the *Sierra* and the coastal agricultural regions.

## Science and Technology

The Report rightly insists that the scientific base for development and technological knowhow has to be improved. One must agree, that, among other things, the educational system from elementary to advanced university levels has to be strengthened.

As to technology, the Report recognizes the need for labour intensive approaches to farming. It is doubtful, however, that larger scale commercial farm units can be motivated to employ production methods that do not advance their profit interests. The important question is whether there are technologies that are applicable to small scale and marginal farm sectors. Here the Report has not much to contribute.

As far as this review is concerned, it would be presumptuous to come up with suggestions that are not based on a direct and technically competent observation of the conditions prevailing in the various regions and rural sectors of Ecuador. Instead, I refer to the competence and world-wide experience of the Centro Internacional para la Agricultura Tropical (CIAT), Cali, Colombia.<sup>xxvii</sup> Among others, their projects in Latin America have focussed on improving soil quality for marginal environments, sustainable systems and agro-enterprises for small scale farmers, community management of hillside water resources, and the environmental impact of land use. Policy planners and government officials concerned with rural and marginal land development could benefit from establishing a working relationship with the Centro.

## Conclusion

As indicated at the beginning of this review, the purpose has not been to present a view of the Ecuadorean development process that is diametrically opposed to that of the Report. But it should be clear that even though many of its policy concerns are justified, its underlying belief in an unregulated free market's capacity to bring about a democratic and just development process is unworkable and hence unacceptable. The advancement of the commercial sector is important, but for a very long time to come it cannot and will not absorb the unemployed and underemployed in income earning activities. Increasing the productivity of the large and poverty-stricken rural and urban marginal populations depends on policies that require direct government intervention in areas other than the commercial sector.

There are, of course, dangers to any approach that requires major government involvement and expenditures. One is mismanagement and wasteful uses of government resources, that diminish the capacity for growth and development, and can lead to inflation.

There is, however, an even greater risk. This is due to the conviction of the dominant classes, the estate owners and the members of the high income groups that their privileged position justifies their extravagant use of domestic and foreign resources, their luxury consumption and the subservience of the socially subordinate people. These attitudes, if they dominate the political process, often lead to redirecting, and one way or another, appropriating the resources that are intended for, and would have to be devoted to, advancing the welfare of the marginal populations. Whether this were done by legal or illegal means, it would amount to nothing less than social corruption.

Only the exercise of a strong political will can protect against these risks.

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<sup>xxvii</sup> Reachable on the Internet at [WWW.CIAT.CGIAR.ORG](http://WWW.CIAT.CGIAR.ORG).