

BOOK REVIEWS

Ijaz Nabi, Naved Hamid and Shahid Zahid, *The agrarian economy of Pakistan: Issues and policies*, pp. xiv + 337, Rs.100/= (Oxford University Press, Karachi, 1986).

The book under review is in the nature of a wide-ranging overview of issues in Pakistan's agriculture by three of the country's distinguished economists. It is particularly welcome as only the second comprehensive work on the subject to appear in the 1980s, [the first, Mahmood Hasan Khan's *Underdevelopment and Agrarian Structure in Pakistan*, was reviewed in the inaugural issue of this *journal* in (1982)]. Although individual readers will doubtless find much in this book that is commendable (and some that is contentious), an enumeration of the book's strengths and weaknesses will probably not be as useful as an indication of possible revisions and extensions that can be undertaken by the authors and their professional colleagues. I think this review strategy is justified because: (i) much of the material in the book is based on the authors' previous work and has passed through review procedures elsewhere; (ii) at the same time, the book offers considerable potential for revision and extension, indicated both by what the authors have covered and what they have omitted; and, (iii) a thematic discussion of the book could help articulate hypotheses and policy for the future.

The five parts of the book represent a considerable range of expertise, interests and normative positions: theories and evidence on the process of agricultural development and structural change; the farm size-productivity relationship; theories and evidence on tenancy; a linear programming approach to decision-making; and, rural-urban migration. Part I is an eclectic and well documented introduction to: (i) different perspectives on agricultural development; (ii) the historical evolution of the agrarian structure; and (iii) the nature and effects of both structural and non-structural aspects of agricultural policy. By and large, the data and references cited extend upto the late-1970s. The remaining four parts of the book investigate two sets of farm-level data collected in 1976 and 1977. Hypotheses concerning the size-productivity relationship, tenancy and migration are tested with data from four Punjab villages (two each irrigated and rainfed), whereas data from central Sind are used to generate hypotheses in the section on linear pro-

gramming. While most chapters have a section on conclusions, the book would have benefitted from a concluding chapter on: (i) important empirical findings, (ii) recent trends, and, (iii) policy choices. The remainder of this review addresses these concerns in succession.

Nabi, Hamid and Zahid have paid particular attention to the effect of farm size and land tenure on productivity per unit of land; seven of this book's eleven chapters are devoted to examining this and related policy issues. The authors report a negative correlation between output per acre (from *all* crops) and farm size, and attribute this to the greater soil fertility and higher family labour of smaller farms (p. 118). One would expect both soil fertility and family labour to influence yields of *specific* crops as well, in addition to any effects they might have on cropping intensity. Yet the authors report Aslam's (1978) finding of no apparent differences in crop yields across farm size (pp. 115-116). Similar results for wheat yields in Pakistan are found in Akhtar *et al.* (1986), Husain (1986), and Hussain *et al.* (1985).

Next, the authors report constant returns to scale for their estimates of production functions in which land, draught power and modern (i.e., seed and fertilizer) inputs are the right-hand side variables. In contrasting this result with the finding from the land-only production function, the authors conclude that, in the land-only production function, "small farms have an advantage over large farms on account of both greater availability of labour and better quality of soil;" whereas, in the three-input production function, "draught power may work to the advantage of small farmers but seeds and fertilizer are used more intensively by large farmers" (p. 115). One does not know whether or not the authors had collected any data on land quality and family labour, and one wonders how the results might change if both these variables were included in the production function. As it stands, the authors' hypothesis that soil fertility and family labour contribute to output differences *across farm size* (and in favour of small farms) deserves further scrutiny and testing through field surveys.

The authors argue that while small farmers are endowed with better soil and greater family labour (presumably, per acre), large farmers benefit more from greater access to the green revolution technology; the net effect, they argue, is constant returns to scale in production in their estimates for the four Punjab villages. Nabi, Hamid and Zahid then use this observation to explain the evidence from Pakistan "which suggests that the inverse relationship between farm size and productivity may no longer hold" (p. 116). These arguments can be usefully delineated in terms of (i) the relationship between farm size and adoption of new technology, and, (ii) the returns to scale in production.

While the authors found large farmers using modern inputs more intensively in two of their four villages in 1976-77, they also recognize [and cite Salam (1978) for evidence from Pakistan] that such differences in adoption rates tend to disappear over time. Indeed, a survey of agricultural innovations by Feder, Just and Zilberman (1985) concludes that this is not an uncommon phenomenon, even though there is a "wide variety of empirical results" which "suggests that size of holding is a surrogate for a large number of potentially important factors such as access to credit, capacity to bear risks, . . . access to scarce inputs . . . , wealth, access to information, and so on." Given the stylized fact that differences in adoption rates across farm size tend to disappear over time in many countries, one might hypothesize that such differences are due to factors that influence the reallocation of resources from old to new technologies, e.g., information, the ability to use information and the markets for new inputs. In a cross-section of farmers, then, one would seek to explain differences in adoption rates with reference to factors such as information costs, education, experience with technology, presence/absence of technology demonstrations, use/nonuse of credit, etc. This strategy seems at least as useful for research and policy purposes as that of attributing differences in adoption rates to *portmanteau* variables such as farm-size and social status. Nabi, Hamid and Zahid have, indeed, attempted to incorporate possible size-related variables (e.g., soil fertility and family labour) into one part of their analysis, but more such analysis is needed for Pakistan to quantify the influence of, say, information and education on technology choice.

There is, likewise, potential for improved specification of the production function in studies of Pakistan's agriculture. Byerlee (1986) notes that the "complexity of crop management . . . has increased dramatically due to interactions between a wider array of the technological components and increased location specificity of the technology. The new technology is also more management intensive since it requires more information and skills for efficient use." In such an environment, allocative errors will be frequent (and social losses greater) if information is scarce and skills are poor. Indeed, Nabi Hamid and Zahid report that the value of the marginal product of working capital (seed and fertilizer) is greater than its market price in all the four villages, but they attribute this to uncertainty and imperfect markets (p.112). Another interpretation would allow for the existence of a situation in which farmers are making allocative errors in the transition from one long run equilibrium to another [see, in particular, Schultz (1975)]. Under this interpretation, one would argue for the inclusion of information and ability-related variables in production function studies before deciding the issue of returns to scale. If extension contacts and education

are systematically correlated with farm size, as shown by Byerlee (1986), then the continuing omission of these variables from production function estimates for Pakistan must be recognized as a serious constraint of our knowledge of efficiency and equity issues.

It might be useful, too, to extend the particular model of tenancy used by Nabi, Hamid and Zahid in Part III of the book. Although this model is based on Bliss and Stern (1982), the authors' insistence (p.129) that Bliss and Stern argue that imperfections in the labour and bullock services markets "result in tenancies" is a somewhat restricted interpretation of the original arguments. Bliss and Stern [(1982) p. 127] recognize that imperfections in factor markets do not necessarily imply share-cropping, "since any form of lease would serve to transfer the use of land to households with the non-marketable factors to cultivate it. However, . . . share-cropping has merits as a means of spreading risk." Nabi, Hamid and Zahid, too, recognize the value of share-cropping in an uncertain environment, but their oblique reference (on p.256) appears in the section on linear programming, not in Part III. Similarly, while Nabi, Hamid and Zahid recognize that management skills can influence the "determination of desired cultivated area," they report (on p.141) that the proxies they used (education and *bradri*) performed poorly. In fact, there is no reason for focussing exclusively on labour and bullock markets for explaining land-leasing contracts in Pakistan's rural areas: imperfections in markets for key factors such as credit and management could be just as important, and the absence of other insurance mechanisms could explain contracts such as share-cropping.

The authors report (p.141) that the Bliss and Stern tenancy model "performs very poorly" in the village "where cultivation with hired tractors is widespread and nonfarm employment opportunities are easily available." This observation is but one indication of the changes that are probably taking place in rural Pakistan as a result of a profound change in productive opportunities, i.e., the "Middle East phenomenon". The effects of this phenomenon on rural areas need to be studied with much greater attention than they have received so far. How have the new opportunities for labour affected factor markets, cropping patterns and choices of technology? Has the increase in income encouraged investment in farming, education, durable goods, trade etc.?

How have these and associated changes mediated inter-class relations in the countryside? Is the Middle East phenomenon, indeed, the Great Legislator of rural Pakistan today?

The preceding paragraph pertains to the *effects* of migration and non-farm employment, while Part V of the book concentrates on the *causes*

of rural-urban migration. While Nabi, Hamid and Zahid have tested a number of hypotheses relating household characteristics and factor markets to the migration decision, the scale of migration in the last 10–15 years requires an equally thorough investigation in the reverse direction.

Changes such as those brought about by the Middle East phenomenon need to be reflected appropriately in policy choices. The situation created by a widespread increase in wages, accompanied by large inflows of cash, is equivalent to opening up a region *via* an access road, in that both result in windfall income whose uses create a potential for future development. While the Middle East phenomenon continues (with reduced momentum), large parts of Pakistan's peripheral areas are being opened up with improved access. It appears that (as elsewhere in the world) villagers are investing a large part of their windfall income in the education of their children. If confirmed, such an observation indicates a significant demand for education in the rural areas. In an environment with complex technology and rapidly-changing productive opportunities, the payoff to education in both agricultural and nonagricultural activities must be considered substantial. Regardless of whether the rural educated remain in their villages or move to the cities, society's efficiency and equity concerns will be better served if greater resources are devoted to rural schooling than is done at present.

While the case for rural schooling has become stronger in recent years, the arguments for land and tenancy reforms have become diffuse. The empirical findings of Parts II–IV of this book indicate that land redistribution and tenancy reform have little, if anything, to contribute to increased agricultural productivity. It needs to be recognized, however, that there will always be room for objections – legitimate and otherwise – to particular production function specifications, so that a consensus among economists may not develop for some time to come. At the same time, economists as citizens and political creatures may continue to support land reform on grounds of equity, as Nabi, Hamid and Zahid have done.

Whether or not one favours land reforms, it is hard to escape the conclusion that small farmers are at a distinct disadvantage in an environment characterized by poorly-functioning formal markets and rapid change in productive opportunities; large farmers, on the other hand, find it relatively easy to capitalize the potential created by these opportunities into increased wealth. Then, too, tenants, labourers and small farmers often depend on large landowners for numerous resources. Nabi, Hamid and Zahid refer, in particular, to "the workings of share-cropping and the nature of the inter-linked factor markets" (p.262), and conclude that land reforms would be effective "only if certain conditions are met" (p.261). They advocate "broad based agrarian reform encompassing simultaneous changes in the

land, labour, and credit markets" (p.262). Economists in Pakistan have not given much thought to institutional changes that can help tenants and small farmers participate more effectively in the market place and capitalize on new opportunities.

In fact, as if to challenge their own prescription on behalf of small farmers, Nabi, Hamid and Zahid remark pessimistically (on p.79): "There appears to be little hope of getting out of the conundrum of providing small farmers credit while still maintaining a low risk of default or reducing collateral requirements." This statement should be a challenge for economists and policy makers to seek out institutional alternatives to existing specialized farm-credit entities. The challenge can be generalized usefully to examine the present systems of education, skill development, research, extension, public works, marketing, etc. There are numerous examples of national institutions and smaller projects effectively performing the functions of "interlinked markets" on behalf of small farmers, both with and without land reforms. Asia, Japan, Taiwan and South Korea provide useful case studies of institution-building to complement land reforms. In South Asia, the Comilla Project in former East Pakistan, the Grameen Bank in Bangladesh, and the reviewer's institution in northern Pakistan, provide insights into how wage labourers or small farmers with negligible physical assets can be organized and engaged in effective banking and other productive enterprises.

In the ultimate analysis, the transformation of rural Pakistan through investment in rural schooling and other services, particularly for small farmers, tenants and labourers, depends on the vision with which academics, administrators and planners approach the issue. Nabi, Hamid and Zahid demonstrate convincingly in Part I of their book that, more often than not, this vision has tended to be elitist and anti-rural. They refer to Marx's notion of "social stationariness" (p.9) and, without specific citations, to "the vast literature on the 'mode of production' in India" (p. 98, footnote 1). As Turner (1974) has argued, however, the characterization of rural India as a stagnant society is common to both Marx and the Utilitarians [see also Barber (1975) and Stokes (1963)]. Given this powerful legacy of an anti-rural world-view, is it possible that, in our policies and prescriptions today, we are recalling the shared vision of ethnocentric Europeans of the nineteenth century? Will discourse proceed no further?

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Michael Posner, *Problems of International Money: 1972-1985*, (International Monetary Fund, Washington, D.C., USA, 1986), pp. ix+189, US\$ 8.50.

This book is a collection of eight papers presented at a seminar held in March 1985. It provides an interesting study of the role of the International Monetary Fund in the midst of the turmoil of the international monetary system during the seventies and early eighties. The papers highlight several crucial but controversial issues of the system. These issues have yet to be resolved to the satisfaction of the members of the Fund.

The introduction by the editor gives a brief exposition of the papers and throws some light on the intricate issues of international finance. The most interesting aspect of the international monetary system is the gradual incursion, perhaps reluctantly, of the Fund into the domain of economic development. This has been brought about by the linkage of short-term credit provided by the Fund with the long-term finance obtained by the developing countries from the World Bank, governments, and the private capital market. The analysis underlying the changes in the system in terms of a less collective system, the privatization of the system and financial integration has been brilliantly done by Llewellyn in chapter 2. It is true that the financing requirements of developing countries would, very likely, remain substantial, as pointed out by the author (p. 41), but their reliance on private capital markets for meeting the liquidity and structural needs is open to serious question. An international monetary system assigning a private role to the supra-national financial institutions including the IMF and the World Bank alongwith the private capital market needs to be evolved which can address the funding requirements of developing countries and the debt problem.

Chapters 3 and 4 deal with Johnson's paper on exchange rate management and surveillance since 1972 and Killick's treatment of the balance of payments adjustment and developing countries respectively. With respect to the debate between floating rates (managed) vs. fixed rates (the par value system), the issue is two fold: (1) to what extent can an optimal mix between the two be obtained? and (2) to what extent do the costs of uncertainty regarding trade and capital movements under the two different systems vary? These two questions are difficult to answer, and measuring them in quantitative terms is even more so. The balance of payments adjustments, as is rightly pointed out, may warrant three kinds of responses: (a) expansion of international liquidity; (b) recycling of excess savings of surplus countries or deficit countries; (c) adjustment by both surplus and deficit countries. The problem that arises in this connection is the calcula-

tion of costs and benefits of each of these responses. Killick's skepticism with respect to the excessive emphasis on international adjustment now being urged by the Fund and the World Bank are noteworthy and appropriate.

Dooley's analysis of the role of reserves in the international monetary system and Mohammed's treatment of the well publicized debt problem in chapters 5 and 6 are very cogent and illuminating but warrant some comments. First, in connection with the discussion on the role of reserves it is worth pointing out that the continued growth of reserves along with that of imports has managed to augment slightly the overall ratio of reserves to imports but the focus of attention should be placed upon the composition and distribution of reserves. This has been the bone of contention between members of the Fund.

Second, with regard to the debt problem the two most important issues from the point of view of the debtors and creditors which need to be borne in mind are the repayment aspect of the debt, and its magnitude. For a debtor nation, whether a borrower of official or private loans, the bottom line is always that the volume of debts and their terms have to be geared to the export and import substituting capabilities of the country over the foreseeable future. Low export earnings combined with low interest payments on a given amount of debt may create identical problems as high export earnings accompanied by the same amount of debt carrying a high interest rate. Similarly, the measures incorporating the increase of capital to assets for the creditor banks associated with MYRA (Multi-Year Rescheduling Agreements), permission given to the banks to redenominate a portion of existing loan into their domestic currencies, creation of new funds in the form of trade – or private – related loans rather than purely financial creditors to governments, and the co-financing arrangements of the banks with the World Bank, will have a marginal impact on the debt problem and the severe problem of servicing external debt by the LDCs will still remain burdensome even in the distant future.

The role and resources of the Fund and international monetary arrangements and adaptation are carefully analyzed by Griffith Jones and Tsoukalis in chapters 8 and 9 respectively. These chapters provide us with a glimpse of the past events, the current situation and the future needs and possibilities in the arena of international finance.

The idea of multilateral macroeconomic policy consultations and coordination to be organized by the IMF are extremely desirable to bring about the smooth adjustment and progress of the international economy. But the major difficulty with respect to attaining a consensus on this subject stems from the unequal economic and financial powers of a few countries contri-

buting to the skewed distribution of voting strength in the IMF. This creates the possibility of having a global macroeconomic policy consistent with the best interests of these few economies at the expense of the world economy. Hence a structural reform of the IMF alongwith a comprehensive reform of the international monetary system, embodied in Tsoukalis's analysis, is in order. The debate over the necessity of a gradual, or sudden, change in reforms will perhaps never be settled.

The book will be useful as a vital source of reference on the current international monetary system.

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