

## **Equity and Efficiency - accepting the clash**

Two recent developments have brought the equity/efficiency paradox into sharp focus: the Constitutional Court judgement in the Renate Barnard v SAPS case, and intense discussions around land redistribution. Let's look at land, which illustrates the issue very clearly.

### **Efficiency**

According to the Minister of Land Affairs and Rural Development, 90% of land that has been redistributed has ended up being unproductive, or certainly less productive than it was before.

The minister's numbers have been challenged by prof. Ben Cousins from the NGO PLAAS who says 20% of farms are productive, 30% are struggling and 50% are in dire straits. Whether the success rate is 10% or 20%, most people would like it to be higher, and a failure rate lower than 50%.

### **Equity**

The imperative to restore equity in land ownership and farming operations is indisputable. Nobody with the scantest knowledge of the various land acts promulgated through our history will deny, or want to deny, the immense damage done by these laws; not just to land ownership, but also to the development of a farming and business class.

One number, from Sol Plaatje's *Native Life in SA*, says it all. It is the number 6. Black farmers who farmed on White farms in some form of partnership or sharing arrangement (of which there were many) earned about £150 a year. Farm labourers doing the same work on the same farms only earned about £25 per year. The difference in income was 6-fold. That 6-fold difference was enough to live well, educate one's kids and accumulate savings, build capital and become a bigger farmer. Then the 1913 Land Act came into operation.

It banned sharing of the land and Black people were prohibited from being on White farms except as labourers. The Black farmers who stayed on had their income cut to 1/6 of what it was or by 84%. Imagine if your income is cut by 84%....!

Those who left the farms found themselves crammed into overpopulated reserves and "locations", losing most of their capital and the opportunity to earn a decent living from agriculture.

Sol Plaatje described what happened in the Free State after 1913. Similar processes played themselves out in other parts of the country, even if the time period differed. A 70-year-old friend relates that sharing arrangements still existed in the old Eastern Transvaal district where he grew up, but those had also come to nought by the 1960s.

So the various land acts were not just about limiting Black land ownership to the infamous 13% (reserving 87% for White South Africa), it was also about cutting off at the knees an existing Black farming class. (In fairness, the process had started with Sir George Grey's legislation in the old Cape Colony.)

No surprise then that our Constitution clearly requires land restitution and land reform. It is enshrined in the property clause (section 25 of the Bill of Rights). If one ignores one part of section 25 (the injunction to implement land reform) then one imperils the other (the injunction to protect and maintain property rights). So equity must be pursued.

## Efficiency and equity clash

However, things are not going as smoothly as the drafters of the Constitution may have envisaged.

Experience teaches us that there is a (productivity) price to be paid for restoring equity. Whether one accepts the minister's figures or PLAAS's, land reform is accompanied by a loss of efficiency. Denying that helps no one.

Zimbabwe is a dramatic example of what happens when efficiency is neglected. Zimbabwe certainly did something about equity – land was restored, ironically again in the most inequitable way - but the price paid in lost efficiency was high, very high. The easiest and most successful crop to farm, tobacco, is only back to about 70% of the production before Mugabe's land grabs started. The production of other crops is still way down. The country does not produce enough food. The collateral damage to the economy is well documented.

It is worth noting that SA farmers are currently producing roughly 20% more than they produced twenty years ago. Since the early 1990s almost half of all farmers have left the land, as did many hundreds of thousands of farm workers, but production and productivity have improved considerably.

In a sense we have two agricultural sectors in SA: established commercial farmers and an emerging sector who still have to move up the productivity curve. Policy must take care of both.

Thankfully the White/Black divide is fading and productivity is becoming the distinguishing factor.

In Mpumalanga a Black farmer produces avocados for the export market; in the Free State Vrystaat Landbou points out that some emerging farmers produce as much maize per hectare as their established counterparts; in Mpumalanga small farmers are providing enough sugar cane to keep the TSB sugar mills running, admittedly with strong support from TSB. Ditto in KZN, where Mondi provides a lot of support to small foresters who keep the timber requirements of the Mondi mills satisfied.

So an "accumulation of capabilities" (Dani Rodrik) is taking place, but the tension between productive and unproductive still exists – whether one accepts the minister's numbers or PLAAS's.

## Partnerships

From observations around the country it seems that where effective partnerships exist between established and emerging farmers, productivity is enhanced.

Does that mean that the Minister of Land Affairs is on the right track with his 50/50 proposal, whereby farmers must transfer 50% of their farms to their farm employees? The answer is an emphatic NO. The essence of successful partnerships is that it is a voluntary arrangement. Impose it and an entirely new set of problems arise. The minister has the right idea (partnerships) but the wrong instrument (imposing it on people).

The Government's Farm Equity Scheme (FES), whereby the state finances the purchase of a share in a farm, or even a separate farm, seems to me to be a much better way to go about it.

## Protecting productivity

The second proposal by the minister, limiting the size of farms, will undermine the main reason why SA farmers are producing 20% more now than before democracy. Economies of scale play a huge role in achieving higher productivity. Limit that, and one limits agricultural productivity.

A better way would be to give big farmers BEE points where they help to establish small, emerging farmers or where they help to establish agro-processing plants, from abattoirs to processing mills to wine cellars.

Then we kill four birds with one stone:

- agricultural productivity is maintained;
- small farmers are established;
- the industrial base is strengthened through agro-processing;
- which will help to alleviate rural unemployment.

The minister would do better going WITH market forces (big farmers) than going against them (trying to prescribe how big farms should be).

### **So What?**

On both sides of the land divide I sense a denial of the equity/efficiency conundrum. Some people argue that the lack of efficiency on redistributed farms is a reason not to pursue equity. That ignores SA history. On the other hand various government proposals ignore the critical role of the established farming sector in improving SA's agricultural productivity. One side denies the imperative of equity, the other the imperative of efficiency.

Better to accept they are both important; that there is a tension between them (certainly in the short term); and then formulate proposals that acknowledge the tension, enhance equity and promote productivity.