FARM STRUCTURE CHANGE IN NEW ZEALAND
AND IMPLICATIONS FOR POLICY

by

John R Fairweather

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Discussion Paper No. 99

March 1986

Agricultural Economics Research Unit
Lincoln College
Canterbury
New Zealand

ISSN 0110-7720
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PREFACE

The Agricultural Economics Research Unit is undertaking research on the changing structure of New Zealand agriculture. Earlier Research Reports have examined the history of land policy and recent farm enlargement, and future topics include the subdivision process and structural changes resulting from the new agricultural policies. Research on agricultural structure provides an improved understanding of both agriculture and rural communities, and contributes to effective policy formation.

An important research issue is equity in landownership. In this discussion paper, Dr Fairweather examines both social policy in general and land policy in particular with a view to informing public debate on land policy options. The paper brings a sociological perspective to economic and policy issues in order to account for most aspects of the land equity issue. Dr Fairweather refers to a theory of social policy and examines empirical evidence in order to suggest a specific type of policy option which is reasonably justified. While Maori land perspectives and issues are important, in the interests of space and time, these issues are not addressed in this paper.

While specific recommendations for policy are presented in this Discussion Paper these take second place to the discussion of social policy, property rights and the social consequences of concentrated landownership. It is hoped that the main contribution will be a better appreciation of land and equity issues, and an informed approach to any new policies.

R.G. Lattimore
Director
ACKNOWLEDGEMENTS

The author is grateful to the Lands and Survey Department for its generous assistance to the land policy research programme. In addition, valuable reviews have been received from Ralph Lattimore, Roger Gabb, Tony Rayner and Rod St Hill.
SUMMARY

Two broad arguments are employed to justify proposals for a government-sponsored closer settlement policy. The first argument involves testing three different theories of social policy against the pattern of New Zealand land policy history. The social democrat position appears most relevant to New Zealand land policy and offers one way of achieving justice in landownership distribution using an active government role. The second argument involves an analysis of property rights and the costs and benefits of farm enlargement. It is concluded that non-landowners may be able to make a justifiable claim against landowners who enlarge and generate adverse economic and social consequences for the surrounding community. It is also concluded that land policy should have as a major objective the goal of distributing landownership among many people. Finally, a range of policy options is presented which involve both positive steps to achieve closer settlement and restrictions which would prevent land aggregation.
CHAPTER 1
LAND POLICY ISSUES

1.1 Introduction

The New Zealand landscape features divergent patterns of agricultural and horticultural production. The different land uses in different regions also reflect a temporal variation in which different regions have undergone varying degrees of change in production. Different land uses are also related to different regional economies in a mixed economy in which individuals or firms pursue their own aspirations within the constraints of a market economy.

Superimposed on the variation in land use is variation in landownership along three dimensions. First, intensive production involves small areas of highly-valued land being owned by a relatively dense population of landowners, while extensive production has fewer owners of larger areas of land. Second, within a given land use area there are variations in the amount of land owned by landowners. Third, there is variation in the proportion of the national population who own rural land and the area of land they own collectively. Today, the number of rural landowners is a small proportion of the total population. Like land use change, landownership characteristics change over time as well.

There are a number of social issues stemming from the non-homogeneous character of both land use and landownership. Variable land uses and new technologies generate tensions over what land use should be pursued. For example, there are questions of planning and legal control of land use, and debate over forestry company land acquisitions. There is an issue over whether regional assistance should be provided and how it may be devised and administered, and questions over what industries should be promoted. Regarding landownership, there are questions of new farmer access to land, appropriate size and efficiency, questions about the best form of tenure, and debate about who owns farm land.

The issue of landownership distribution is the focus of this Discussion Paper. Recent research shows that New Zealand farm structure is evolving towards a preponderance of both very small farms and very large farms (Fairweather, 1985b). While the increase in the number of small farms is a dominant trend, it is still the case that many farms, especially traditional pastoral farms, are increasing in size. Survey results show that 1982 and 1983 enlargements involved the additions of significant areas of land to the original farms.

The present situation in New Zealand is one in which farm enlargement results in fewer owners of pastoral farms. Because farm enlargement occurs on a significant scale, and because the area of occupied land is relatively constant, it follows that there is a decreasing number of traditional pastoral farms. It is also quite likely that enlargement will continue in the present environment of financial problems for many farmers.
The contemporary trends in farm structure raise important questions. Is concentrated landownership a good thing? Do continued enlargements provide economic benefits, and if so, to whom? Is concentrated landownership conducive to equity and justice? The answers to these questions require looking at the economic and social issues relating to property and landownership. For while it is possible to describe farm structure change, it is another issue to say what should be done in response.

Another component of the land concentration issue relates to the present law. The 1952 Land Settlement Promotion and Land Acquisition Act sets out to promote closer settlement of farm land by monitoring farm enlargements and preventing "undue" aggregation of land. There is good evidence that the Act is ineffective (Fairweather, 1985a) and the problem for policy is to assess what should be done in response to an ineffective law. Current government proposals involve abolishing the 1952 Act, and this makes the issue of land policy particularly pressing.

This Discussion Paper examines social policy generally and makes policy recommendations. Much attention is given to the theory of social policy in order to clarify responses to the land concentration issue. It is my belief that one's response to the land concentration issue is influenced by one's assumptions about both social policy and the nature of society. It is important for everyone to be aware of the impact of social policy preference on policy formulation, for without such awareness there will tend to be multiple responses to issues, and lack of understanding and appreciation of the full range of responses. The analysis shows that a closer settlement policy can be well justified, and that there is a need for an active government role in land policy in order to achieve fairness in the distribution of landownership.

1.2 Equity, Justice, and Policy

Knowing what to do about concentrated landownership and the need for suitable law requires a land policy. Generally, land policy addresses the concentration issue and such topics as tenure, land ownership, and government plans for how land is obtained, distributed, and used for benefit to the national economy and society. Land policy is part of social policy in that it involves conscious intervention by society to fulfil a public benefit so that society benefits rather than some sections of society (Wilkes and Shirley, 1984).

Any social policy is reinforced by an appeal to equity and justice, that is, what is thought to be just, right, or correct. Equity entails fairness over and above equality. An equitable distribution of something (e.g., land or income) takes full account of all relevant factors to the distribution rather than accepting equality as the sole criterion. With equity, fairness is preserved or obtained and justice is seen to be done. For many, equity is "getting a fair go" (Uavey and Koopman-Boyd, 1983).

The important question about equity is simply: on what basis should economic goods and services be distributed? There are three basic responses to this question, each involving a distinct view of
justice. The three positions are classical liberalism, social democracy, and socialism. Each position includes a view of social organization, economics, and social policy. The objective of section 1.2 is to describe in full the three positions drawing on the works of Arthur and Shaw (1978), Cole et al. (1982), Room (1979), and Wilkes and Shirley (1984).

1.2.1 Liberals and Libertarian Justice

Individual liberty is the prime political value to the classical liberal. Under conservative liberalism, stemming from John Locke and Adam Smith, is the view that individual rights are paramount and must not be transgressed by others. Beyond this, no one is obliged to assist other individuals and each person is left to fashion their own existence. Past circumstances can create entitlements to things, hence a distribution of land (for example) is just if it arises from a prior just distribution by just means. Thus, one has the right to acquire and dispose of property and can use personal talents for individual gain provided the rights of others are not violated.

Libertarian justice implies a liberal view of economics which is based on a subjective preference theory of value (Cole et al., 1983). Prices derive from the working of markets which are based upon the actions of individuals seeking to maximise personal welfare. Prices, consumption, and markets order a society which is the sum total of all individuals. There is no inherent conflict in society when the working of the market is unregulated; and social change results from the development and acceptance of new ideas. The libertarian position views economics as a distinctive discipline founded upon principles of the market. Typically, a positivist philosophy is used and normative discourse is excluded from discussion. Typically, other disciplines are seen as irrelevant to understanding economic processes.

For the Liberal, the problem with social policy is that it is a burden on society. Social policy is the product of sectional lobbying, and it is costly and inefficient because it interferes with the market allocation mechanism. According to libertarian justice the policy options are clear. If the market is left to work then there is no distribution issue because distribution is resolved in terms of individual firm and consumer preferences. However, a minimal state is necessary to maintain an orderly market. For example, the state can attempt to control the money supply, prevent inflation, and maintain law and order. The liberal view of society entails conservative politics, and while the precise role of the state may be debated, the general preference is to minimise state activity in both economy and society. In essence, for the liberal, the market is the touchstone to successful social organisation and there is no need for the state to set out to achieve improvements in society.

It should be noted that the Libertarian position sometimes involves reference to utility and utilitarianism. The latter basis of justice involves the precept that the system of organisation which is right is the one that promotes the greatest happiness (or utility) for the greatest number of people. While a market system may be seen as the means to achieving utilitarian aims, this is not the only system which a utilitarian may promote. In essence, utilitarianism leaves the
choice of economic system to empirical test.

To the existence of concentrated landownership, those with a liberal persuasion would respond by denying that it was a major social issue. They would emphasize the rights of landowners to pursue their freedom to enlarge their farms, and look for evidence, or else assume, that there were economic benefits for many people in the enlargement process. The benefits of landownership are available to all those who can own land, and in many countries landownership potentially is available to all. Any form of government intervention in landownership could be an abridgement of property rights. Occasionally, some liberals justify different levels of wealth in terms of individual differences in the distribution of talent and ability. In general then, concentrated landownership would be seen as a necessary part of the economic system.

1.2.2 Social Democrats and Social Contract Justice

Principles of social organisation deriving from individuals associating together are the fundamental starting points for social contract justice. Deriving from the ideas of Hobbes, Locke and Rousseau, social contract justice involves hypothetical consideration of the principles of organisation which would be agreed upon by individual members of a society coming together for the first time. In order to live in some kind of social order individuals coming together agree to accept a higher authority in the state. Typical of social contract theory is the idea that individuals coming together are ignorant of their personal characteristics, endowments, and social position. Individual and rational self-interest results in organising principles which govern the sharing of social goods. The social contract approach leads to the principle that all social values (e.g., educational opportunities, voting rights etc.) be distributed equally unless an unequal distribution is to everyone's advantage. With social contract justice the basic structure of society is of primary concern. In contrast to liberals, social contract theorists accept the independent and possibly prior existence of the state.

Social contract justice implies a distinctive set of economic models which are based on a cost of production theory of value (Cole et al., 1983). Following Riccardo, value is seen as deriving from production and is influenced by technology and the distribution of profit between managers and workers. There is the possibility of conflict within society because these two groups vie for a proportion of the value of production. Social change derives from the evolution of technology, and normative discourse can be included within the economics discipline. The policy options stemming from social contract justice include judicious state interventions in the economy. First, a neutral and pluralist state is necessary to resolve competition between groups and to harmonize competing interests, and second, state intervention in the economy is necessary to redress imbalances in distributions. Stemming from this view of policy is social democracy as a system of political organisation.

For social democrats, social policy formation is, or should be, a product of the action of the populace in partnership with legislators. The state can provide a basis for a cohesive society and
overcome sectional divisions. With this view the importance of the market is downplayed, and individual's prospects are seen to be influenced by both the market and by state legislation. Certain rights are considered important and upheld by the state so that basic needs are satisfied. Explicit in this view is the idea that the market cannot, even in principle, allocate resources to satisfy basic needs. However, the policy process is not devoid of conflict because policies are chosen and pursued in response to support among the population at large. Policy development is open, with future directions indeterminate and a product of the policy formulation process. Central to the social democrat view is the fact that contemporary social organisation involves the state as a major component of society.

The social democrat perceives concentrated landownership as a case where inequity and injustice may exist. The uneven distribution of land is examined critically to see whether it is justifiable, for there may be benefits to all in having concentrated landownership. Neither absolute property rights nor the existing land market are accepted unquestioningly. If changes to landownership distribution were desired then government intervention would be acceptable. Concentrated landownership is seen as a possible case where the land market is an entirely unacceptable basis of distribution.

1.2.3 Socialists and Socialist Justice

Equitable participation in the economic arena is a major objective of socialist justice. Present distributions are unjust and strong actions are necessary to solve the basic problems of class division. Stemming from Ricardo, advocates of socialist justice emphasize class divisions in modern society and seek egalitarian distribution of economic goods and services. Strong actions may involve restriction of liberties but this is justified since capitalism erodes the freedom of a large class of people.

Socialist justice entails an abstract labour theory of value (Cole et al., 1993). Value derives from the social relations of production coalescing around two classes - owners of means of production and workers who sell their labour. There is fundamental conflict between these two classes in any society organised through markets of commodities, including labour. Social change is a product of class conflict. Economics is historically specific and changes in different epochs; scientific validity is defined in terms of success in promoting social change so that outcomes and results are given emphasis.

Social policy from the socialist point of view emphasises that there has been no fundamental change in the organisation of society since the origin of capitalism in the mid-nineteenth century. Class conflict and capital accumulation are the main dynamics of contemporary society and social justice and equity can only be obtained by revolutionary action on the part of workers to ensure economic equality. Existing social policies merely distribute working class incomes or serve the interests of the capitalist class. Thus, socialist justice involves an attack on the market of labour power.

Socialists would perceive concentrated landownership as an
example of the inequalities that develop under capitalism. They would point to the workings of the land market as a factor in the exploitation of the majority of non-landowners. The institution of property would be seen as inherently unjust because it results in the exclusion of many people from ownership of land. Radical policy steps would be needed to change the fundamental organization of property and insure that most citizens obtained benefit from landownership. The state may or may not form part of the radical restructuring process.

1.2.4 Evaluating Respective Positions

Each of the three positions described above involves a distinct account of how society is best ordered, how society develops and changes, how distributions are justified, and how social policy is best implemented. Also, each position has a distinct response to the land concentration issue. It is a mistake to dismiss any one position as an extreme formulation, especially on the grounds that they are caricatures. The above presentation has portrayed each position in ideal type terms which accentuate the main characteristics of each position. Actual writers or proponents of any social policy would only approximate any one position to a greater or lesser degree. Most contemporary views on social policy have one of these positions as a foundation.

It is also a mistake to see the three positions as simply a continuum of attitudes to change. For example, one could argue that liberals are merely conservative and want the present order unchanged, social democrats want a little change, and socialists want major change. However, it may be that liberals in a society with many socialist attributes want significant changes back to market capitalism and they would then advocate considerable change. It is true that liberals prefer the status quo as it approximates the original form of capitalism, and that socialists want to change completely away from a society organized by classes. In this sense there is a progression from acceptance to rejection of a market organized society.

At this point, once the existence of three positions is accepted, the interesting question is: can one position be supported as best or most appropriate? The literature illustrates a number of responses to this question. Cole et al. (1983) present the three types of economics associated with each position and make no attempt to argue for the priority of any one position. Indeed, they emphasize that empirical tests cannot be used to choose the "correct" theory because the core propositions exist prior to, and influence, the collection of facts. Thus, there is no suitable crucial test of theory. Neither is logical rigour a suitable criterion for selection because each theory is consistent within its own terms. Wilkes and Shirley (1984) work with a similar typology and make little attempt to establish a priority to any position. However, their definition of social policy, and their concern to see policy analyses become aware of the relationship of policy to social structure, suggests a preference for the socialist position. Most importantly though, they emphasize the question of who actually benefits from any policy - whose interests does the policy serve? Awareness of this question can provide one basis from which to evaluate alternative policies, if only to show that other policies clearly do not serve the general interests they purport
Finally, Room (1979) goes further than both Cole et al. and Wilkes and Shirley and argues for the priority of the social democrat position. His argument is that the liberal and socialist theories of policy emphasize capitalist development, each position focusing on a particular aspect of social organization. These aspects are the market and the devaluation of workers respectively, and each aspect of social organization takes society to a particular end. However, the social democrat position is open to the direction of development and eschews the teleological attributes of the rival positions. Room justifies his position by reference to an interpretation of British social policy. Since each position involves a theory of social policy itself, both in its original form in the nineteenth century and in its present form, then each position makes claims about the nature of social policy. These characteristics are subject to empirical test. The outcome of Room's evaluation is qualified acceptance of the social democrat position because its view of social policy best fits the existing patterns of development.

In essence, Room goes beyond Cole et al.'s equivocal position by attempting to apply empirical tests to respective positions. Room emphasizes theories of social policy and their relationship to social organisation and social change. Thus, the viability of each theory is evaluated by reference to what has occurred in the pattern of social policy. Room argues that liberals and socialists have to establish that empirical changes in society are only superficial and that their respective observations and formulations based on nineteenth century capitalism are relevant to today. Close attention to contemporary social policy shows that the belief that changes in society are superficial is hard to sustain. A corollary of the liberal and socialist positions is that the social democratic position and interpretation is erroneous. Room's analysis and interpretation of major elements of social policy provide good evidence in support for his argument.

This Discussion Paper adopts a similar approach to Room and examines New Zealand land policy as one area of social policy in order to evaluate the three positions. The social democrat position appears to be the most appropriate perspective on land policy.

1.3 An Interpretation of New Zealand Land Policy

A summary of the main points of each perspective on social policy will be useful before giving an interpretation of New Zealand land policy. Liberals argue that the justifications accorded social policies are a cloak for the operation of sectional interests. Policy makers are influenced by lobbyists so that there is no scope for genuinely useful policy. Socialists argue that social policies are "selected" in the interests of capital so that workers are exploited further. Excessive weight is given to the needs of owners of means of production so that social policies redistribute wealth from wealthy workers to poor workers. Both the liberal and socialist views imply that citizens are reacted upon by the policies deriving from either lobbying or class processes. The state is seen as an instrument of special groups. Social democrats argue that social policy can, but
will not necessarily always be, a product of citizen interaction with legislators. There can be successful policy if there is good citizen representation in the policy formulation process. Social policy can intervene in the market and achieve desirable ends.

Agricultural Economics Research Unit Research Report No. 165 provides an account of New Zealand land policy and its effectiveness. That report shows that land policy has attempted, and succeeded, in promoting closer settlement of farm land. The impact of land policies was greatest up to 1921 when settlement policies contributed significantly to the increase in the number of farms. Both before and after this period of maximum influence, land policies were not as significant. However, it is fair to say that the government pursued an effective closer settlement policy up to 1956. It has to be recognised that government policy was not the only factor involved in closer settlement because there was private subdivision of large-scale estates at the same time as state-funded subdivision. Also, a proportion of the increase in farm numbers derived from increases in the area of occupied land.

The state went to considerable lengths to foster closer settlement. In large part this was due to a change of government in the 1890's which involved an attack on large-scale estate owners. At issue was the distribution of farm land among the population. The closer settlement policy hastened, but was not the sole cause of, the change from estates to commercial family farms, and the policy provided considerable opportunities for landless farmers. The predominant mood of the time was democratic and egalitarian. However, closer settlement policy had a material motive in addition to the pursuit of democratic ideals. It was believed, and probably for good reason, that small family farms made a major contribution to increasing agricultural production.

By 1913 there was legislative concern with aggregation of farmland. Laws were introduced to prevent individuals from staying on farms that were very large, and the Minister of Lands was empowered to acquire farmland by compulsion if the owner refused to privately subdivide or negotiate a sale with the government. Closer settlement policy later in the twentieth century maintained these provisions, and also attempted to achieve other social objectives such as relief of unemployment and returned servicemen settlement. Present-day land policy maintains state powers for the purchase of farmland for subdivision.

The above brief analysis of government land policy can be used as a basis for evaluating which view of justice and equity has most relevance to New Zealand land history.

Past land policy, with its concern to achieve closer settlement, appears to have been based on a social contract conception of equity. An overriding norm was equality of opportunity, and the objective was to provide opportunities for landless farmers to enter farming, and later to own their farmland. Land policy was a reaction to large-scale estate production in which a limited number of persons owned large areas of land. The closer settlement policy rejected the colonial gentry society which was based on concentrated landownership, and it sought to foster an egalitarian society where even the smallest
farm would sustain a meritable status for its owner. New ideals of working the land, independence and self-employment became established in the early twentieth century and persist today.

Past land policy rejected the market as the sole mechanism for the allocation of land among the population. While there was a market, this was influenced by government policy as the state purchased land, subdivided it, and settled landless farmers. Closer settlement policy worked parallel to the land market and did not dominate it; there was also private subdivision and land development. In general, the state recognized the existence of the land market and took major steps to influence it in order to achieve both social and production objectives.

The social contract justice which underlay the formulation of closer settlement policy may have replaced what could have been a libertarian justification for concentrated landownerships. It seems valid to assume that estate owners believed that their right to large areas of land was morally justified. They bought it and developed it using their talents and resources, and they resisted talk of egalitarian distribution of landownerships. For them, the concentrated distribution was a product of privilege and their special place in society. Hence, during much of the period of the colonial gentry, voting rights were extended only to property owners. Also, there is good evidence that early large-scale landowners manipulated land legislation to their own advantage, giving support to the socialist position on land policy. In large part, the colonial gentry pattern of concentrated landownerships was a carry-over of Wakefield's theory of colonization in which landownerships was to be limited to few people and there would be many people available for manual work.

The social contract view of justice and its social democracy position seems to be the most appropriate perspective on past New Zealand land policy. Not only were the conception of justice and actual land policies in accord with the social democrat position, but the alternative interpretations of land policy do not fit the evidence very well. Land policy was more than a product of sectional lobbying, and it drew on majority support especially after 1892. Neither was land policy a product of a dominant class as the socialist perspective would argue. In fact the dominant landowning class of the nineteenth century failed to control land policy, and land policy did provide access to the land for the landless, i.e., workers. However, some elements of the socialist theory of land policy do apply. The state did attempt to alleviate the working class condition during the depression and thereby mitigate the consequences of class conflict. However, this policy was a minor part of land policy generally. Also, some elements of land policy favoured existing landowners; e.g., the granting of the freehold as opposed to maintaining state leaseholds. It appears that the state was unable to maintain control of the "unearned increments" in land value.

Despite the inability of the state to maintain widespread leaseholds it remains the case that land policy was a product of a large and significant government bureaucracy with a considerable degree of autonomy. General goals of equity in landownership were pursued by government officials with support from broad sections of society, despite class differences.
However, the above interpretation of past land policy in New Zealand is weakened by the priority it gives to philosophical position. While events may lend themselves to plausible interpretation, this does not mean that such philosophies underlay the actual motivations for change. For while equality of opportunity loomed large in the land policy debates of the 1890s it remains the case that liberal freedom to own farmland became popular by 1920. At this time a new government facilitated change from leasehold to freehold. Thus, the main approach to land policy appears to have been one of political pragmatism over doctrine. The flux of government power was based on policies that worked rather than policies which conformed to a dominant philosophy. Hence, there is the curious irony that ideas from the European left have become entrenched into conservative liberalism (Wynn, 1984). That is, individual freedoms to own land were linked to the idea that this could apply to all rural dwellers. The rights of property were linked to the public good so that welfare was maximised. Another linkage to socialism shows up in state leasehold legislation.

In general then, New Zealand land policy draws from multiple philosophies as these were assumed under pragmatism. It is not clear to what extent the early land legislators were aware of theories of equity and justice. Individual freedom has been given importance and the freedom has been extended widely. Freedom of opportunity has had much emphasis, so that many citizens had a chance to get a slice of the benefits from landownership. Hence the active role of the state was found acceptable as it facilitated the process and ensured equality of opportunity. To some extent then, land policy has reflected some elements of all three theories of justice.

While pragmatism guided land policy it remains the case that there has been a significant role for the state in land matters generally. Between 1876 and 1891 a single state emerged from the provincial system, and this national state implemented a significant land policy administered by a number of government departments. With a succession of closer settlement strategies, the state became a major force in the pattern of land settlement. Land policy thus derived from active state involvement in land matters, especially with respect to equity and efficiency issues. It is this view of the state and land policy that is most accurately portrayed by the social democrat view of justice and equity. Land policy in New Zealand is best accounted for by the social democrat position.

1.4 Land Policy at a Turning Point?

While closer settlement policies earlier this century helped to generate an increase in the number of farms, this pattern has not been consistent since 1951. From 1951 to 1971 there was a steady decline in the number of farms (Fairweather, 1985b) which suggests that an emphasis on production via farm enlargements was more important than closer settlement policy. Since 1971 there has been an increase in the number of smallholdings at the same time as enlargement of larger-sized farms.

Present land policy is based on the 1952 Land Settlement Promotion and Land Acquisition Act which attempts to prevent undue aggregation of farmland. The Act specifies the conditions under which
a proposed land purchase is contrary to the public interest. However, the Act is ineffective and little used (Fairweather, 1985a). Further, the Lands and Survey farm settlement scheme, a policy which has had a minor impact on farm numbers, has been suspended recently. Thus, land policy at the present time is largely a carry-over from the past and ineffectively pursues closer settlement at the same time as landownership concentration is increasing. Further, there is little debate about landownership distribution and related issues involving justice and equity.

Contemporary land policy may be at a turning point as earlier principles are forgotten or are replaced by new principles. There is a hiatus in the development of land policy as old solutions no longer apply to current farm structure changes. Further, in the absence of well-directed land policy the alternative approaches can appear plausible. For example, socialists could argue that ineffective land law favours existing landowners at the expense of workers or non landowners, and that land policy should move to broaden landownership via fundamental changes to private freeholding. Social democrats could argue that ineffective land law favours existing landowners at the expense of workers or non landowners, and that land policy should move to broaden landownership via fundamental changes to private freeholding. Liberals could argue that ineffective law is an illustration of an ineffective and inefficient policy brought into place by successful lobbying. The solution would be to minimise state intervention and to let the land market resolve distribution problems.

The evidence from the above interpretation of past land policy belies the simplicity of the socialist and liberal response to the current situation. Both positions ignore the history of land policy in New Zealand and fail to account for two observations. First, New Zealand society appears to have adopted a social democrat position on the land concentration issue. Thus, there is a strong precedent for continuing with land policies based on the social democrat position. Land history shows that the state can intervene in the land market in order to achieve both gains in productivity and improvements in equity. The New Zealand experience illustrates the potential of the social democrat position. Second, the above interpretation of New Zealand land policy suggests that alternative views on land policy are not valid. Proponents of either alternative position have to deny the above interpretation of land policy or show that it is seriously flawed. In effect, they have to deny that the State can have a major and independent effect on the distribution of land.

In conclusion, Chapter 1 has provided a basis for understanding the depth of the land policy issues surrounding land concentration. Arguments are presented in support of the social democrat position. Before developing the implications of the social democrat position for policy recommendations, the next chapter considers additional arguments relevant to evaluating the respective positions.
CHAPTER 2
SOME COSTS AND BENEFITS OF LAND CONCENTRATION

2.1 Introduction

Chapter one establishes that there are at least three possible main types of response to the issue of land concentration. Each position has a distinctive formulation of what is a just and equitable distribution of land among the population. Each position argues that its formulation is the best for society both in terms of economic development and for the general public good. It is this belief that requires some empirical evaluation, and this chapter musters available evidence on the economic and social consequences of the trend towards concentrated landownership.

While land concentration is the general focus of this Discussion Paper the specific focus is farm enlargement as the process which leads to concentrated landownership. Property rights form the basis of the present chapter. The first section analyses property rights and shows what is at stake over conflicts of interests. Property rights are examined first before going on to evaluate, where possible, the costs and benefits of farm enlargement. In general, this chapter shows major weaknesses in the liberal response to the land concentration situation, leading to the conclusion that the social democratic position is the better basis for land policy.

2.2 Property Rights and Conflicts of Interests

Property is a social arrangement which delineates the rights and duties of all members of society with respect to valuable assets. There are three dimensions to property arrangements: the asset itself, its owners, and all possible claimants to the asset.

An important issue which underlies the debate about justice and equity in landownership is the responsibilities of landowners. Of concern are the respective rights of landowners and non-landowners. The concept of a right does not apply to society but rather to individuals (Bromley, 1982) although the state can define one set of interests in any property rights conflict as worthy of protection. When protection is afforded to a set of interests, rights have been established for the property owners. However, non-landowners can come into conflict with property owners in three ways: when there are externalities which have an adverse economic effect on neighbours, when landowners' time preference for resource use conflicts with others, and with situations which involve both externality and temporal effects.

There are two situations which exist in any property rights situation (Bromley, 1982). First, a right can exist which necessitates a duty from another party. A's right is B's duty, and in a given situation A can expect B to behave in a certain way. For example, A can expect B to respect property and for B not to take any of the benefits of ownership. A's rights, defined by law, protect a set of interests. Second, a privilege can exist which involves no right. A
has a privilege and is free to act but B has no right to have A act otherwise. For example, A may have the privilege to deposit waste in a river, apply pesticides to weeds on a property or grow trees which block a neighbour's solar collector. Thus, with property rights there are the two correlates of rights and duty, and privilege and no right.

Conflict over property rights involves conflict over the allocation of rights and privileges. In many cases, someone desires to change a legal situation from privilege to duty. In the case where A has privilege to spray, B wants A's privilege to spray to become a duty not to spray in a way that kills bees, for example. That is, B wants the right to have his bees protected. What is at issue in this conflict is the absence of rights to a party which suffers a cost deriving from an external effect of another's activities. Changing technology leads to new situations arising where existing law does not satisfactorily protect interests. Over time there is constant redefinition of boundaries.

The structure of property rights or entitlements is the primary determinant of how social costs get accounted for by the conflicting parties. A given set of entitlements means that important social or economic costs may be unaccounted for by one party and forced on another party. Conflict occurs over who pays the costs. In the bee example where A has right to spray, B has to suffer any cost that might result in the case of poisoning. If B already has a right, A must bear the cost of preventing damage. Many contemporary conflicts can be seen as debates over who pays for the external cost. For example, non-smokers now are asserting their interests and seeking legal changes which ensure their rights and imposing on smokers the duty not to smoke where it conflicts with non-smokers' wishes. Previously, smokers had a privilege which entailed no rights for non-smokers. Similarly, those who suffer crop damage or ill health by herbicide spray drift from careless neighbours seek to restrict such irresponsible behaviour and obtain compensation. Where agricultural odours decrease urban land values, residents seek to change the landowners' privilege and impose on them the burden of controlling the odour. Finally, where landowners bear conservation costs which benefit the wider community, a case can be made for the community to bear some of the cost (Johnson, 1970).

There are some important observations relating to the above property rights analysis. The solution to property rights claims cannot be made by an independent cost-benefit analysis which might show which allocation of responsibilities is least costly. Mishan (1981) demonstrates that the outcome of cost-benefit analysis typically is to support the status quo, and is dependent on the type of law which is in existence. Where liberal noise pollution laws exist (i.e., laws which permit noise) the existing situation appears to be optimal. Conversely, where noise is banned, cost-benefit analysis favours existing laws. In fact, with a permissive law, initiatives for change are unlikely because there would be limited benefit and the widely dispersed victims would risk high costs in any attempted legal action. A restrictive law would engender an individual or company initiative with no personal risk of high cost.

Mishan's analyses also shows that the voluntary agreements which are apparently possible under a liberal approach are not symmetrical in all respects. This is, proponents of liberalism argue
that it is immaterial who has property rights initially because they would be re-assigned according to a market process whereby rights were bought and sold. For example, if smokers were poorer on average then distributional considerations would confer a right on smokers and leave it to non-smokers to bribe smokers not to smoke. However, this approach ignores ethical issues and favours one group (the smokers) at the expense of the other (non-smokers). The action of smokers decreases the freedom and welfare of non-smokers but the action of non-smokers does not, in itself, decrease the welfare of smokers. The property rights conflict in the smoking situation is initiated by the smoker and is therefore not ethically symmetric. Thus, property rights should be held by innocent parties and restrictive laws should apply, so ensuring that the level of welfare of innocent parties is maintained rather than that of the producers of externalities.

When it comes to property in land, some of the conflicts over equity and justice can be seen to relate to the correlates of right/duty and privilege/no right. The three different positions have a different response to the issue of externalities. Liberals emphasize the rights of landownership and the duty of non-landowners to accept those rights. The liberal position emphasises the freedom of the individual to own land and obtain the rights of landownership. Since the number of landowners is limited it follows that landowners have rights which non-landowners do not have. Non-landowners have to accept landowners' rights, and should seek to own land themselves if they want to have rights with respect to land. In the extreme case, any social or economic costs which derive from a landowner's decision have to be accepted as a right because the costs of intervention outweigh potential gains. In the extreme liberal view, pollution, run-off, and all off-site consequences of an agricultural enterprise should be accepted by others as a duty. In general though, while liberals may accept that these off-site costs exist, they will tend to resist any change in the balance of responsibility because placing the burden of the costs on the landowners would be perceived as an attack on the freedoms and rights of landowners. Any modification to property rights would be an abridgement of individual freedoms, which are of paramount importance to the liberal. Further, liberals would argue that non-landowners can buy off landowners and otherwise bear the costs of achieving what they consider a desirable outcome. For example, neighbours can pay a farmer not to spray.

Alternatively, social democrats would give some emphasis to non-landowners' claims on landowners. Thus, off-farm consequences of landowners' decisions could be seen as a social and economic cost to be borne by the landowner where such an allocation were judged to be fair. Social democrats would not accept property rights as unqualified rights to be asserted in every conflict situation. They would look to the overall impact on society and would uphold the rights of non-landowners who faced unreasonable burdens from landowners. Social democrats would emphasize the need to enforce the rights of non-landowners and the duties of landowners. Property rights would still be adhered to although there would be some limitation on these rights. Finally, social democrats are sceptical that desirable outcomes in the case of externalities can be achieved by buying off landowners. They would point out that the ability of victims to pay for change is often far less than that required to be effective.
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In the extreme case, the socialist position would involve removing the property rights of any individuals and forming a system of social organisation in which all persons in society had a similar claim to land. Socialists would seek to change the system of property rights in a fundamental way and obviate the problem of externalities.

2.3 Farm Enlargement and Purported Economic Gains

The above property rights analysis clarifies what is at stake in property conflicts. The main issue at present is to decide how to respond to the existence of externalities. There is a need to clarify what criteria can be used to resolve competing property rights interests. Typically, such issues have been resolved by reference to such criteria as economic development, equity, and social stability. The following discussion begins by adopting the economic development criterion and examines the costs and benefits of concentrated land-ownership. In particular, the aim is to respond to the liberal position which can react to externalities arguments in one of two ways: by denying the existence of externalities, or by arguing that any externalities are outweighed by gains from farm enlargement. The next section examines these liberal responses and throws doubt on the claims that externalities are insignificant and that farm enlargement provides economic benefits for the nation. The discussion follows contemporary biases and focuses only on the liberal and social democrat positions to the exclusion of the socialist position.

The liberal view implies that the freedom of individual property rights ultimately lead to maximum welfare for society. The essential liberal belief is that unfettered landownership rights resolves the land distribution issue and, because the market is an efficient way of organising society, generates maximum wealth for the maximum number of people. For liberals, the right to enlarge ones holding in land is a basic right which, when preserved, provides benefits for society. The most cited benefit is that farm enlargements enable farms to become "more efficient". It is important to understand precisely what this means.

Leathers and Gough (N.J.) examine a hypothetical scenario of decreasing farm size (by subdividing the largest 25 percent of farms) and generating a 51 percent increase in the number of farms. They find that gross revenue increases by 20 percent, efficiency in the use of agricultural resources decreases by three percent, and on farm employment increases by 11 percent. This disaggregation scenario creates 51 percent more farms. The authors point out that these findings tend to de-emphasise the importance of economic efficiency in lieu of other policy objectives. It is important to note that the possible 20 percent increase in gross revenue or production does not match the 51 percent increase in numbers of farms and presumably farm incomes would suffer. Further, increased production may lower product prices. Thus, the problem becomes one of sustaining adequate farm income under the disaggregation scenario. The data align with the observation that farmers may increase farm size to improve farm income but not necessarily to improve production per unit area.

A simulation study of U.S. farm size goes some way in supporting the above observations. Schatzer et al. (1981) examines
farm size trends in U.S. agriculture under a number of assumptions. With both the existing trend to increased farm size and an alternative of larger increases in farm size, there is an increase in net farm income. The increase is larger under the large farm scenario. However, aggregate U.S. net farm income is larger under the trend farm size. Schatzer et al. also find that the large farm scenario when combined with an increase in productivity, results in smaller net farm income in the aggregate and per farm values than for the existing farm size trend. Hence, in terms of policy, Schatzer et al. note that increases in productivity from research and extension expenditure results in lower food prices but would be devastating for U.S. farmers. The alternative policy of maintaining present levels of research and extension expenditure results in a larger economic pie and a larger slice for farmers. A policy of increasing farm size increases the size of the slice; a policy of maintaining present farm size increases the size of the pie.

There are some similarities in the results of both of the above modelling studies. Although Schatzer et al. did not study disaggregation, their results support those of Leathers and Gough. Aggregation in both studies increased the size of the slice; the alternatives (disaggregation, or existing farm size trend) increased the size of the pie. In general, both studies show that the single-minded approach of emphasising the importance of farm efficiencies can have high costs. For Leathers and Gough the costs are large decreases in employment in agriculture for a small gain in efficiency; for Schatzer et al. productivity increases cheapen consumer food prices but devastate farm incomes. Both studies show that a broad perspective, one which includes social factors, is necessary in any farm structure policy decision.

Other research denies the existence of straightforward economic benefits from farm enlargement. Jenson (1984) examines farm size data in Saskatchewan to show that constant returns to size are the norm for the industry and that farmers increase size to improve net income only. Jensen's positions fits in with the results of the simulation research, and he broadens the analysis to relate farm size issues with general distribution issues. Jensen emphasizes that small farms can be as efficient as large farms. Because rural depopulation affects publicly-funded schools and hospitals in Canada, the farm size question is of concern to all. Further, any benefits directed to the agricultural sector go to fewer people if there is farm enlargement. Again, it becomes a public issue concerning the distribution of benefits. Jensen advocates removing policies which favour large farms and that any income redistribution be directed towards individuals not firms. Jensen suggests a number of measures for limiting farm size, for example, progressive land tax, research and development for small farm machinery, and legislation to limit farm size in proportion to some amount of an input or the total amount of output.

The efficiency benefits of farm enlargement are the subject of some debate (Fairweather, 1985b), and there is the question of their relevance to New Zealand conditions. However, it is clear from the international literature that the existence of significant economies of size are questionable, especially for average and larger-sized farms. There is agreement that economies of size are gained early in the transition from small to medium-sized farms. It is quite likely that
these conclusions apply to the New Zealand situation. The study of farm enlargement in New Zealand (Fairweather, 1985a) shows that motivation for farm enlargement is not governed solely by considerations of economic efficiency and that the available New Zealand literature on economies of size supports the overseas findings. Also, McLean (1978) observes that New Zealand efficiency gains in agriculture have been achieved mainly through reducing the labour input per unit of production, rather than by increasing production per unit area of land.

The view that farm enlargement is desirable because of productivity gains is unwarranted. The freedom to enlarge carries not a necessary economic gain but a possible economic cost. If it is true that enlargement is efficient only in the sense that it improves farm income then the liberal claim that land market resolution of land distribution maximises benefits to society is wrong. It is more likely that landowners benefit from farm enlargement and non-landowners bear any costs of declining total farm production. This conclusion parallels the results of a Canadian study of the urban real estate market (Gunton, 1983) where it was found that free markets in land do not lead to efficiency, equity, or stability. In fact free markets resulted in unstable prices, inefficient allocation of land and infrastructure, and inequitable allocation of profits from land development.

2.4 Other Costs Associated With Farm Enlargement

In the debate over property rights issues, one of the liberal responses is to deny that farm enlargement carries with it external costs. This section examines the available literature which, for the U.S. at least, shows that farm enlargement does result in adverse social effects. It is argued that farm enlargement has adverse social consequences in New Zealand.

Overseas literature shows much greater awareness of the social costs of farm enlargement than in New Zealand. There is a wide body of research which describes changes in agricultural structure and the policy issues arising from these changes. This overseas literature illustrates both the extent to which farm structure is an important social issue and the recent advances made in agricultural policy and land policy. In the absence of a comparable body of research in New Zealand, it is left to us to infer that this research has relevance to the New Zealand situation. Relevant New Zealand literature is presented at the end of this section.

Farm structure change is well studied in the United States. The last two decades has seen much effort directed at describing changes in farming and examining the impact of the changes. In 1979, the U.S.D.A. published an extensive collection of papers in a book entitled Another Revolution in U.S. Farming? which set out to discuss changes in farming which "may be as far-reaching as the earlier revolutions" (Schertz et al., 1979: v). The main changes include transformation in the organisation and management of U.S. farming with changes in the size of farms, form of ownership, use of capital goods, and changing incidence of risk and credit. In 1981 the U.S.D.A published another book entitled A Time to Choose: Summary Report on
the Structure of Agriculture which focused on the policy implications of changes in agriculture. Stemming from the same concerns expressed in the above two books is the position that it is now time to re-evaluate agricultural policy because recent changes in farming mean that existing policies, founded on an earlier form of agriculture, are no longer relevant. As Lee (1983:3) puts it, it is time to examine the "consequences of the new reality in U.S. agriculture." Thus, recent changes in U.S. agriculture have generated a body of research which seeks to describe the changes and to discuss the implications of these changes for policy.

Among the recent changes in U.S. agriculture are fewer, larger farms which produce the majority of total agricultural product. At the same time there is a large number of economically less important small-scale farms (including part-time farms). Also there is a growing international dependency on U.S. food production, a broadening constituency to food policy issues once considered external to farm policy, and a growing sensitivity to unintended side effects of agricultural policies.

A major theme of U.S. research is the concern with the occurrence of fewer larger farms. Heady (1983) argues that policies and conditions that favour economic development of agriculture favour large farms. Hence, among the policy considerations are ways to remove programmes which encourage large farms and to modify existing programmes to decrease the level of support as farm size increases. Conversely, progressive property taxes are proposed as a strong restraint on the growth of "superfarms".

The serious attention given to policy review has been sustained by wide-ranging research. One topic which has generated much interest and follow-up research is Goldschmidt's (1947) study of two towns in the Central Valley of California. Goldschmidt examined the effects of farm scale on rural community viability by selecting contrasting towns: one with large-scale farms and the other with small-scale farms. Goldschmidt argued that the community with small, owner-operated farms had a much higher level of individual and collective well-being than a community with large farms. The original research has been criticised for methodological failings (Goss, 1979; Sonka, 1979) and a recent study shows that other factors were involved in the retarded development of one town (Hayes and Olmstead, 1984). Other recent studies caution against uncritical acceptance of Goldschmidt's thesis (Harris and Gilbert, 1982; Nuckton et al., 1982). Generally however, Goldschmidt's findings have been accepted and his work has had an important bearing on social science research on agriculture because it raised the question of the impact of farm structure on community (Buttel, 1984).

Much literature pursues themes basic to the Goldschmidt's research. For example, Poole (1981) challenges the traditional pre-1970's view that large-scale farmers have higher levels of participation in the rural community by finding an inverse relationship between farm scale and family social participation. As a result of the research findings Poole suggests revisions to the dairy price support scheme so that larger producers are not disproportionately benefited. In addition, the trend to a bimodel distribution in Wisconsin dairy farm size from 1850 to 1950 prompts Nofz (1983) to challenge
traditional notions of the benefits of scale and efficiency and to appeal for an assessment of non-economic values in farm policy formulation. Another tack within the body of research which seeks to describe and evaluate the impacts of farm structure changes is to discuss the consequences for landownership. Molnar and Korsching (1982) argue that in the short term, managerial abilities will improve as the least efficient producers go out of business, but in the long term, wealthy heirs may enter agriculture while potentially valuable managers will be lost from the industry. However, this observation assumes that corporate farm ownership precludes a continuous flow of managers onto a given property. The above examples show some of the lines of research which have been undertaken as researchers examine the consequences of farm size change.

Other research provides some detailed analysis of how farm size change effects regional development. For example, Tass et al. (1981), using a cash flow accounting method, showed that potential retained yields per acre generally declined as farm size increased. Further, small labour-intensive irrigation technology generated 37 to 40 percent more estimated after-tax income and hired workers' wage payments. An important process at work was the fact that large-scale farmers bypassed local suppliers and made a larger contribution to federal taxation, both of which detracted from regional development. In a review of the relevant literature, Buttel (1983) argues that aside from the clear economic gains captured by a shrinking group of large-scale farmers, the social consequences of U.S. farm structure change are adverse. Specifically, the economic activity of rural communities undergoes a downward multiplier of decline as farms enlarge beyond family-based enterprises. Buttel also evaluates U.S. rural development strategies and argues that they are wanting in effectiveness.

A strong argument for land reform in the U.S. is made by Schader-Trenchette (1984) in an effort to achieve desirable regional economic development. The main point is that concentrated and absentee landownership results in capital leaving the region. The resulting stagnant economy is a social cost of concentrated landownership.

In addition to the above research there is a growing body of literature which examines the impacts of agricultural policy, on farm structure. This interest may have been generated by the U.S.D.A. publications in 1979 and 1981. One dependent variable of interest is the rate of growth of farm size. Eginton (1983), in a study of federal fiscal and monetary policies, found that interest payment write-offs had the greatest effect on the rate of farm size increase. Similarly, rate of growth in size and after-tax net worth were found to be higher for farm corporations than for individually-owned farms (Moje, 1983). It follows that scale economies and agricultural commodity programmes whose benefits are linked to output levels help to explain increase in farm size. Another study (Smith, 1982) found that in the absence of farm programmes structural changes tended to a bimodel distribution whereas existing programmes benefited mid-sized farms. Finally, Eginton (1980) found that substantial real capital gains could be made by farmers oriented to expansion at the expense of current savings, and Richardson and Condra (1981) found that projected chances of farm survival and success increase as farm size increases. The literature thus shows that many policies have been directly related to farm size
The farm structure and agricultural policy situation in Canada is similar to that in the United States. As in the United States, the Canadian Government set out to stimulate discussion of farm structure issues with Structural Change in Canadian Agriculture: A Perspective. This book questions how farm structure is changing, why, and what difference it makes and to whom. The dynamics of farm enlargement occur in Canada too. Bollman (1983) discusses changing farm numbers and their implications for policy. Similar to U.S. research, Jensen (1984) makes a strong case against existing policies which favour larger-than-family farms. His research questions the existence of economies of size with farm enlargement and his data show that increased size results only in increased farm income.

Turning to Europe, there is less literature relevant to the contemporary issues of farm enlargement. Typically, European problems relate to the lack of farm enlargement because their farm structure features many small farms which appear to operate inefficiently. However, the structural situation in the United Kingdom has been reviewed (Britton, 1977) and there are many regional studies. For example, Edwards (1986) examines the Central Somerset area and argues that generalised structural data mask complex patterns of farm size adjustment and occupancy patterns. Naylor et al. (1982) show that between 1967 and 1977 amalgamations were common on medium-sized farms. In addition, regional development issues have been addressed in some of the empirical work. Bird (1982) examines the effect of large private ownership on parish development in Scotland to show the existence of concentrated landownership. Further, Bird argued that the landowners' decisions continued to have a significant impact on potential for growth or decline in rural settlements in spite of powers accorded to local and national bodies. Finally, one cross-national study found evidence to show that tenancy, and the character of its provision, was related to farm enlargement and the rapidity of farm structure change.

The above overview of international agricultural change, and in particular farm structure change, shows that in the U.S. and Canada, contemporary agriculture is changing quite rapidly and the change is fostering close attention to agricultural policy. A major theme of U.S. research is a concern that the trend to large farms has adverse effects on the rural community. Further, there is good evidence that large farms are disproportionally favoured by agricultural policies and that there are few national benefits from aiding large farms. In response to these findings new ideas for agriculture are being examined. These include policies to modify existing programmes so that they favour smaller farms rather than larger farms, and revising policies which were originally designed to foster the family farm but have been co-opted by larger-than-family farms. Other policies have involved specific programmes for rural development.

The general point of the above research is that farm enlargement can have adverse economic and social effects. The research has monitored the impact of farm enlargement along a variety of dimensions. The result of the research is a general acceptance that new policies are needed. The U.S. now has specific new policies which address some of the issues. However, despite the findings, current U.S. policy is resulting in rapid decreases in the number of mid-size
farms. Attention is now given to the New Zealand situation.

There are some good reasons to expect that the adverse effects of farm enlargement found overseas can be found in New Zealand. Although perhaps not to the same degree, there are clear signs that New Zealand agriculture is changing in a way that is similar to that in the United States. While we still have many farms which appear to be traditional family farms, there is a growing proportion of partnerships which may signify a larger-than-family organization of production. In addition, the expanding horticultural sector includes many farms which have social organization characteristics of large-scale industrial production. Frequently, ownership is separated from production, and production involves groups of wage workers rather than family labour. These signs of change in farm structure, when combined with the fact that farms have been enlarging recently, indicate that New Zealand agriculture is subject to the same dynamics as U.S. agriculture. It is also the case that agriculture in the U.S. and in New Zealand has many similarities. For example, both countries have modern production systems and significant agricultural exports. It is possible that the New Zealand rural community has experienced adverse consequences from continued farm enlargement in the same way as in the U.S.

It must be emphasized however that there is little data to support the case that these changes have occurred in New Zealand. Little research has been directed towards examining the changes in organization of production or the consequences for the rural community. However there has been attention given to rural depopulation, and the link to farm enlargement has been made. Barker and Brown (1980) note that there is no simple causal relationship between enlargement and depopulation. They point out that there is regional variation in population trends so that while the long-term trend is for national rural depopulation, there are now areas where there is rural repopulation. Possible causes of depopulation include economic factors, rural sector changes, and farm level changes which include farm enlargement.

Some New Zealand evidence fits the thesis that farm enlargement may have adverse effects. It appears that small farms have a desirable record of achievement with respect to erosion. They are able to handle environmental and erosion problems. With state assistance, it was the family farm which began to attack soil erosion problems in the 1940's. Large farms with non-family ownership may be less suited to long-term care of soil. Very large farms may not permit the maintenance of a close relationship between the farmer and the land. It also appears that in New Zealand history small farms based on a broad distribution of landownership are conducive to social stability. Concentrated landownership in the late nineteenth century was a major factor in the instability which preceeded the formation of family farms. Thus, New Zealand agricultural history supports the view that family farms with diverse landownership can adopt soil erosion control programmes successfully and can provide community stability.

While there is no significant research on the adverse consequences of farm enlargement in New Zealand, there is a widespread belief that rural depopulation is linked to farm enlargement. The Planning Council's review of rural change (1982) develops the rural depopulation theme and notes that the rural community believes that it
is disadvantaged by the trend to larger farms and the decline in the number of farm jobs. Economic rationalisation of service industries, combined with depopulation, leads to a further decline in rural services. In addition, farm surveys (Pryde, 1985) show that a majority of respondents believe that if farm enlargement were to continue this would be undesirable for agriculture. Further, most respondents (63 percent) think that there is a relationship between farm size increase and decline in rural jobs, businesses and services, while 27 percent think that there is no such relationship. While the relationship between farm structure and rural community in New Zealand is poorly documented, there is widespread belief that farm enlargement has adverse social consequences.

In the absence of New Zealand research, it is the position of this paper that it is reasonable to infer that the U.S. research is relevant to New Zealand. If the liberal argument against externalities were to have significant verity then it would apply to the U.S. situation as well. For the liberal to argue that the two cases are different is to adopt an ad hoc argument and to fail to account for why adverse consequences could be found in one case and not the other.

2.5 Conclusion

The property rights analysis provides a useful structure from which to evaluate the costs and benefits of farm enlargement. Property rights issues involve the problem of externalities. The available evidence shows that the liberal response to externalities is unjustified. That is, the liberal cannot claim that freedom to enlarge maximises the benefits to society as a whole. First, there are social and economic costs which are a consequence of land ownership and farm enlargement. Second, there is little national benefit from the freedom to enlarge. The liberal claim that maintenance of property rights benefits all in society appears to be unsound. Liberal freedoms do not maintain the public good. In addition, the weight of evidence suggests that because landowners' decisions have off-farm consequences then there can be grounds for intervention by the state to ensure that landownership does occur in such a way as to benefit society. Thus, it may be justifiable to convert a privilege/no right situation into one in which rights are granted to non-landowners. These rights would entail obligations for landowners. It is the incorporation of non-landowners' rights into the land policy issues which entails an active state role in some kind of social democrat formation.

In addition, it is justifiable to intervene in the land market so as to ensure that landownership is distributed among many people rather than few. In this way closer settlement of farm land ensures that the benefits of landownership are made widely available. One particular benefit is windfall profits. Since the existence of such increases in land value derive from the presence of community, then it is equitable that the community obtain a share of any windfall profits that it helped to create. In New Zealand history the idea of windfall profits was referred to as the 'unearned increment' in land value. Thus, in either of the above two ways, that is by extending rights to non-landowners or by closer settlement policies, an active role for the state is required in any meaningful land policy.
A point needs to be made about the role of technology. Often it is assumed that technology forces farms to enlarge. That is, where once one set of technological conditions were adequate, now a new set requires bigger farms. The problem with this view is that it reifies technology and ignores the economic and social context of farming which underlies the need to take on new technology. Technology by itself cannot cause farm enlargement because it merely provides the technical means for farm enlargement. Another important point is to realize that any position which supports small farms or non-concentrated landownership need not be an advocate of traditional technology. In fact new technology is essential to small farms. What is being questioned is the scale of new technology.

The present chapter shows that the social democrat view of property rights is justified by the available research. This means that privileges may be changed to duties depending on the analysis of who benefits from a given property arrangement, and that closer settlement of farmland is a desirable goal. The property rights approach supports the conclusion of Chapter 1 that the social democrat position on equity, justice and land policy is the most appropriate for current land policy. With respect to property in land it seems appropriate that the state is needed to ensure equitable land distribution and to minimise social and economic costs for non-landowners where these genuinely occur. It is not the case that a free market in land with minimal state role is appropriate. To some extent, an active state role in a social democrat formation is very necessary.
CHAPTER 3
POLICY ALTERNATIVES

3.1 Introduction

In Chapter 1 the social democrat view of justice as it applied to equity in landownership was proposed as most relevant to the current land concentration issue. The argument took the form of examining the theory of social policy which was associated with each of three perspectives on the distribution of land. My interpretation of New Zealand land policy history supported the social democrat view of land policy. The intention of Chapter 1 was to provide a detailed background to land policy and to present a range of perspectives on equity in landownership. Chapter 1 also described land policy in New Zealand as at a turning point because present land policies are ineffective and there is uncertainty over future directions.

Chapter 2 took a different tack to support the social democrat response to land concentration. The property rights analysis juxtaposed the claims of property owners and non-property owners over the burden of unmet economic and social costs deriving from management decisions involving farm enlargement. The general point was made that a liberal approach to property rights unfairly favours property owners in attempting to preserve their rights to unimpeded land management practice. Empirical material, largely derived from U.S. research, showed that there are adverse consequences from farm enlargement. It followed that a land policy based on social democratic principles was the better response to land concentration. The existence of unmet costs also means that non-landowners can argue legitimately for some kind of restrictions on the right to enlarge. Thus land policies which foster closer settlement can be justified because closer settlement can mitigate the adverse consequences of farm enlargement and have positive economic and social benefits. In addition, closer settlement can broaden the distribution of benefits from ownership of land.

The present chapter presents a range of policies which can foster closer settlement. The proposals include both restrictive or negative policies which limit property rights, and positive policies which support closer settlement. The main purpose of this chapter is to suggest some possible policy options and not to provide definitive solutions. First, it is necessary to establish the precedent for land policy.

3.2 The Long History of Land Policy

In discussions of land policy it is sometimes believed that interventions are mere epiphenomena to the fundamental processes of the land market. It is also believed that interventions are a recent occurrence, added on to a land market that originally operated without restrictions. However, it must be recognised that the idea of some limitations on property rights has a long history. As far back as
classical Greek history there have been discussions on the amount of land which ought to be owned by any one person (Barker, 1957). Aristotle discussed ideal states and arguments for the regulation of property in order to prevent civil discord. He was responding to suggestions by Phaleus of Chalcedon for equal property ownership, and suggestions by Plato that property ownership should be unrestricted up to the point where the size was five times as large as the smallest property owned by any other citizen. Aristotle describes cases where restrictive laws were enacted. However, Aristotle argues against the prima facie virtue of equality of property because the amount owned may be too large or too small, either situation causing problems. Hence, for Aristotle it is more important to equalize men's desires and further, to consider the role of political office as well as property in the causes of civil discord.

However, Aristotle does not reject the general idea of equality of landownership and at a later point argued that a democracy based on a farming populace is the best possible form of social organisation. It is important to realise that the land policy options considered then included restrictions on the absolute amount of land owned, laws preventing the sale of family allotments of land, and laws preventing raising a mortgage on a certain portion of a property. Another law involved subdividing properties into sections allowing even the smallest landowner a right to vote.

The above examples show that land policy had an early beginning. Later periods in history also feature debates over similar land issues. With respect to New Zealand history, the same conclusion applies. In fact, the plans for colonisation were founded on a clearly specified policy regarding who would own land. Since the colonial period, land policy has always been an issue and at no point was there an unfettered land market from which state interventions were consciously excluded.

3.3 Support for Smallholding and Intensification

Among the first policy options to be considered are those that support and foster smallholding. The argument here is that if concentrated landownership is undesirable because of adverse effects on the rural community, then policies which foster smallholding can be justified because they will tend to reverse the trend to concentrated landownership. Left unexamined is the issue of to what extent closer settlement policies should be pursued. Obviously there is a limit on the amount of resources to be invested in smallholding.

As suggested earlier (Fairweather, 1985a) an effective closer settlement policy is one that follows changes in farm structure. With the current trend to smallholding it appears that land settlement should involve new types of intensive production rather than traditional pastoral land uses. An experimental approach could be adopted so that assistance was provided for the establishment of smallholdings in selected areas. The Lands and Survey Department could undertake this experiment with a view to developing a national settlement scheme which fostered smallholding settlement.

An important aspect of government support for smallholding is
hat such assistance can help producers overcome the costs of changing their type of production. In the past, the government has readily supported such changes realising that the initial costs would be outweighed by the returns from intensified production. In addition, such productivity gains were matched by an improvement in landownership distribution as intensification facilitated an increase in the number of producers. It is quite possible that the pastoral industry is in another phase of intensification which could be facilitated further by government involvement without a loss on the investment made. While private investment may achieve the same productivity gains it is unlikely that private investors will have any concern for landownership distribution. In fact, there will be a tendency for private investors to monopolise their land holdings and where possible to avoid paying the full social cost for commodities they produce.

In general, the main rationale for a smallholding policy is to avoid the adverse effects of the farm enlargement process by increasing the number of very small farms. It is possible that encouraging intensification is in the national interest because total value of production may improve. A smallholding policy would foster family farming. If government policy helped new entrants into horticultural production, for example, then family ownership would be promoted. Family farming of horticultural products could be a desirable adjunct to closer settlement because it would help maintain diversity of landownership. It remains the case, however, that fostering small holdings can have only a limited impact on land concentration because the areas of land are small.

3.4 Policies Which Would Help to Keep Farm Size Down

Along with family farming in horticulture, there is also the possibility of family forestry. Instead of the government or companies owning extensive areas of land, it may be possible and desirable to have smaller units on which the owner-operator undertook forestry management. Perhaps state leaseholds could be arranged in which a yearly farmer income could be provided until harvesting began. It appears reasonable to avail on the state to help establish family forestry and provide collective security to the developing forestry assets.

Related to government closer settlement policies is private subdivision of farm land. A recent example of subdivision involved one farmer selling half of his home farm to finance partnerships for three young farmers (Keenan, 1985). The farmer bought a large property and subdivided it himself into three economic units, each run by a young farmer under his supervision. Benefits included personal satisfaction and increased productivity. Any government closer settlement policy must recognise that private subdivision is also possible, and in fact could be assisted in some way.

A clearly defined closer settlement policy would influence agricultural policy. Typically, past problems have been resolved temporarily by increasing scale without giving attention to intensification on existing pastoral farms. As some case histories now suggest (e.g., the Press, 1985) the current economic crisis can be coped with by concentrating on profitability per area and per stock
An alternative approach to the "get bigger" response is illustrated by other farmers who overcome the high cost of machinery by employing more people and using more of the existing medium-scale machinery (Crabbe, 1978; Broad, 1984). In the past, the option of increasing scale tends to be a typical and popular solution which is promoted. For example, in 1985 drought-stricken small-scale farmers are seen as only having the option of selling their farms and allowing neighbours to buy parts of the farm. The alternative response of facilitating larger farms to subdivide and provide the additional land needed for the smaller farm is seldom considered. In other words adjustments can be made which achieve improved efficiencies and sustain farm numbers. A related strategy is to relieve the debt burdens of a group of farmers in one area by selling off parts of their farm and forming a new farm.

Part of the re-orientation of agricultural policy to the land concentration issue involves the scale of technology. New technology will always be needed but it need not always be based on increasing scale. There is a social and economic dimension to the technology issue. First, increased awareness and concern for land concentration can make farmers less enamoured of buying the latest and largest equipment. Second, machinery write-offs tend to disproportionately favour large-scale equipment over small. The write-offs could be modified to provide an equitable incentive based on a per farmer calculation.

Another policy option involves modification to the provision of supports to farmers. It is time that recognition was given to the fact that any support policy, whether it be a subsidy or a service, has a distributional effect: larger farmers get relatively more of the support. However, there may be dubious gains to society from providing assistance to farmers who are already large-scale. It is likely that most of the present collective resources are received by larger farmers since present policies tend not discriminate in terms of recipient farm size. An alternative policy is to provide supports in inverse proportion to farm size so that as farm size increases, relatively less support is provided. In this way, agricultural policy is more likely to promote family farming rather than be co-opted by larger than family farms. While this policy involves the difficulty of measuring farm size, it would still be better to address the issue rather than avoiding it and accepting existing policies which are insensitive to size.

In addition, lending finance can be directed towards favouring small farms. Preference can be given to farmers seeking to buy small farms, and loans not given to farmers seeking to enlarge farms, except in those cases where it is clear that enlargement is necessary for the farm's survival.

The adoption of Philpott's (1976) productivity - subsidy/tax is another policy which appears to favour less-concentrated landownership. Philpott has proposed that traditional taxes and subsidies be removed and that any one farmer's productivity be compared to average productivity, and a tax or subsidy applied accordingly as an incentive to improve production. Philpott believes that these changes would tend to reduce land values and reduce the incentive to farm for capital gains. In addition, intensive land use would be encouraged and land
not well-managed but owned for capital gain would be sold. Further, according to Philpott farm enlargements would be discouraged because they do not usually result in greater productivity per unit area.

3.5 Alternative Land Tenure Systems

One problem with freehold tenure in the absence of capital gains taxation is that farmers can farm for capital gains instead of farming for production. Freehold allows the landowners to gain all the increases in land value as the price of land inflates. The expectation of land price inflation generates high demand for land and provides an incentive for land concentration. Changes to alternative land tenures could reduce the role of farming for capital gains. Another problem with freehold land tenure is that a fixed cost is incurred in servicing the purchase arrangements. This will influence farm profitability especially when the returns fall. Alternative land tenures could provide flexibility in response to changes in land market prices, and with leaseholds, for example, the rents could be adjusted according to returns. Freehold locks farmers into budgeting for a fixed value of land, and changes in product prices cannot be reflected in land value.

Land trusts are an option that may ensure capital gains are used in the community. The Land Trust (Buttel, 1983) is a non-profit organisation with an elected board of trustees. Farmers or forest owners sell the development and transfer rights of their land to the land trust in exchange for use rights and insulation from the effects of inflation and land speculation. The land is removed from the speculative market and is leased to individuals, families, co-operatives or others as a lifetime or inheritable ninety-nine year lease. The trust board has the power to decide land use and revoke a lease if land is misused. The purpose of the trust is to allow farm families to capture the increasing value of their land as their rents decline in proportion to those on the market. Land price inflation is reduced under the land trust system.

Another land supply option is to adopt a new kind of state leasehold in land. Newman (1985) proposes that the Crown lease land with five-year rent review. The lease would be renewable until the leasee bought another property, reached age 60, died, or surrendered the lease. The leasee would provide stock and plant. In effect, this proposed lease is a sharefarming arrangement with the Crown providing a kind of large stepping-stone unit. The farms would be farmed for maximum profit and may provide access to farm land ownership elsewhere, or provide satisfaction for life-long work to those who accept that they cannot pass the land on to a son. The major cost of land purchase would be avoided by the individual leasee and borne by the taxpayer. However, capital gains would accrue to the Crown. This proposal fits the social democrat view of equity because it recognises that the benefits of landownership include a component which should benefit all citizens rather than specific landowners.

A question here is where will the land come from? One possible source is from farmers who cannot sell their farms. If the present decline in land prices continues then there may be farmers willing to sell to the Crown at a conservative price. Such land could then be used for the five year lease. Such a role for the Crown has already
occurred before when estate profitability was declining. Large-scale estate owners offered land to the Crown between 1893 and 1941 when estate profitability was declining. It may be possible to subdivide the present farms that sell because an economic unit would have a much diminished land cost in the form of an annual rental and therefore require less production per farmer in order to sustain economic viability. At the same time total productivity may increase as production intensified.

Some of the early comments on the freehold land tenure system made by Belshaw (1947) are still relevant. Belshaw pointed out that widespread freehold facilitated waste of land resources and erosion, and prevented efficiencies in development costs which could be obtained by large-scale state development. Also, in Belshaw's opinion, there were excessive land transfers with a freehold system and this resulted in over-mortgaging. Again, there was the problem of private appropriation of unearned increment in land value, an increase which derived solely from the presence of a community. For Belshaw an ideal land tenure system was one that would provide an incentive to farm well, avoid waste of the land resource, provide good size and security, eliminate private appropriation of unearned increment and land speculation, and would yield wage rates comparable to non farm occupations. The solution was for government to develop and own farms on which the lessee operated according to specified standards. Leases could be transferred among family members and the value of improvements determined and obtained by the lessee at expiry of the lease. Belshaw hoped that this form of state leasehold would increase farmers' welfare and the effective use of land in the interests of the community as a whole.

In addition to state leaseholds, there is the possibility of applying newly-adopted home ownership schemes to rural land. The two new schemes are equity-sharing and sweat equity lending policies. With the former scheme, the Housing Corporation provides a loan and in return, receives a share of any capital gain on the property if it is sold. Mortgage repayments are set at 25 percent of gross weekly income and the borrower pays interest at three percent plus the rate of inflation. The mortgage requires a low deposit and can be up to 90 percent of the property value. With the latter scheme, modest income families rent a house from the corporation and undertake renovations. When the renovations are completed the tenant is given a chance to buy the house using their labour as a deposit. Both schemes if applied to farming would help young farmers enter farming. The equity-sharing scheme could be used to keep mortgage repayments in line with farm income, and it would encourage farming for production rather than capital gains. With the sweat equity scheme, the state could buy run down farms on which tenants could undertake improvements using their own capital. Once the improvements had reached a satisfactory level an arrangement for purchase could be undertaken.

3.6 Possible Changes to the 1952 Land Settlement Act

Existing law attempts to scrutinize land transactions involving farm enlargements. The law is ineffective and yet requires considerable administration costs. There are two responses to this situation: either change the law or abolish it. Merely abolishing the
law, while there are benefits from saved administration costs, overlooks elements of the present law which may be useful to retain. For example, the provisions for state acquisition of private land for subdivision are useful features of the legislation which may meet a future need but do not cause any problems at present. Changing the law might be desirable if ways can be found to make it effective.

Despite the apparent enervation of the 1952 Act, it could be strengthened. For example, with improved awareness of motivation for farm enlargement, combined with careful monitoring of enlargements, it may be possible for the Land Valuation Tribunals which scrutinize land transactions to use a stronger approach to the decision regarding an enlargement. More careful scrutiny of each transaction may ensure that there is a greater proportion of enlargements for genuine economic reasons. The Act could be strengthened by ensuring that the Tribunal is an informed and representative group of rural citizens. Bringing farm land purchases under the scrutiny of a broad group of people may be justified given the arguments in Chapter 2 regarding the social consequences of farm enlargement. However, broader scrutiny raises the problem of deciding which groups are represented on the Valuation Tribunal.

A more radical step is to modify the law so that it prevented most enlargements except those that were minor boundary adjustments or those that were economically necessary. To achieve this original intention of the 1952 Act, the burden of proof could be reversed. At present, the Crown has the burden of proof having to show that an enlargement is undue aggregation, otherwise the enlargement can proceed. A more effective approach would be to prevent all enlargements until the landowner showed that enlargement was necessary in order to maintain income and farm viability. There would still be problems with this innovation because farmers may be able to present a compelling case regardless of their true economic position. However, reversing the burden of proof would provide a disincentive to enlarge and also provide better information from which to decide if an enlargement should proceed.

3.7 Taxes and Limits on Farm Size

Another land market intervention policy is a direct capital gains tax. Taxes on capital gains could reduce the incentive to enlarge farms. While all landowners would face the tax, if property speculation decreased then the capital gains would be proportionately less. My recent study of farm enlargement during 1982 and 1983 showed that one third of all enlargements were motivated by a desire to achieve capital gains. A capital gains tax might be effective at reducing the number of enlargements. There are many issues regarding capital gains tax, including what rates would apply and when the tax would be levied. Another variable is the question of 'rollover', i.e., applying the tax only when the gain is realized not when a farm is sold to buy another farm. For the moment only the principle of a capital gains tax is considered.

The full use of a capital gains tax would mean that when farm land prices fell, landowners would be renumerated for the loss. A capital gains tax could be complemented with a capital loss benefit.
This provision appears to be an equitable application of a capital gains tax and would smooth out land prices fluctuations. Landowners would be more willing to accept both tax and benefit rather than the tax by itself. Another advantage of a capital gains tax is that it would ensure that farming adjusted to market signals quickly.

A related policy option is to introduce an enlargement tax. The intent would be to provide a disincentive to enlargement and an incentive to intensification on existing property. As a policy this is more restrictive than a capital gains tax because it focuses on the specific group of enlargers. Moreover, it applies a burden to those who enlarge out of genuine economic necessity. In support of the enlargement tax is the idea that landownership does not convey exclusive right to enlargement where such enlargement has adverse consequences. The policy would allow an enlargement where the tax was paid, such tax being either paid as part of general taxation or paid to a local authority. The latter option ensures that regional development objectives could be funded thus countering the adverse consequences of enlargement for the local community.

Finally, there is the option of limiting land aggregation by applying the provisions of the Commerce Act to agricultural land purchases. Here the relevant part of the Commerce Act is the scrutiny given to mergers where "any monopoly or oligopoly or any circumstances that are tending to bring about any monopoly or oligopoly .... is or is likely to be contrary to the public interest." Thus, where any land transaction resulting in an individual or company acquiring land more than a specified value would be scrutinised to see whether the purchase was justified. The value limit could be set and adjusted yearly. In effect, this option works in a way similar to the 1952 Act, but would bring more transactions under scrutiny.

The Commerce Act has not been a major force on company behaviour. The Commerce Bill (1985) significantly changes the rules for firms trading and providing services in New Zealand by prohibiting all restrictive trade practice and merger proposals if they substantially lessen competition in a market (Cliffe, 1985). The bill abandons the presumption that certain business practices are legal until found to be contrary to the public interest and introduces the presumption of illegality. The changes in the Commerce Bill are directed towards strengthening the Commerce Act.

3.8 Closer Settlement Encouraged by Rural Development Policy

Having considered both positive and negative policies which would foster closer settlement, attention is now given to rural development policies. In New Zealand, and other countries, it is typically assumed that a healthy agriculture leads to a healthy rural community. Typically, any rural planning involves a concerted focus on the problems associated with agricultural production. There is good evidence that this assumed relationship between agriculture and rural development need not always exist. In understanding this point it can be appreciated that the objectives of rural development require specific policies.

In a discussion of rural depopulation and resettlement, Barker
and Brown (1980) note that two New Zealand studies refer to the fact that a flourishing agriculture was associated with a population decline. Presumably, the population decline in part led to adverse effects on the community. Stronger and more cogent analysis has been provided for Europe. Wibberly (1984) argues that the concept of the rural economy as an agricultural one is unrealistic and a handicap to long-term rural development. Planners and policy makers are reluctant to accept the existence of a mixed economy with non-agricultural components. Further, it is not the case that agriculture makes a direct contribution to rural economies. With agricultural development there are changes to the landscape, changes in housing needs and location, and minimum improvements in rural economies and employment. Wright (1983) makes the same point more emphatically by describing how some Lincolnshire people perceived that their region was prosperous and at the same time was in decline. Wright shows that separate British government departments have contrary policies—M.A.F.F. to increase efficiency and decrease farm numbers, the Development Commission and the County Councils to diversify employment. In Britain the former has vastly more funding than the latter, and agricultural policies focus on productivity by isolating agriculture from the rural community.

At the heart of the problem is the assumed identity of agricultural policy with rural development policy. Clearly, the two are not the same and attention must be given to the latter if there is genuine concern for rural community welfare. Also, there must always be awareness of the off-farm consequences of agricultural policy.

A number of suggestions have been made for rural development policies, and these are noted here because they relate to closer settlement. While not specifically resulting in increasingly diverse landownership they would assist in achieving the objective of closer settlement.

A first consideration is how other countries have modified their agricultural policy as they have become aware of the rural development implications of agricultural policy. In the United States the climate of opinion has moved away from the traditional mould of agricultural policy. The U.S.D.A. has announced a policy of fostering agriculture and fostering the rural community (Block et al., 1984). The basis of the policy is the fact that the average farm family depends on off-farm income for two-thirds of its total annual earnings. Thus policy makers now recognise that farmers and the rural community support each other, and that agricultural policy has to focus on both part-time farmers and the rural community. New policies include support for rural entrepreneurs by providing both technical and advisory services. Rural communities will be supported with a national volunteer programme drawing on the expertise of retired civil servants, evaluations of local transportation and telephone communications, and U.S.D.A. support for conservation programmes.

In New Zealand the proportion of part-time farms may be much less than in the U.S. which suggests that a general rural development policy such as the above is unwarranted. However, there appear to be many part-time farms in New Zealand. The best estimate of part-time farming is the number of paid working owners, leaseholds, and sharemilkers who work less than 30 hours per week. By 1983 there were 27,734 such persons (Agricultural Statistics, 1984) which is 30 percent
of the total number of paid workers. Although part-time farming has not been examined in New Zealand, it appears that there are a considerable number of such farmers. Rural development generally, that is the development of rural industry in conjunction with agriculture, could provide off-farm sources of income which part-time farmers could pursue and also full-time farmers or their families at times of economic stress.

Some existing rural development policies contribute to the closer settlement objective. For example, a low cost rural settlement policy in Australia has the objective of helping people move back to rural areas using group ownership of land and some form of community social organisation. Such a policy is pursued by the Australian Rural Adjustment Unit (Williams, 1983). Successful schemes are those that generate an active community life and involve all age groups. This policy might relieve urban unemployment and may help bring labour to rural areas. One rationale for this policy is to consider the non-financial returns from work. Hodge (1983) argues that with increasing unemployment and increasing average income, the necessity for work to provide for survival declines. Hence, alternative lifestyles become an attractive option and policies should be directed towards raising incomes on small farms and decreasing the land area required to generate an income. The major rational for these schemes is that alternative lifestyle farming may be more effective than job creation schemes.

McDermott (1981) works from the same position but adds that in the 1980's and 1990's rural areas may face a labour shortage. Hence a rural settlement policy can provide needed agricultural labour and help relieve urban unemployment. He suggests that communal farms could provide farm labour, or large town sections could provide some self-sufficiency and a source of farm labour.

Of course, it seems that the prevailing farmer viewpoint is to avoid employing farm labour. However, in part, this response is a product of prevailing technological responses to production problems. Farm labour is viewed as expensive and unreliable; machines are more appropriate. The economic compulsion for the technological choice is dubious. My survey data show that most farmers who enlarged their farms said machinery costs increased at a faster rate than labour costs. Also, there are occasional reports of farmers who do choose labour over machinery and operate profitably. Crabbe (1978) and Broad (1984) both discuss cases where this occurs.

Despite the prevailing attitudes in New Zealand, some overseas attempts at job creation via a rural development policy seem to be successful (Little, 1984). Apparently, Finland's rural job creation scheme increased the number of jobs by 22 percent in three years. National policies, government finance and management training all helped to develop intensive horticulture, fish breeding, wood fuel production, data processing, tourism, farm holidays and forest farming. The idea of alternative industries is perhaps one way of promoting both rural development and regional development, and these alternatives may provide for added value to agricultural products. Perhaps those farmers who enlarge to obtain capital gains or avoid taxation could achieve the same objectives by diversifying into manufacturing or processing industries in their neighbourhood and thus contribute to
genuine rural development rather than traditional agricultural development. With more people in rural towns there is greater likelihood of rural landownership.

The general point is that agricultural policies per se do not necessarily foster rural development. In fact, research shows that agricultural development can be associated with rural decline. It is important to be aware of all of the consequences of one type of policy and to pursue rural development policies which can contribute to closer settlement by providing access to land. Other policies which encourage rural repopulation may also foster closer settlement because rural dwellers may seek ownership of small areas of land.
CHAPTER 4

CONCLUSION

This paper is intended to promote discussion about landownership distribution at a time of increasingly concentrated landownership and at a time of uncertainty regarding land policy. Despite the current economic problems in agriculture it is relevant to consider land policy for two reasons. First, it is possible that economic restructuring in the present period of new agricultural policy will lead to further farm enlargements. Second, after the present changes have settled down it is likely that past dynamics in farm structure will continue and if so, there will be increasing numbers of both small farms and large farms.

The principle objective has been to promote discussion of the issues. It is not intended that the policy recommendations are comprehensive, nor are they completely formulated. The main point is that the general response to the land concentration issue has to be given importance because it is this response which governs policy formulations. The paper presents one position which appears to be reasonably justified. If some agreement over appropriate position can be achieved then the task of land policy formation is easier. Advocates of any position should examine basic assumptions and look for avenues of agreement in order to avoid doctrinaire responses which would deadlock the debate over land policy.

It must be recognised that this paper favours one perspective and tends to respond to one other position. The socialist position gets less attention. These emphases are taken in recognition of the positions adopted in current policy debates where there is little voice given to the socialist position. However, the focus on the social democrat and liberal positions does not mean that the socialist position is inherently inappropriate.

In terms of the social democrat position, it is wrong to see the policy options suggested as a cost and a burden on all citizens. Many of the policies would have a positive impact on total agricultural productivity and have a positive impact on the economy. With changes in land tenure it is possible to broaden the distribution of land-ownership, increase profitability and increase productivity. Further, minimizing social problems can offer long term savings in costs which would otherwise be required to adjust and cope with the adverse consequences of farm enlargement. Neither is it the case that agriculture would be receiving special attention. Considerable research is devoted to small businesses as the basis to even advanced economies such as Japan's. In New Zealand, small businesses are promoted because they are the major employers of workers. Attention to closer settlement would parallel the interest in small business.

Finally, one point comes out of this Discussion Paper very strongly. In many areas important policy decisions have to be made without basic information on the issue at hand. In particular, we do not know to what extent economies of size occur under New Zealand
conditions. Improperly examined is the trade-off between individual farm efficiency and total productivity. It is not yet clear what the precise economic mechanism is by which farm enlargement is propelled. A major research question is the impact of farm enlargement on both productivity and rural community. In addition, there are a number of related topics worthy of research. For example, in New Zealand little is known about farmers, who owns land, changes in the organization of production and part-time farming. There are many distributional issues, which are at the heart of questions of equity and fairness, about which little is known. It is important to know about changes in the concentration of landownership, income distribution and the distribution of benefits and supports i.e., who benefits from agricultural policy. The distribution of productivity is important because it would tell what proportion of farms produce what proportion of total agricultural product, and indicate where policies may be directed. The historical tendencies and changes in landownership are poorly studied: do farms undergo a cycle of enlargement and subdivision as sons mature and then go farming on their own account? Is there growing concentration of landownership within farming families? Answers to these research questions would greatly inform any deliberations over agricultural and land policy. It is essential to have a good understanding of the nature of agriculture, and from this foundation of knowledge it is possible to generate enlightened agricultural policy.
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