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**THE POLITICAL CONTEST FOR
LAND REFORM IN A
DEVELOPING COUNTRY**

by

Arsenio M. Balisacan

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Abstract

This paper employs rent-seeking and public choice theory to explain the observation that land reform experience in the Philippines as well as in many other developing countries did not provide some degree of support for historical generalization as the East Asian experience. The analysis suggests that benefit-cost considerations on investments in political influence by proponents and opponents of land reform, affected the level of land transfer in these countries.

THE POLITICAL CONTEST FOR LAND REFORM IN A DEVELOPING COUNTRY

1. Introduction

Since Tullock's (1967) seminal contribution on what is now christened as rent-seeking, neoclassical policy analysis has moved beyond traditional welfare economics which views government policy decisions as exogenous, to combine efficiency and political considerations in describing the nature, causes, and consequences of public policy. The literature on the "neoclassical" political economy of trade policy, for example, challenges the conventional view that tariffs tend to be a more efficient instrument of domestic industrial protection vis-a-vis quotas (Kaempfer, McClure and Willett, 1989). In agricultural policy analysis, political economy considerations have been likewise used to explain the stylized subsidization of agriculture in developed countries and the taxation of it in developing countries (Anderson and Hayami, 1986; Olson, 1986).

Our aim here is a modest one. Borrowing from the rent-seeking and public choice literature, we attempt to explain another seemingly disturbing empirical observation on agrarian policy initiatives in many developing countries: the failure of land reform programs in these countries both in relation to their intended objectives and in comparison with those initiated by East Asian countries (particularly Japan and Taiwan) after the

Second World War. The description of reform effort focuses on the Philippines, but our political economy interpretation of this experience touches on why the land reform experience in a large number of developing countries did not provide some degree of support for historical generalization as that in East Asia.

In the Philippines where the distribution of both land ownership and operational holdings is highly skewed in relation to many other countries in Asia, land reform has been advocated, rightly or wrongly, as an important element of poverty alleviation strategies. This, of course, is not unexpected, considering that there exists an association between rural poverty and highly skewed distribution of land assets. Indeed, rural unrests precipitated by rural poverty have almost always spawned declarations of land reform programs by governments. None of these declarations, however, were able to significantly change the structure of the agrarian economy. Why this was so has been the object of voluminous work in recent years.¹ A large part of the explanations offered focuses on the lack of so-called "political will" on the part of incumbents to implement a comprehensive land reform program. This paper argues that the nature of past land reform program is politically optimal, given the prevailing political market. Section II presents a simple model of endogenous land redistribution. Section III then interprets past and present Philippine land reform programs,

together with those in East Asia, in light of this model. Finally, Section IV offers conclusions.

2. *A Model of Land Redistribution*

Following Becker (1983), we assume that equilibrium land--generally, income--transfer is a contest between the opponents and proponents of policy reform. The opponents of land reform are assumed to be mainly large landowners (hereafter referred to as landlords), while the proponents are landless farmers and agricultural workers (hereafter, farmer beneficiaries). Treating political influence as a public good within each group, investment (time and money) in political influence can be modelled as in public choice theory, i.e., according to the marginal benefits versus marginal costs of group action. To landlords, the benefits of group action are defined as the real income foregone, net of compensation received, due to a land reform program; to farmer beneficiaries, the benefits are the gains, net of payments made, in real income resulting from land redistribution. Generally, these benefits can be written as

$$B_i = B_i(L, \delta_i) \quad i = b, d \quad (1)$$

where L is a measure of land transfer from landlords to farmer beneficiaries, and δ is a vector of other variables, including elasticities of supply and demand in relevant markets affecting farm production decisions (e.g., land as collateral which lowers

the effective price of credit (Binswanger and Rosenzweig (1986)). The subscripts b and d refer to landlords and farmer beneficiaries, respectively. An increase in L raises farmer beneficiaries' incomes, B_b , but reduces landlords' incomes, B_d , ceteris paribus.

The transfer-formation function is assumed to depend only on the levels of investments by the proponents and opponents of redistribution. That is,

$$L = L(I_b, I_d, \Omega) \tag{2}$$

$$\text{with } \frac{\partial L}{\partial I_b} > 0 \quad \text{and} \quad \frac{\partial L}{\partial I_d} < 0,$$

where Ω refers to the political system and other relevant considerations, including wars and foreign invasion. In this view, benefits to farmer beneficiaries can be increased through investment in political influence that raises L . The landlords can mitigate their losses (in terms of net foregone incomes) by increasing their opposition to the transfer.

The costs of collective action are assumed to rise with resources (I) contributed by the group and with group size (N). The latter implies that, following the tradition in public choice, the larger is the group, the greater are the organization and enforcement costs involved (Olson, 1965). These costs can be written as

$$C_i = C_i(I_i, N_i, \alpha_i) \quad i = b, d \quad (3)$$

where α denotes a vector of other factors affecting coalition costs. Geographical dispersion of group members, for example, may substantially increase organization and enforcement costs. Individualized selective incentives and strong moral sanctions against violation of group norms may, on the other hand, reduce these costs since these contribute to the enforceability of contracts. These sanctions are stronger where the members of the group have similar background, language, and culture (Tideman and Tullock, 1976).

Given the level of investment by one group, optimal investment by the other group can be determined by maximizing $(B_i - C_i)$ with respect to I_i . The first-order (necessary) condition for the optimal value of I_i is

$$\frac{\partial B_i}{\partial I_i} - \frac{\partial C_i}{\partial I_i} = 0 \quad i = b, d \quad (4)$$

which simply states that, for I_i to be optimal, the marginal benefit of investment in political influence must be offset by the marginal cost of investment.

Equation (4) implicitly defines I_i in terms of the actual investment by the other group, I_j ($i \neq j$). Figure 1 illustrates

a possible outcome of a Cournot-Nash process of equilibrium investment. The line LL shows the combination of I_b and I_d that keeps land transfer constant at L, and the lines bb and dd are the reaction curves of b and d, respectively. Given I_b , an increase in I_d reduces L and makes the members of b worse off. With the marginal net benefit by b increasing as L falls, b increases its investment, making L to be higher than if there would be no action by b, but not sufficiently to restore the former level. This suggests that, along bb, L falls from left to right. It also suggests that bb is steeper than LL. Symmetrical reasoning implies that L rises from left to right along dd. It then follows that bb is steeper than dd, which is a sufficient condition for the stability of the equilibrium L endogenously determined by the intersection of bb and dd. Thus, in a Cournot-Nash process, retaliation may lower but not eliminate the benefits of investment in political influence.

Factors that can raise one group's benefits (costs) of investment in political influence will tend to increase (decrease) the amount of its investment. In figure 1, point e' indicates a new Cournot-Nash equilibrium resulting from a relative fall in organization costs for group b where the reaction curves and the constant-L line are left out so as not to clutter the diagram. Similarly, a change in social and political environment may alter relative influence via the L function in equation (2). For example, a foreign invasion that cripples the the strength of vested interests (Olson, 1982), followed by an

installation of a government, that is relatively alienated from the interest of the local landed elite, will tend to increase redistribution in favor of reform beneficiaries. This is illustrated, for example, by point e' in figure 1.

In the above formulation of political contest, we have ignored voter preferences, implicitly contending that these are frequently not a crucial independent political force. That is, to the extent that these preferences can be manipulated and created by interested pressure groups through peddling of information or misinformation and through other political activities (including bribery, political campaigns, employment of political party workers, and cultivation of bureaucrats and politicians), favorable political decisions requiring majority or plurality of votes can be obtained through the "purchase" of supporters outside the group.

In developing countries, farmers as an economic group are large vis-a-vis the industrial producers and urban consumers. By number alone, they stand to be politically influential in the shaping of policies that affect their interests. Yet, in these countries, economic policy decisions have typically turned against them, systematically penalizing agricultural production while providing protection to industry and subsidy to urban consumers. The reverse can be observed in the developed countries where the farming sector is typically provided with protection vis-a-vis the industrial sector and the urban consumers (Anderson and Hayami, 1986; Olson, 1986). Similarly,

in developing countries with highly skewed distribution of land ownership, one would expect farmer tenants and landless farm workers to be a politically powerful group whose political influence might outweigh that of the small-number large landowners. But, again, the "large number" factor (and still other ones) stand in the way of political decisions that favor them.

The relatively large-number size of the landless farmers and farm workers has been noted as an important determinant of the cost of collective action. Their geographical proximity and low education, combined with poor communication and transport infrastructure, is another factor, raising their cost of organization. In contrast, for large landowners, even though they may also be geographically dispersed, the relatively high per-capita benefits derived from the provision of the local public good (i.e., opposition to land redistribution), together with the relatively small size of the group and the members' high level of education, make participation to the group effort considerably strong.²

Other than the costs and benefits of collective action by landless farmers, on the one hand, and the large landowners, on the other, there are other factors that affect the balance of power between the two groups. Wars and foreign invasion can

effectively cripple the "institutional sclerosis" or the strength of well-entrenched interest groups, thereby giving the government in power some leeway in undertaking reforms as it sees fit (Olson, 1982). In this regime, initiatives for political and economic reforms can come from (or influenced by) foreign forces. As the government in power "matures" and various domestic pressure groups begin to acquire new life, the role that these outside forces play in the shaping and implementation of reforms is expected to diminish. Similarly, a government that faces a serious threat to its survival due to peasant unrest, is expected to institute some form of land reform (de Janvry, 1981). But as the unrest wanes, the support for land reform by the ruling elite is expected to diminish.

3. *An Interpretation of the Land Reform*

Experience in the Philippines

The framework presented above can be used to interpret the land reform experience in the Philippines. We first give below a historical overview of land reform programs which various governments initiated over the last four decades.

3.1 *A Historical Overview of Land Reform Initiatives*

President Quezon's administration (1935-41) largely began what would become a long, continuing series of agrarian policy initiatives in the Philippines. A response to the peasant unrest in Central Luzon, Quezon's initiatives included regulation of

tenancy relations, anti-usury law, organized land settlement in Mindanao for the landless of Luzon and the Visayas, issuance of free patents to homesteaders on cultivable public land, and adoption of "landed estates policy" which provided funds for the purchase of large landholdings for resale to tenants.³ The scope of these initiatives was, however, limited, partly arising from the dependence of Quezon's national political organization, as well as that of his successors, on local leaders who were usually either landlords or their proteges. Government records of landed estates were also chaotic and nonexistent, particularly during the period following the Second World War which caused massive destruction of government offices.

Although the subsequent administrations of President Manuel Roxas (1946-48), President Elpidio Quirino (1948-53), and President Ramon Magsaysay (1954-56) likewise had their own versions of agrarian policy initiatives, the features as well as the implementation of land reform were not largely different from those of Quezon's.⁴ President Diosdado Macapagal's (1961-65) administration enacted the most comprehensive legislation thus far, but the law's deficiencies stood in the way of implementation. The most serious of these was the excision on provision for land taxation which would have imposed a progressive land tax, and the explicit exclusion of farms planted with crops other than rice and corn. Indeed, judged on the basis of the amount of land redistributed, the Macapagal

administration's performance was no more encouraging than the record set by its predecessors (Wurfel, 1983).

President Marcos came to power in 1965 without land reform as part of his re-election campaign. Although he continued to implement his predecessor's land reform program, the budgetary support released for the program between 1965 and 1971 was only 20 to 30 percent of the appropriated amount which had also been small vis-a-vis the targets of the program. The tenor of the times changed by early 1970s, a period punctuated by raucous demonstrations and peasant unrest. With the aid of Martial Law, Marcos issued Presidential Decree 27, placing the entire country under land reform. But provisions of the law and the subsequent decrees amending it inherently limited the scope of the program. Among these were: (1) the exclusion of plantation and export crops which, in 1971, comprised nearly 40 percent of all agricultural croplands, and where high concentration of both land ownership and operational holdings persisted; (2) the exclusion of landless and subtenant farmers who numbered about 3.5 million in 1975, and (3) the applicability of the law only on lands that were actually used in agricultural production by 1972. Given these limitations, at its promulgation in 1972, P.D. 27 could cover only 1.01 million hectares, representing 11.9 percent of total farm area or 24.4 percent of the total rice and corn lands. Also, the program suffered essentially the same budgetary constraint and implementation problems as those by earlier land reform programs. The budget allocated to implementing agencies

dwindled from 0.8 percent of the total national budget in 1973 to 0.5 percent in 1981.

By 1980, about 72.4 percent of the total farms were either fully owned or partly owned, only slightly lower than the 73.9 percent then prevailing in 1971. In rice and corn, the two crops covered by P.D. 27, farm ownership (both fully and partly owned) increased for the former from 63.7 percent in 1971 to 68.1 percent in 1980, but fell for the latter from 77.6 percent to 75.3 percent.⁵

The Aquino administration's comprehensive agrarian reform program (CARP) arose from the economic crisis and political unrest that beset the last five years of the Marcos government. Like its predecessors, the Aquino government envisioned land reform as a major means of reducing rural poverty and inequality and thereby minimizing agrarian unrest and social disruption. But unlike the earlier land reform laws which were limited to the redistribution of tenanted rice and corn lands and to the regulation of tenancy contracts, the current CARP covers all public and private agricultural lands (including lands of the public domain suitable for agriculture), regardless of tenurial arrangement and commodity produced. The first phase of the program covers rice and corn lands; all idle, foreclosed, and abandoned lands; and all private lands voluntarily offered by the owners for land reform. The second phase encompasses all alienable and disposable public agricultural lands, including agro-forest and pasture lands. Finally, the third phase covers

all other private agricultural lands commencing with large landholdings. The law prescribes the acquisition and distribution to be completed within a period of ten years from the effectivity of the Act.

/At this point, it is difficult to specify the genuine scope and effects of the CARP. First, the law is controversial in its various provisions on retention limits, exemptions, alternative schemes, grace periods, and definitions. Its provision on retention limits (5 hectares for each landowner, and 3 hectares for each child who is actively managing the farm), for example, can possibly exclude about 80 percent of all private agricultural lands. Second, commercial farms--defined as private agricultural lands devoted to commercial livestock, poultry, and swine raising, aquaculture, fruit farms and orchards, vegetable and cutflower farms, and cacao, coffee, and rubber plantations--are deferred for ten years beginning from the first year of production. There is no cutoff date for establishing such farms. Third, in addition to the aforementioned loopholes, there are also opportunities for landowners to hold up implementation by legal challenges to land valuation which requires considerations of different factors.

Fourth, financing the program appears to be a major bottleneck, as it is already causing substantial delay in implementation. Associated with this has been the lack of plans for qualitative improvements in support services. Two potential dangers lurk in this aspect of the program: (1) the diversion of

resources from non-agrarian areas where improvement of support services may be equally crucial, to CARP-covered areas; and (2) the tying of the provision or upgrading of necessary support services to the pace of land redistribution.

Finally, while the chance of implementation appears better for alienable and disposable public agricultural lands (mainly uplands, covering over 4 million hectares) than for private agricultural lands, the use of non-transferable stewardship contracts (a form of 25-year leaseholds), rather than titles, is also likely to stand in the way of successful land reform in the uplands. That is, since these contracts have no collateral value, they are inferior tenure instruments compared with land ownership titles.

3.2 The Philippine Land Reform Experience and the East Asian Model

We now employ the conceptual framework developed in Section II to explain why the the Philippine land reform experience, as well as that in many other developing countries, did not provide some degree of support for historical generalizations as the East Asian experience. As de Janvry (1981) noted, despite decades of land reform activities in developing countries, landholding remains extremely skewed, and rural poverty and landlessness have been almost universally increasing.

In East Asian countries, the success of land reform was based on very favorable conditions of the political market.⁶

Opposition by the landed elite was low. In Japan, land reform was carried out for the 1946-1950 period under the direction of the General Headquarters of the Supreme Commander of the Allied Powers. The landlords' resistance was at its low ebb as their influence and power waned during and immediately after the war. In Taiwan, the Nationalist Government which was just exiled from the mainland China was alien to local landed elite's influence, thereby allowing the execution of land reform without substantial political cost to the regime. The serious crisis brought about by the aggression and threat of communism by the North provided pressure for the ruling elite of South Korea to effect land reform. Also an equally important factor was the backlog of knowledge and experience on land tenure system accumulated by reform-minded officials in the Ministry of Agriculture and Forestry, coupled with the reservoir of well-documented and accurate data on land ownership and tenure relations gathered since long before World War II.

Tenant farmers in Japan had a long history of strong cooperativism and unionization, facilitated partly by pervasive government control on agricultural products and inputs. Through federations at the national and prefectural levels, individual cooperatives were welded into a tight nationwide organization to which all farmers belonged.⁷ Through the cooperative movement, farmers exerted highly effective countervailing power over public policies affecting the agricultural sector.⁸ Furthermore, the industrialists and urban middle class also demanded land reform

as a "democratization" measure aimed at preventing communist influences in rural areas. In short, in post-War Japan, farmers' political influence was high, which, together with the relatively low opposition for land reform, suggests a relatively high level of land redistribution.

In contrast, these very favorable conditions for land reform were absent in the Philippines, at least each time a land reform program was instituted and implemented. The political influence of the large-number group of tenant farmers and landless agricultural workers was low, partly owing to high organization costs, their relatively low education, poor transport and communication infrastructure in the rural areas, and the lack of strong cooperativism and unionism that characterized East Asian agriculture. Moreover, in areas where productivity was low and agricultural production highly uncertain due to the vagaries of weather, the pervasive practice of sharecropping in traditional farming communities could be an efficient compromise between the tenant's strong risk aversion and the landlord's calculation of transaction cost.⁹

On the other hand, the opponents of land reform, i.e., the large landowners, were few in number, highly educated, and typically concentrated in urban areas where transport and communication infrastructure were less prohibitive. The external factors that contributed to the successful implementation of land reform in Japan and Taiwan were also simply absent. To be sure, there were rural unrests and recommendations for agrarian change

from various groups (including the U.S. Government) desirous of seeing reforms, but these either were not widespread and sustained long enough to keep on pushing for the desired reform, or came at a time when the landlords' power and influence in the legislature as well as in the executive branch were well-entrenched. Thus, the laws passed were limited in scope (covering only tenanted lands planted with rice and corn, at least prior to the Aquino Government's CARP), plugged with loopholes, and not backed up with sufficient funds for program implementation. The loopholes, outdated and inaccurate data on land ownership and tenure relations, and poorly funded implementing agencies, combined to bring about corruption in program implementation, evasion from the program, and, in some cases, land reform "in reverse."¹⁰

4. Conclusion

Agrarian policy initiatives in the Philippines have not been lacking since at least the Second World War. In large part, these initiatives, as those in many other developing countries that followed the East Asian example of land reform, have not provided some degree of support for historical generalizations as the East Asian experience. The explanation for this failure runs deeper than the customary reference to the lack of so-called "political will." Similarly, policy proposals based on wishful thinking that a program similar to the one implemented in Japan and Taiwan immediately after the Second World War could be

duplicated, are bound to fail. The political market conditions in these countries at the time they implemented their land reform were very different from the ones prevailing in the Philippines as well as in many other developing countries. In Japan and Taiwan, the opposition for land redistribution was low while the political influence of the farmers' group was high. In contrast, in the Philippines, high organization costs coupled with lack of tight cooperativism and unionism among tenants and landless agricultural workers translate to low political influence vis-a-vis that of large landowners. Moreover, the external forces and strong bureaucracy that helped mitigate the political influence of local landed elite in Japan and Taiwan, have been either practically absent or, if present, weak and unsustainable, in the Philippines.

One implication of the above analysis is that substantial changes in the structure of Philippine agrarian society require major shifts in the balance of political influence between the proponents and opponents of land reform. Such shifts can be facilitated by wide-ranging measures aimed at effectively raising the benefits for land reform while simultaneously reducing institutional bottlenecks in implementation. Strengthening farmers' organizations is a necessary, though not sufficient, route to obtaining political influence for reforms that favor farmer tenants and landless farm workers. Public investments in rural infrastructure, agricultural technology development, and agricultural support services facilitate growth in agricultural

productivity, thereby increasing farmers' perceived benefits from land reform while simultaneously reducing the cost of organization. Interestingly, in areas where the Green Revolution technology was diffused widely and where the land reform program required the conversion of share tenancy to leasehold, tenants' economic interest in land reform increased, partly arising from the divergence of the rental value of land from leasehold rent and amortization fees prescribed by the law.

These results are tentative. Future research should attempt to specify explicitly the exact mechanism by which political institutions affect the relative political influence of the proponents and opponents of agrarian policy initiatives, including land reform.

NOTES

1. See, for example, Murray (1972), Wurfel (1983), Mangahas (1985, 1986), and Hayami, Quisumbing, and Adriano (1987).
2. In an environment where close social interactions are tight, as may be expected in communities where customary rules and moral principles rather than explicit contracts and formal laws regulate transactions on private and public goods (Tideman and Tullock, 1976), the ability of each member to free ride is tempered, and contracts can be more effectively enforced.
3. Providing the cornerstone of Quezon's land reform policy was the Rice Share Tenancy Act instituted in 1933. This Act regulated interest rate at 10 percent per annum, provided for a 50-50 share between the landlord and the tenant of certain costs and of the net harvest, and safeguarded the arbitrary dismissal of tenants by landlords. This Act, however, did not contain any provision for physical land redistribution at all, and could be made effective only by Presidential proclamation when public interests so required.
4. In all these initiatives, the enunciated aim was a movement of the agrarian economy toward ownership cultivation, greater equity, and increased productivity.

5. See Quisumbing and Adriano (1987).
6. The discussion on East Asian land reform is based largely from Hayami and Associates (1975, pp. 66-70), Ogura (1967, pp. 63-72, 119-148) and Hayami (1988).
7. Under the direction of the Occupation authorities, the government enacted the Agricultural Cooperative Union Law of 1947 which established a new breed of farmers' cooperative called *Nogyokai*. By 1950, nearly 80 percent of the nation's farm households had been brought into the fold of the movement.
8. See George and Saxon (1986).
9. For an excellent survey of the literature on share tenancy and alternative contractual arrangements, see Otsuka and Hayami (1988) and Otsuka, Honma, and Hayami (1989). Interestingly, also, share tenancy regulations combined with yield growth can possibly increase the demand for the implementation of the law. Indeed, in villages where the adoption of modern seed-fertilizer technology was high, tenants' economic interest in land reform was relatively strong, largely owing to the divergence of the rental value of land from leasehold rent and amortization fees prescribed by land reform law (Otsuka, 1988).
10. See Wurfel (1983) and Mangahas (1986).

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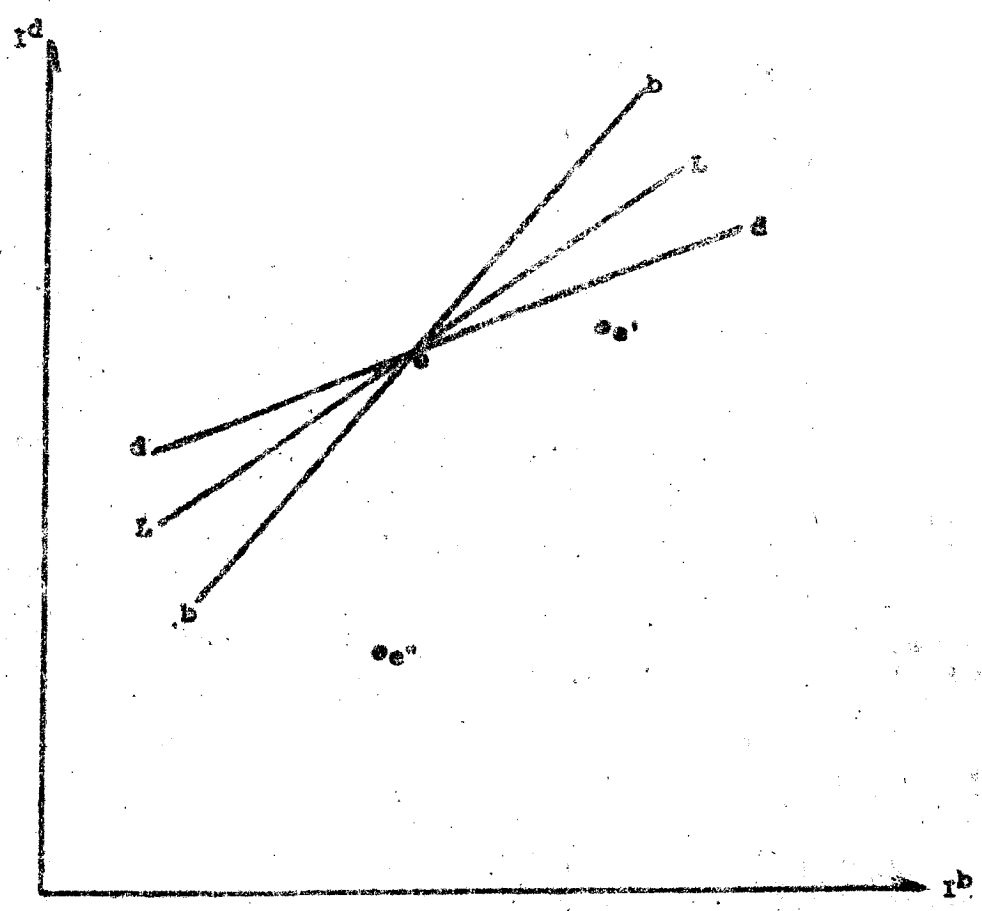


Figure 1. Political investment equilibrium