



TRANSFORMING TRADITIONAL AGRICULTURE

Theodore W. Schultz



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**TRANSFORMING
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AGRICULTURE**

by Theodore W. Schultz

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FOREWORD

Modern economics has been bred chiefly in Western Europe and the United States, and despite its aspiration toward generality it bears the stamp of institutions and issues characteristic of these areas.

But the economic world no longer revolves about London and New York. Dozens of new nations are struggling toward economic independence and industrial growth under institutional arrangements quite unlike those of the West. Economies of a novel type also extend eastward from central Europe to the Bering Strait and have been busily developing their own principles as a by-product of administrative experience. It is asserted that "Western economics" has only limited analytical value in these other countries.

The problem of the content and relevance of economics thus arises inescapably. Are the economic principles taught in the West really susceptible of general application? Or are they culture-bound and relevant mainly to industrial capitalist countries? Is it possible to create a general economics which would be as useful in Poland or India as in Canada or France? Or must we be content with several species of economics which will remain distinct in intellectual content and applicability?

"Comparative economics" has been regarded as a separate area of the economics curriculum, consisting of a botanical classification of national economies into a few loosely labeled

Foreword

boxes. But surely any course in economics is potentially comparative. A concern with comparative experience can profitably be infused into any of the standard branches of economic study. This series is inspired by the hope that a rethinking of particular branches of economics in world perspective, combined with a bibliography of available material from many countries, may help teachers to give their courses a broader and more comparative orientation.

In pursuing this objective, we deliberately chose autonomy over standardization. Each author was left free to determine his own approach and method of treatment. The essays thus differ considerably in length, analytical as against descriptive emphasis, geographical coverage, and other respects. How far the original intent of the series has been accomplished is for the profession to judge.

We are grateful to the authors who have struggled with possibly insoluble problems, to the Ford Foundation for its support of the enterprise, and to the staff of the Yale University Press for their helpful cooperation.

The Inter-University Committee on Comparative Economics: Abram Bergson, Arthur R. Burns, Kermit Gordon, Richard Musgrave, William Nicholls, Lloyd Reynolds (Chairman)

PREFACE

When I see how little success most countries are having in increasing agricultural production, I can see why one might well believe that it is a rare and difficult art to master. If it is an art, a few countries are very adept at it though they seem unable to transmit this art to others. Those that are adept are increasing production while decreasing both labor and land devoted to farming. But as long as the economic basis of increasing production is thought to be an art, I do not wonder that economic policy to achieve it should be so largely in the realm of myth. Presently, in country after country, policy makers are about as sophisticated in this matter as farmers who once upon a time planted crops according to the face of the moon.

While agriculture is the oldest production activity of a settled community, surprisingly little is known about the incentives to save and invest where farmers are bound by traditional agriculture. Oddly enough, economics has retrogressed in analyzing the savings, investment, and production behavior of farmers in poor countries. The older economist had a better conception than economists now have of the particular type of economic equilibrium relevant under these circumstances.

Although it is obvious that traditional agriculture is niggardly, it is not obvious that this niggardliness is *not a function* of a unique set of preferences related to work and thrift.

Preface

Nor is it obvious that it is predominantly a consequence of farmers having exhausted the profitability of the "techniques of production" which are an integral part of the inputs and knowledge at their disposal, and that there is little or no incentive to save and invest in order to increase the stock of the forms of reproducible capital farmers are employing. The purpose of this study is to show that the crucial feature of traditional agriculture is the low rate of return to investment in agricultural factors of the type that farmers have been using for generations, and to go on to show that in order to transform this type of agriculture a more profitable set of factors will have to be developed and supplied. To develop and to supply such factors and to learn how to use them efficiently is a matter of investment—investment in both human and material capital.

Food and agriculture have served economists time and again as a testing ground for new concepts and analytical tools. Diminishing returns to labor and material capital against land and Ricardian rent are examples. So is the income elasticity of the demand beginning with Engel's statistics, followed by the monumental study of Henry Schultz and then studies by Girshick and Haavelmo, Stone, Tobin, Burk, Houthakker, Goreux, and others. Recently there has been the testing of the explanatory value of distributed lags by Nerlove, specification bias in production functions by Griliches, and research costs and social returns from a new input, hybrid corn, also by Griliches. In this study I attempt to test the usefulness of a supply and demand approach in determining the price of income streams from agricultural sources.

I intended when I started this study to include an extensive bibliography of the relevant literature. But it soon became clear to me that the available literature, although large with

Preface

respect to many features of agriculture in poor countries, is in general not germane to the basic economic issues which are the core of this study. I therefore decided against a separate listing and in favor of additional footnotes for this purpose. It turns out that many of the published items to which I refer represent views and treatments that support doctrines and policy approaches which are inconsistent with my analysis.

Since I began this study late in 1959 I have incurred many obligations. I have learned much from the dialogue I had with my students when I presented the central ideas of this study to them. My colleagues, Zvi Griliches, D. Gale Johnson, and Dale W. Jorgenson, read key chapters and I benefited much from their criticism. Vernon W. Ruttan read all of an early draft, and I accepted nearly all of his suggestions. Abram Bergson, Richard A. Musgrave, and Lloyd Reynolds raised useful questions. My wife, Esther Werth Schultz, corrected manuscript, checked references, and convinced me time and again that what I had thought was clear still lacked clarity. Mrs. Marian Neal Ash of Yale University Press gave unstintingly of her editorial talents. Mrs. Virginia K. Thurner, my secretary, corrected proof with painstaking care. I also am indebted to the librarians at the University of Chicago for their help. A Ford Foundation fellowship freed me from my university duties during 1961-62. But more than any other obligation is what I owe to the oral tradition that is a part of the workshops in economics at the University of Chicago.

Theodore W. Schultz

The University of Chicago
May 1963

CONTENTS

Foreword	v
Preface	vii
1. THE PROBLEM AND ITS SETTING	3
A Legacy of Doctrines	8
Issues to be Put Aside	11
Unsettled Questions	15
2. ATTRIBUTES OF TRADITIONAL AGRICULTURE	24
An Economic Conception	29
How Transitory Is Traditional Agriculture?	32
The Puzzle	33
3. THE ALLOCATIVE EFFICIENCY OF TRADITIONAL AGRICULTURE	36
The Economic Efficiency Hypothesis	36
Panajachel, Guatemala: Very Poor but Efficient	41
Senapur, India: Poor but Efficient	44
Inferences and Implications	48
4. THE DOCTRINE OF AGRICULTURAL LABOR OF ZERO VALUE	53
A Network of Roots	57
A Bow to Theory	60
Empirical Test	61
The Test in India Following the 1918-19 Influenza Epidemic	63

Contents

5. IMPLICATIONS OF A THEORY OF THE PRICE OF INCOME STREAMS	71
What Growth Models Omit	73
A Theoretical Scaffold	74
A Non-Growth Type	81
A Growth Type	81
6. PRICE OF INCOME STREAMS FROM TRADITIONAL AGRICULTURE	83
Relatively High Price of Income Streams Hypothesis	84
Arguments Against the Hypothesis	85
Panajachel, Guatemala	90
Senapur, India	94
Concluding Implications	96
A Note on Factor Shares	97
7. PREFACE TO INVESTMENT PROFITABILITY	102
8. FARM SIZE, CONTROL, AND INCENTIVES	110
Specialization of Functions	115
Organized research	115
Producing modern inputs	117
"Producing" information	118
Absentee or Resident Control and Farm Size	118
Pseudo-Indivisibilities and Farm Size	122
Big tractors and many hoes	123
Real indivisibilities	124
Suppression of Rent	124
Farm Product and Factor Prices Matter	127
9. FACTORS OF PRODUCTION CONCEALED UNDER "TECHNOLOGICAL CHANGE"	130
The Game of Concealing Factors	132
Examples of the attributes of some agricultural factors	134

Contents

Changes in the supply of particular factors of production over time	135
Examining What Is Concealed	139
Implications of an All-Inclusive Concept of Factors	143
A Demand and Supply Approach	143
10. SUPPLIERS OF NEW, PROFITABLE FACTORS	145
Research and Development by Suppliers	146
Distribution by Suppliers	153
Firms for profit	153
Nonprofit firms	156
11. FARMERS AS DEMANDERS OF NEW FACTORS	162
Rate of Acceptance	163
Profitability	163
Components determining profitability	166
Search for New Factors	169
Learning How to Use Them	170
Classification	171
Costs and returns	173
12. INVESTING IN FARM PEOPLE	175
Agricultural Growth and Human Capital in Retrospect	178
Lessons from Industrialization	182
Where Schooling Counts	186
Growth not dependent on additional schooling	187
Growth dependent on additional schooling	189
Economics of Importing Skills	191
Import or produce at home	192
Crash or enduring programs	193
Distribution among levels of education	194
Misplaced specificity in instruction of foreign students	194