

CARP: *Let it Go!*

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CARP History

- **1988: Comprehensive Agrarian Reform Law (RA 6657), was passed in 1988. The corresponding program is CARP.
“Comprehensive” all crops**
- **1998: First extension**
- **2009: CARPER (RA 9700; ER for Extension with Reform) extended CARP for five years to 2014**
- **June 2014: CARPER ends; noise about CARPERER to 2019: HB 3305**

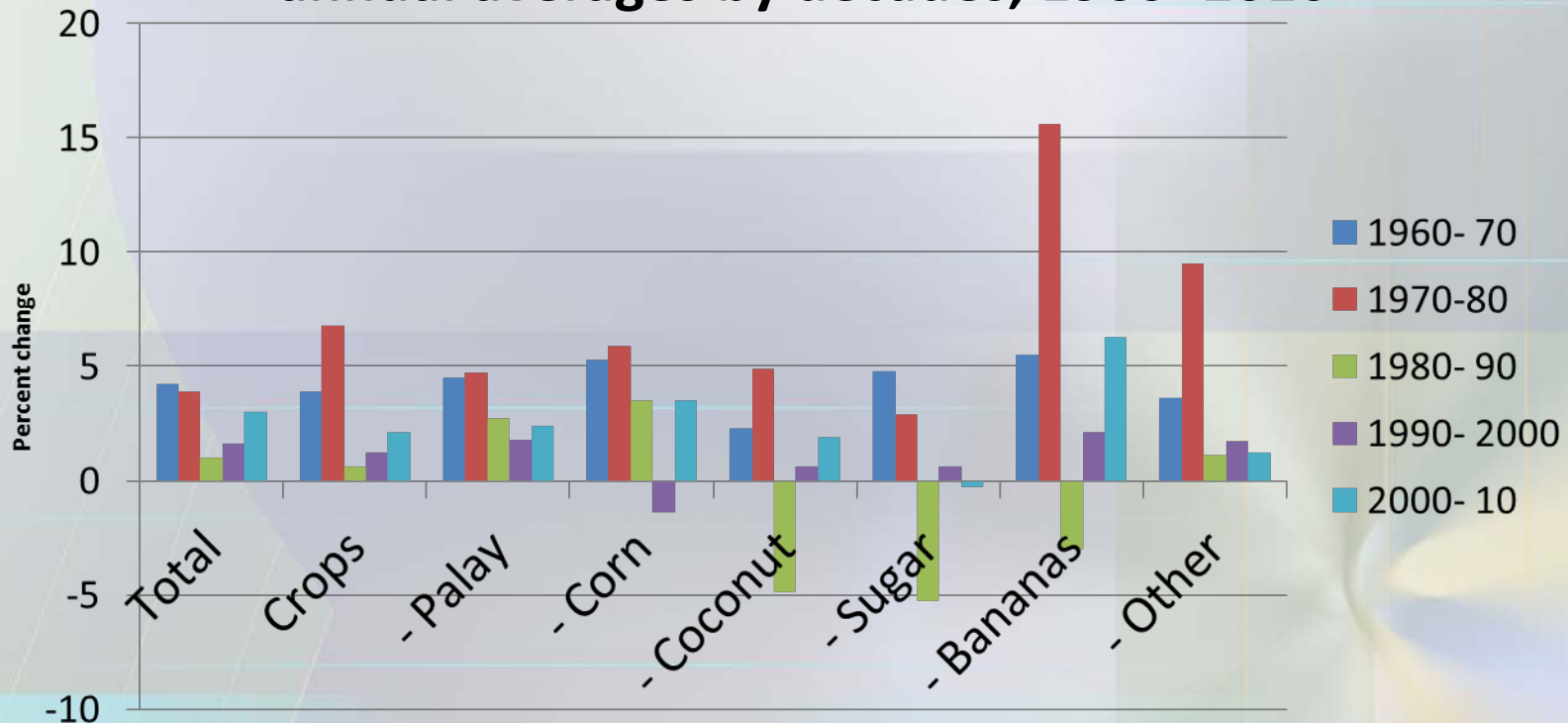
The CARP Vision

“To this end, a more equitable distribution and ownership of land, with due regard to the rights of landowners to just compensation and to the ecological needs of the nation, shall be undertaken to provide farmers and farm workers with the opportunity to enhance their dignity and improve the quality of their lives through greater productivity of agricultural lands.”

(Chapter 1, Section 2)

Agriculture Industry Trends

**GVA growth for major crops,
annual averages by decades, 1960 -2010**



Annual gross value added growth is lowest among major agricultural crops in the three of four most recent decades. (Tuano, 2014)

The Record

- ❖ By 2014, CARP shall have distributed 5.05 million hectares, leaving but 321 thousand hectares or an accomplishment rate of 99%.
- ❖ 2.6 million farmers shall have gained some form of ownership to an average 1.2 hectares
- ❖ shall have acquired and distributed 16% of the total Philippine land area of 30 million hectares.

The Record

- ❖ Japan's vaunted land reform distributed only 1.76 million hectares of its total 37 million or 4.7%.
 - ❖ Taiwan distributed 0.5 million hectares of its total of 3.62 million or 14%.
- (Adriano, 2013)

The Record

- ❖ Average (ton/hectare) yield among ARC beneficiaries (ALDA, cited in Adriano, 2013):
 - *Palay* was 10% higher than national average (consisting of non-ARBs, non-ARC ARBs farmers);
 - *Corn*, it was 50% higher
 - *Coconut*, it was 40% lower and
 - *Sugar*, it was 8% lower .

The Record

- ❖ In the two crops (rice and corn) unfocused by CARP farm productivity was better than national average.
- ❖ Only 54% of ARBs are in ARCs where most of government and non-government aid go; non-ARC ARBs (46%) are uncovered.
- ❖ From 2010 to 2012, ARC-affiliated ARBs received, on average, ₱22,446 in credit support and ₱23,246 in irrigation support (see Adriano, 2013).

The Record

- ❖ Poverty Incidence (PI): among ARC-affiliated ARBs, 54% of households fell below the poverty line! Already for 2009, FIES data show that only 36% of farmers fell below the poverty line
- ❖ PI will be higher with non-ARC ARBs
- ❖ Income of ARB in ARC is greater than income of ARB in NonARC (2008 APPC Study)

The Record

CARP, it seems, has created a new class of farmers: the landed poor!

The Record

2008 APPC Study: "Land Reform, Rural Development and Poverty in the Philippines: Revisiting the Agenda"

- Per Capita Income: Income of ARC members with land was greater than income of ARC members without land
- income of Non-ARC members with land is greater than income of Non-ARC members without land
- Land ownership seems to matter.

The Record

2008 APPC Study: “Land Reform, Rural Development and Poverty in the Philippines: Revisiting the Agenda”

- But when other factors are controlled for, neither being an ARB nor being an ARC member explains differences in income per capita.

- This implies that “land ownership via CARP” is an “inferior type ownership.”
- Our hypothesis: inferiority is associated with Section 27 and Section 6 (the land ownership ceiling of five hectares) of CARP.
- Being an ARB correlates negatively with access to formal credit even though land ownership correlates positively.
- This shows the property rights frailty of CARP.

Conclusion of APPC Study

“Twenty years later, the results of the Comprehensive Agrarian Reform Law (CARL) launched in 1988 were below expectations. Productivity growth in agriculture has been low by regional standards and poverty still plagues rural areas. Total agricultural factor productivity has grown only 0.13% per year during 1980-1998, compared to 0.87% per year in Thailand and 1.49% in Indonesia...”

Design Flaws

- **Unequal exchange:** The productivity of land depends in its capacity to command financing. CARL effectively outlawed that capacity, making the land conveyed to the beneficiaries “effectively inferior” to that bought at market price from the landowner.

Design Flaws

- *Entrepreneurship Myth* – give a tenant a piece of land and he/she morphs into an entrepreneur. *Self-selection be damned.*
- *Coase Theorem be damned!*
Section 6 (ownership limit) and Section 27 effectively outlaw land asset exchange.
- *The market be damned!*
The state supplants the market as arbiter of efficient use of assets.

Design Flaws

- **Economic size:** If the land (3 hectares) is not “economic size” for a crop and location, it is a high-default risk, loses the capacity to command credit and is worth less than as part of a larger credit-worthy parcel.

The beneficiary is short-changed and condemned to fail! Economically unviable property rights are not stable.

Design Flaws

- Size Economies: if economic size farm for *a crop in a vicinity* is > 5 hectares, consolidation will go underground (up to 100% in some villages) where property rights are unstable.

(India's land ceiling ranges from 4-21 hectares depending on state; Sri Lanka's is 20 hectares; and Cuba's is 67 hectares!)

Design Flaws

- *Comprehensiveness*: Same rules for all crops, whereas successful, templates stopped at rice lands! *The Marcos effect?*.
- *Consequences*: Private capital flight; Sumilao as parable; a permanent credit crunch in the agricultural sector; low investment rate due to unstable property rights and no scale-up possibility. High rural poverty!

Private Capital Flight from Agriculture

Percentage Shares of Agri Loans to Total Bank Loans

2001 2002 2003 2004 2005 2006 2007 2008 2009 2010

(constant prices)

share agri loans to
total

5.88 2.28 2.21 2.87 3.99 1.73 2.21 2.2 2.45 2.49

share loans for agri.
production to total
loans

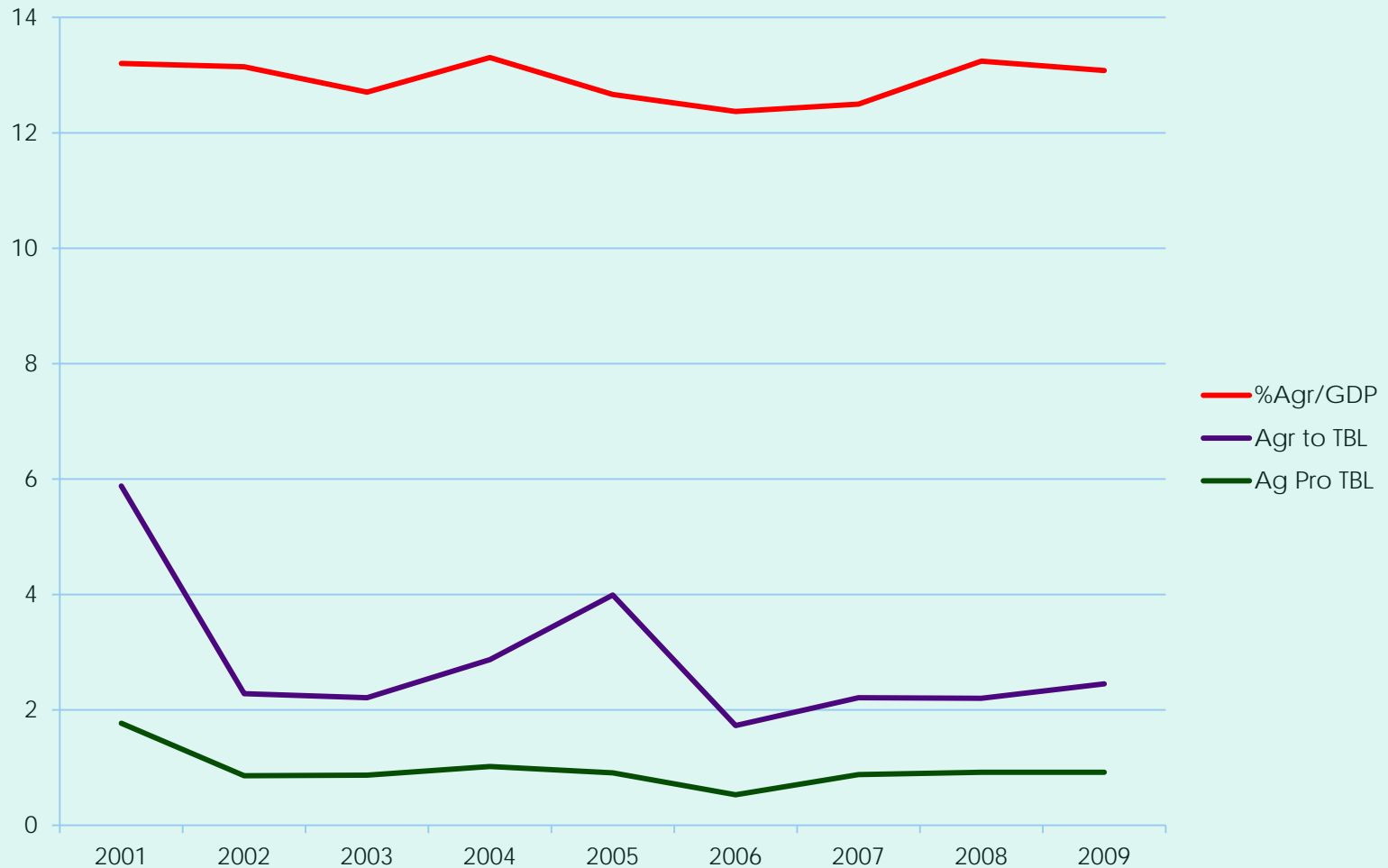
1.77 0.86 0.87 1.02 0.91 0.53 0.88 0.92 0.92 0.96

Source: ACPC and BSP.

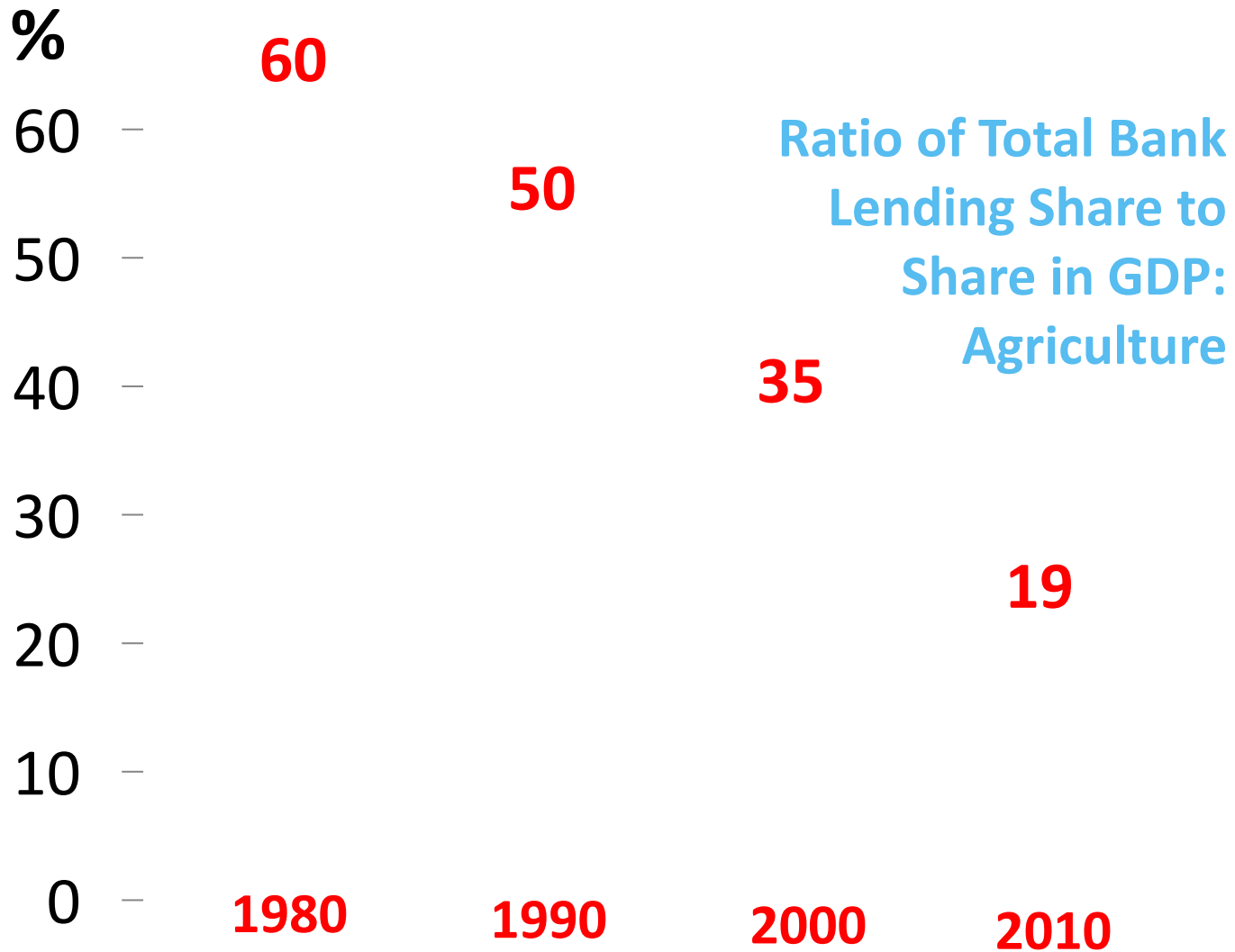
1/ Constant 2000 prices, using GDP deflator.

Private Capital Flight from Agriculture

Share of Agriculture in GDP and Total Bank Lending



Private Capital Flight from Agriculture



Quo Vadimus?

- No farm land ownership limit for publicly-owned firms listed with the PSE.
- Allow efficient farmers to own up to $x > 5$ hectares of agricultural land.
- Allow banks operating in rural areas unlimited ownership of land.
- Finish converting Collective CLOAS to individual CLOAS.
- A progressive farm land tax vice LAD.

State Capacity and Failure

- When a state overreaches, the result is a *state failure: actions by government makes market failures look like God's gifts.*
- The Philippines widely recognized as a *weak state: does too many things badly; too many windows for waste and corruption; it should do fewer things well.*
- *Poverty Reduction by sticking to basics: better courts of law, better highways, better overall governance, cheaper and more stable power supply.*

Book of Prayer

The 1662 Book of Prayer expresses best the relation between societal health and state overreach:

“We have left undone those things which we ought to have done; and we have done those things which we ought not to have done. And there is no health in us.”

Maraming Salamat Po/Daghang Samat/Salamat Guid

The 1987 Constitution

- The Philippine Constitution provides that
 - “...the state shall encourage and undertake the just distribution of all agricultural land.”
- Interpretation: Agrarian reform should be pursued as long as the 1987 Constitution exists!
- Backward- not forward-looking.