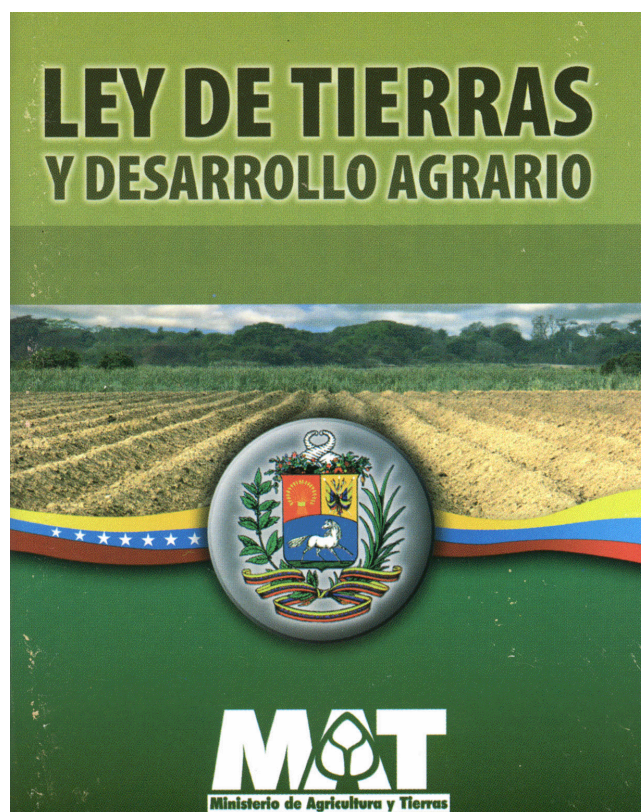




# ***Agrarian reform in Venezuela -defensible from a socio-economic perspective?***

*A Minor Field Study in Venezuela*



***Author***

*Annie Ståhlberg*

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*Agrarian reform in Venezuela*  
*-defensible from a socio-economic perspective?*

*Jordreform i Venezuela*  
*- försvarbar ur ett socio-ekonomiskt perspektiv?*

*Author:*

*Annie Stålberg*

*Supervisors:*

*Rob Hart, Swedish University of Agricultural Science (SLU)*

*Rob Kirby, Universidad de los Andes (ULA), Venezuela*

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Mr. Juan Comerma

Mr. Julio Mora Contreras

Mrs. Maria Cespedes

Mr. Noel Miranda

Mr. Olivier Delahaye

Mr. Oswaldo Ramos Ojeda

Mr. Román Duque Corredor

Mrs. Tamara Bergkamp Sierman

Peasants in the rural town Guasdalito

INTi official in the State of Apure

Male landowner in the State of Apure

## Abstract

The land reform in Venezuela was introduced in 2001 and will according to its proponents decrease the country's oil dependency through increasing agricultural production. The law also intends to decrease inequalities in the society by giving land to landless peasants. To achieve this, a land tax will be introduced on unproductive land and land can also be expropriated or repossessed by the state. The land reform has been criticised a lot and its opponents believe the reform will result in a major flight of capital as well as decreasing investments because of insecurity and consequently less agricultural production.

The aim of this paper is to find out whether this land reform could be defensible from a socio-economic perspective. To achieve the aim the starting point has been economic theories of how an agrarian reform could be conducted in an economically defensible way and focus has been on efficiency, investments and inequality. Further an interview study in Venezuela in the autumn of 2005 has been carried through.

Does the Venezuelan land reform comply with the theoretical design? There are different opinions about this. Generally could be claimed that it does not comply with the traditional theories about efficiency, however, if the models are somewhat modified and under certain assumptions the reform might be defensible from an efficiency point of view. When it comes to investments it is uncertain whether they will increase because of secured property rights for the peasants or decrease because of the insecurity that large landowners experience. The final outcome will depend on how the law will be interpreted as well as to what extent the peasants will receive support. The reform will probably reduce inequalities in Venezuela, which could be favourable for the economy but this could also increase insecurity for investors. Further some practical problems might prevent a positive development.

# Sammanfattning

Jordreformen i Venezuela introducerades 2001 och ämnar enligt dess förespråkare att minska beroendet av olja, detta genom att öka jordbruksproduktionen. Den avser även att utjämna vissa av samhällets ojämlikheter genom att ge jord till jordlösa bönder samt att införa en skatt på jord för bönder som inte utnyttjar sin mark till fullo. En genomgång av landets jordegendomar och dess ägare är också en del av lagen och under vissa omständigheter kan jord exproprieras eller återtas av staten. Jordreformen har kommit att kritiserats mycket och motståndarna menar att denna lag istället kommer leda till kapitalflykt, mindre investeringar p.g.a. osäkerhet och därmed mindre produktion.

Kan jordreformen anses försvarbar ur ett ekonomiskt perspektiv? Detta är frågeställningen i denna uppsats. För att studera detta har utgångspunkten varit teorier om ekonomiskt försvarbara modeller för jordreformer, med fokus på effektivitet, investering samt ojämlikhet. Dessutom har en fältstudie i Venezuela under hösten 2005 genomförts i form av en kvalitativ intervjustudie.

Uppfyller då den venezolanska jordreformen den teoretiska modellen? Olika åsikter råder om detta men generellt kan hävdas att den inte uppfyller de traditionella effektivitetsteorierna. Vid viss modifiering av modellerna och under vissa omständigheter kan dock reformen anses försvarbar ur effektivitetssynpunkt. Huruvida investeringarna kommer att öka som ett resultat av reformen är osäkert. Säkrare äganderätt för småbönder kan medföra detta men motverkas av ett osäkrare klimat för storägare. Vilken kraft som slutligen blir den dominerande beror till stor del på hur lagen tolkas samt vilket stöd som kommer att finnas för dem som tilldelas jord. Reformen kommer troligen att verka utjämnande i samhället, vilket i vissa hänseenden kan vara gynnsamt för samhällsekonomin, samtidigt som detta kan öka osäkerheten för investerare. Eventuellt kan också vissa praktiska problem hindra en positiv utveckling.

## Abbreviations and Translations

I will with this chapter clarify some of the translations I use frequently throughout this paper. I will also explain some of the abbreviations I will use:

### **Latifundia**

A large estate.

### **Law of land and Agrarian Development**

Ley de Tierras y Desarrollo Agrario, introduced 2001.

### **Law of Agrarian reform**

Ley de Reforma Agraria from 1960, valid until 2001.

### **AD**

Accion Democrática. Political party.

### **COPEI**

Comité de Organización Política Electoral Independiente. Political party.

### **FNCEZ**

Frente Nacional Campesino Ezequiel Zamora. A peasant organization.

### **IAN**

Instituto Agrario Nacional. Venezuelan National Agrarian Institute during the Agrarian reform law (Ley de Reforma Agraria), got replaced by INTi and two other institutes in connection with the introduction of ‘Ley de Tierras y Desarrollo Agrario’.

### **INTi**

Instituto Nacional de Tierra. Venezuelan National Land Institute.

### **MAC**

Ministerio de Agricultura y Cria. Ministry of Agriculture and Breeding. Founded in 1936, got replaced by MAT.

### **MAT**

Ministerio de Agricultura y Tierra. Ministry of Agriculture and Land

### **MVR**

Movimiento quinta Republica. The fifth Republic’s Movement, the governing party of which Hugo Chavez is the leader.

## Definitions

The two terms ‘land reform’ and ‘agrarian reform’ are somewhat confusing and different authors give the two expressions different meanings. I would hereby like to clarify my use of terminology in this paper.

Most authors agree on that land reform is a part of an agrarian reform; it is the distribution of land for the benefit of landless workers, tenants and small farmers. Agrarian reform has a wider meaning and includes also a complement of measures such as education, agricultural credit, technical assistance, agricultural cooperatives etc.<sup>1</sup> Kirby describes it as qualitative improvement of the land, increased agricultural productivity, and improvements in standards of living in the rural sector.<sup>2</sup>

In Venezuela the term ‘reforma agraria’ is prevailing, which also was the name of the previous law. The present law is called ‘Ley de Tierras y Desarrollo Agrario’, Law of Land and Agrarian Development. Despite this I chose to call this paper ‘Agrarian reform in Venezuela’ since in article 306 in the Venezuelan constitution the State “should also stimulate the agricultural activity and the optimal use of the land by providing infrastructure, inputs, credits, further education and technical assistance.”<sup>3</sup>

In the literature the term ‘land reform’ is used more frequently and sometimes as a straight alternative to ‘agrarian reform’.<sup>4</sup>

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<sup>1</sup> King 1973, p. 2

<sup>2</sup> Kirby 1992, p. 51

<sup>3</sup> Constitución de la Republica Bolivariana de Venezuela. Article 306. See appendix 1 for original text.

<sup>4</sup> King 1977, p. 5

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# 1 Introduction

In an agricultural sense Venezuela is unique among its neighbours. Venezuela is a developing country but agricultural contribution to GNP is more comparable to industrialized nations and the amount of people working in the agricultural sector is far below nearby states. The reason for this is that oil was found in Venezuela in the beginning of the 20<sup>th</sup> century. This discovery changed the Venezuelan economy and transformed the country from a poor, backward agricultural nation into an industrial country and a consuming society.

It is impossible to talk about anything in the Venezuelan society without mentioning the oil. Once the biggest exporter of oil in the world and later some steps down the ladder, oil has dominated Venezuela and its politics during almost a century. Because of the big revenues from oil and the tremendous growth in urban industry Venezuela shifted attention and resources from other areas and put its effort on oil export.<sup>5</sup>

The agriculture is a sector that has suffered a lot from the oil strike. During the first decades of the 19<sup>th</sup> century, agricultural products were the backbone in the Venezuelan economy, now Venezuela imports about 70 per cent of its agricultural products and rapid growth in urbanisation has left the countryside unpopulated.

Venezuela is as many other Latin American countries a very unequal society with a major poverty but also a small group of people with extreme wealth. This phenomenon is clearly seen in the agricultural sector where 70 per cent of the agricultural land is owned by 3 per cent of the population.<sup>6</sup> Along with the urbanisation high unemployment has followed in the cities and once one of the richest countries on the continent the Venezuelans saw in the end of the previous century their economic fortunes decline in proportion to the fall in world oil prices. The fluctuations in the oil price and the fact that oil is a finite resource have reminded Venezuela of its dependency on this resource and its economic vulnerability.

When the politically left oriented Hugo Chávez came into power in 1998, an agrarian reform was one of the first things he implemented. He visions less dependence on oil and a reduction of inequalities in the society but his opponents fear a Cuban influenced abolition of private property, where the State confiscates land from landowners. Sympathizers however argue that many nations for example the strong economies in Asia have successfully implemented agrarian reforms.

## 1.1 Problem background

This paper is based on a minor field study performed in Venezuela in the autumn of 2005. The topic is the Law of Land and Agricultural Development, introduced by the government in 2001. This law makes it possible for landless peasants to get land from the State and proprietors that fail to use more than a certain amount of land can be subject to an inactivity tax. Under certain circumstances private land can also be seized by the State. According to its proponents this agrarian reform is a way to raise agricultural production in the country and make them less dependent on other nations and therefore make the economy less vulnerable. They also claim that the reform will increase social justice through equalizing the ownership of land. Opponents however believe the reform will frighten away international enterprises. This will result in a major flight of capital because of decreasing investments and hence result in less agricultural production.

## 1.2 Aim

In the first chapter of the Law of Land and Agrarian Development it is stated that the value of the agrarian domain is not limited by beneficial economic effects in the national production but is a much more far-reaching human and social development. Because of time constraints I have however delimited the work to a concentration of the economic part of the agrarian reform. More precisely; the aim of this study is to find out whether the agrarian reform in Venezuela could be defensible from a socio-economic perspective.

## 1.3 Disposition

To reach the aim the study will start out from economic theory about land reforms which will be studied to find out whether the theories are applicable in the Venezuelan case.

The disposition of this paper is organized as follows. The next chapter develops the method used as well as critics of selected sources. The section thereafter will treat the theoretical base for my study and explain the economic instruments used to reach the aim. In the fourth chapter the underlying background of the problem will become clearer and the readers will obtain a brief knowledge about Venezuela's history, necessary to understand the land problem in the country. In chapter five the empirical study from the investigation in Venezuela in 2005

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<sup>5</sup> King 1977, p. 148

<sup>6</sup> In: Ellner et al, p 129

is presented and interviews made in Venezuela, make up a substantial part of the information. In the sixth section the material from the empirical and theoretical part is discussed and analysed and in the last chapter conclusions from the analysis are drawn.

## 2 Method

The Law of Land and Agricultural development has been debated frequently in Venezuela since the introduction in 2001. However, because of the novelty of the law not much has been written about the subject and large parts of the information used in this paper will therefore come from primary sources, mainly from interviews performed during the investigation in Venezuela 2005. Written material used comes mainly from reports published in Venezuela, the Law of Land and Agricultural development itself and the Venezuelan constitution. When it comes to more general questions about agrarian reforms material comes primarily from literature published outside the country such as publications from the World Bank as well as independent researchers within the domain.

### 2.1 Interviews

The investigation is conducted with a qualitative method and I have performed 16 individual interviews and one more informal interview with a group of 6 peasants, in Venezuela in the autumn of 2005. To understand the newly introduced law I have chosen to study it from three different angles and therefore the interviewees come from three different areas in the society.

The first group was the peasants, or their spokespersons, whose perspective was essential to understand many fundamental questions. Further the landlords, or their representatives, were a very important counterbalance to understand the whole problem. The third perspective was the view of the professionals. The persons interviewed in the third group hold very different views in the question and represented are, among others, lawyers and investigators for and against the land law, as well as persons representing the government.

The interviews are conducted both in urban and rural areas and the questions used were individual depending on the person's position and knowledge. All interviews but two are recorded with a tape recorder, why the two fell out was due to limitations in the technical equipment. The length of the interviews varies from 30 minutes to 3 hours.

Since this topic is quite delicate in Venezuela I have chosen to keep some of the persons interviewed anonymous and they will therefore just be described in the reference list.

## 2.2 Source criticism

The Venezuelans are deeply polarized over the politics of their president Hugo Chávez and this phenomenon influences all levels of the society from media to the universities. Unfortunately the objectivity has been seriously harmed by this fact and the truth is difficult to determine. The lack of access to statistical data and the possibility that existing material may be manipulated or very biased sometimes made my investigation difficult. This, together with the novelty of the law, which makes an evaluation of the economic effects difficult, made the analysis more focused on the possibility *if* the Agrarian Reform theoretically could be economically defensible and not if it really, in practice, is economically favourable.

## 3 The economics of agrarian reform

Could an agrarian reform be defensible from an economic perspective? The classical theory argues the market will solve any problems arising if it is left without interference. However many researchers on land policies agree that an agrarian reform could be defensible if it is performed properly.

I will in this chapter give an insight in the economic theory of how an agrarian reform could be conducted in an economically defensible way. Efficiency and investments are two relevant economic questions but also inequality and I will analyse these theories to be able to compare with the facts about the agrarian reform in Venezuela.

The definition of agrarian reform differs among the authors, as I explained while defining the concept above. In general it is however possible to describe it as “a process that involves fundamental changes in the patterns of land ownership and use, resulting in significant transfers of wealth, income and power from the landowning elite to the peasantry”.<sup>7</sup> Hence it is a reallocation of resources.

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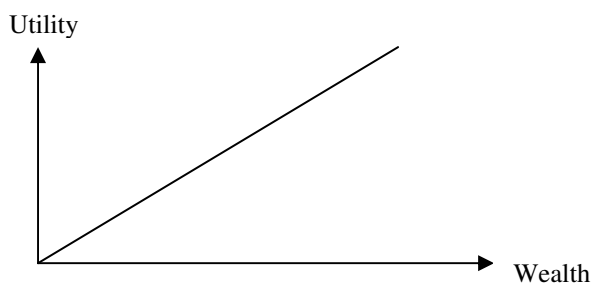
<sup>7</sup> Kirby 1992, p. 56

## 3.1 Efficiency

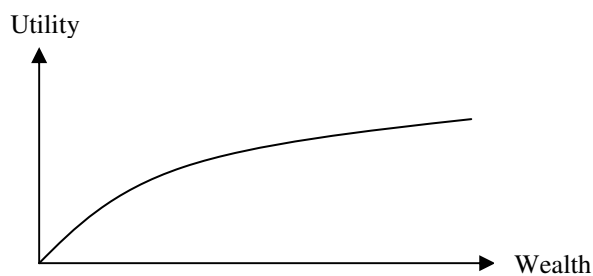
### 3.1.1 Economic concepts

Pareto efficiency means that an allocation of resources is efficient if it is not possible to make one person better off without making at least one other person worse off, something rather hard to achieve in reality. A weakening of the Pareto model is Kaldor-Hicks' compensation test, which says an allocation of resources is superior to another if the winner can compensate the loser and still be better off.<sup>8</sup> Set in an agricultural context a land reform, where land is taken from landlords, can never be efficient from a Pareto-optimal point of view since the landlord loses land and will therefore be worse off. For a land reform to pass the Kaldor-Hicks' compensation test, the reform has to be designed so that the peasants are responsible for the compensation to the landlords – or at least hypothetically could manage to be responsible, no real transaction has to occur to make it pass the test - but still after the compensation are better off than before.

Many authors<sup>9</sup> criticise these models which include a benefit that grows linearly with increasing wealth as shown in figure 1. The opponents argue for a model of diminishing marginal utility of income, i.e. a model that takes into account that increased wealth by for example one unit might increase benefit by less than one unit, shown in figure 2. This applied on a land reform could mean that the poor peasants value the land higher than the wealthy landowner because the land for the poor is a commodity in short supply, seen on the steep slope in the first part of fig. 2. To exemplify an extreme case the transfer of land has signified that the wealthy landowner has lost some land, but will hardly notice the loss, while the former landless has received land, which makes it possible for him/her to survive and the benefit for the society as a whole is therefore positive.



**Figure 1**  
*Shows the foundation of the Pareto and the Kaldor-Hicks model with a linear growth between wealth and utility.*



**Figure 2**  
*Shows the foundation of diminishing marginal utility with a diminishing growth between wealth and utility.*

<sup>8</sup> Perman et al, p. 107, 113

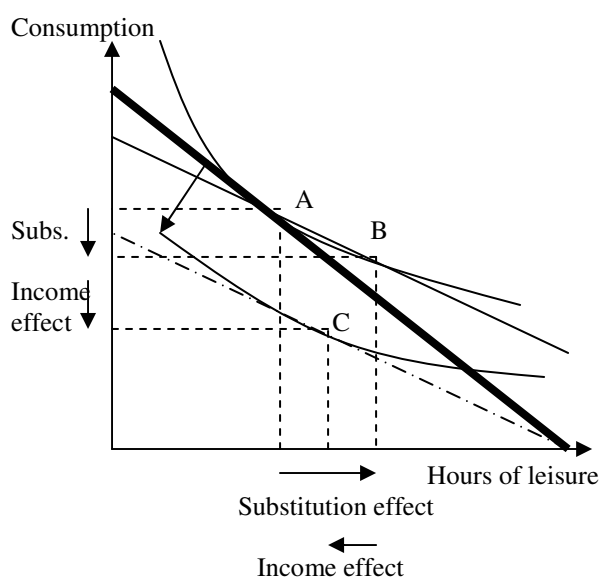
<sup>9</sup> See for example Johansson, p. 33f

### 3.1.2 Land Taxation

When externalities are present, the need for governmental intervention could be very strong. It is difficult for an individual to take into account the positive or negative effect of their action when deciding what levels of services that should be produced or consumed. The positive or negative effect the action has on the society is thus not included when the levels are set out, because the individual does not have anything to gain on regulating it. Therefore, often in the case of positive externalities too little of the service is produced and too much when it comes to negative externalities.<sup>10</sup>

One problem most agrarian reforms are set out to prevent is unproductivity. If the society considers high production as something preferable, this is seen as a positive external effect of the landowner's action and could be encouraged by a subsidy. The problem could also be remedied by a tax on unproductivity.

Taxes are generally associated with harmful effects such as distortions and dead weight losses. When someone is subject to a tax this changes the slope of the budget constraint and makes consumption more expensive relative the hours of leisure, see figure 3. This change will result in two different outcomes. One effect is substitution (A-B), i.e the person substitutes leisure for consumption since this comodity has becomen less expensive relative



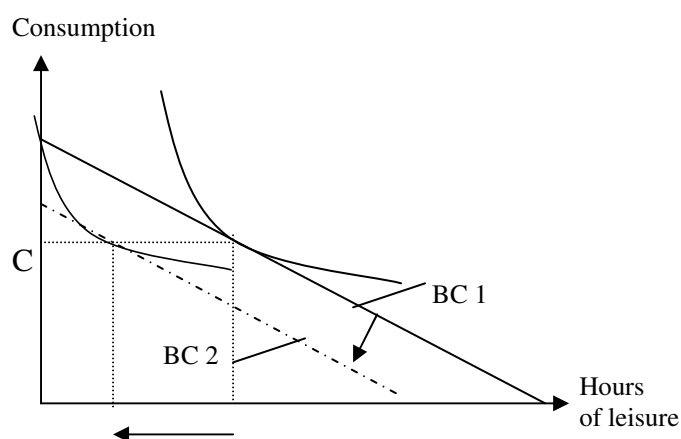
**Figure 3.** Income and substitution effect.

consumption. The other outcome is the income effect (B-C), i.e. when the person choses to work more to compensate the loss of money that is the result of the tax. The income and the substitution effect act in the opposite direction when it comes to hours of leisure and it is difficult to determine which one will be the dominating and hence if hours of leisure will increase or decrease.

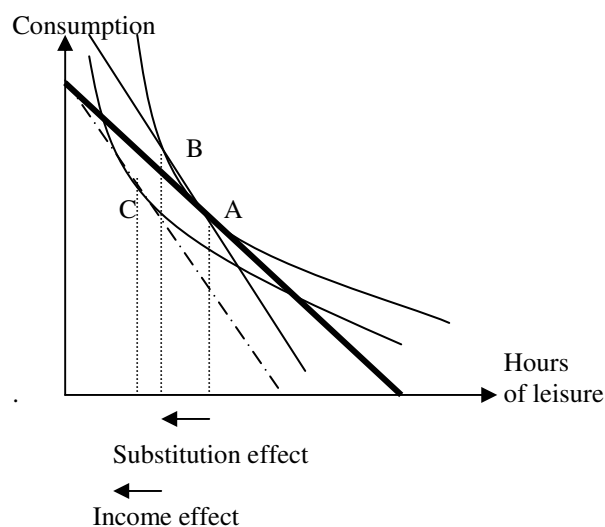
When it comes to land taxes the influences on the landowner are somewhat different and many authors agree that a land tax could be an efficient way to conduct a land reform.

<sup>10</sup> Petit, Michel. In: Umali-Deininger 1994, p. 447

A land tax would change the landowner's budget constraint inwards and therefore not result in a substitution effect as seen in figure 4. For a farmer with agricultural production as the only source of income a tax on land might encourage the owner to produce more agricultural products in order to keep the same standard as before.<sup>11</sup> If the tax is progressive and benefits landowners with high production, i.e. farmers that work more, consumption has relatively become less expensive and the substitution effect and the income effect work in the same direction, as seen in figure 5. This will clearly induce owners to either intensify their cultivation or to abandon parts of their holdings.<sup>12</sup>



**Figure 4.** The tax on land makes the initial budget constraint (BC 1) shift inwards to BC 2 because the tax decreases the amount of money available for the farmer. In order to keep up with the same consumption (C) the farmer has to sacrifice more hours of leisure and hence produce more.



**Figure 5.** With a progressive land tax the substitution (A-B) and income (B-C) effect work in the same direction and stimulate hence production.

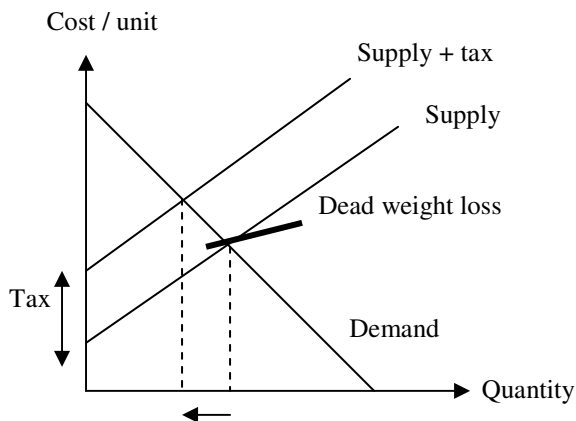
When it comes to general taxes on for example sales (VAT) the only way a taxpayer can respond to an imposition, provided the same income, is to purchase less goods. This could harm the economy since the system involves dead weight losses and decreases quantity demanded, see fig. 6.<sup>13</sup>

<sup>11</sup> Bird 1974, p. 182

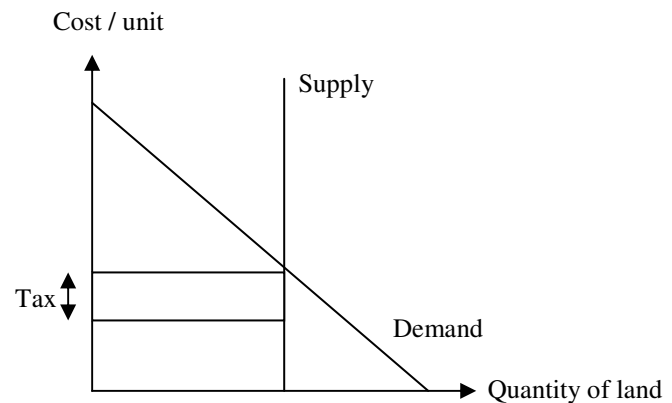
<sup>12</sup> See for ex. Deininger 2003, p. 165 and King 1977, p. 18

<sup>13</sup> See for ex. Johansson, p. 93





**Figure 6.** Taxes in the case of a linear supply curve changes the units of quantity demanded.



**Figure 7.** Supply of land is inelastic and a tax does not alter the demand for land or implies dead weight losses.

Land is though a limited good i.e the elasticity of supply is zero and a higher price through a tax does not alter the quantity, as seen in fig. 7. The only way a proprietor can respond to a tax on land, if not willing to pay it, is through relocation, i.e. to sell off the land. A tax on land will therefore not give any dead weight losses and hence be less distortionary than taxes on for example sales or income.<sup>14</sup>

To be able to administrate a land tax equitably and effectively, i.e. to minimize distortion and deadweight losses, a cadastre or an official record is fundamental to be able to identify all taxable properties. A large investment is needed to come up with a satisfactory cadastre and the record should at least contain location, size, value and ownership of the properties, but also its productivity capacity.<sup>15</sup> Lack of knowledge about the capacity might lead to an unjust taxation system between landowners with high and low quality land, since they will have different possibilities to produce and to generate income. Literature has shown that this effect might be large enough to make a land tax less attractive than an output tax.<sup>16</sup>

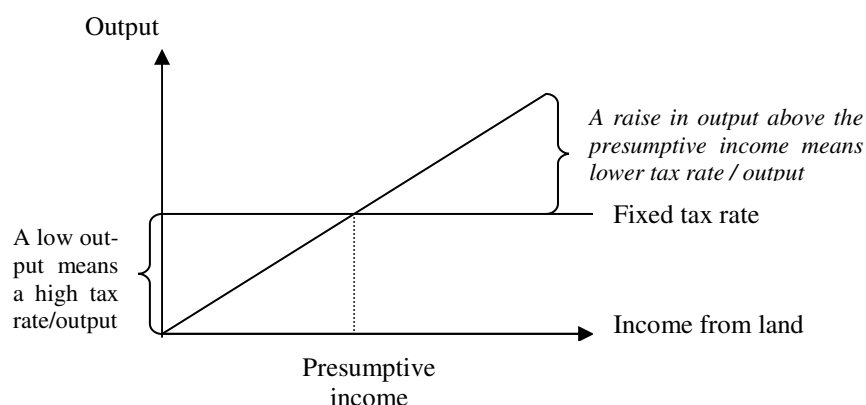
Taxes can be based on different bases like area occupied or on property value. To reach minimal effects of disincentives and to minimize distortionary effects the land tax should be based on potential monetary yield from the plot under normal conditions or can be levied on the value of unimproved land, i.e. land without cultivation. These ways of taxing land would be less distortionary because it does not discourage the farmer to cultivate the land, which

<sup>14</sup> Deininger 2003, p. 165

<sup>15</sup> Bird 1974, p. 226f

<sup>16</sup> Deininger 2003, p. 167

could be the result if levied on for example property value.<sup>17</sup> As seen in figure 8,<sup>18</sup> the tax on potential monetary yield works as a punishment for idle land and an incentive



**Figure 8.** Interpreted by the author from Bird 1974, p. 182. The farmer with a low output is encouraged to produce so the income equals the presumptive income.

for unproductive farmers to produce more, until the return of land equals the presumptive income. A production above the potential generates relatively a lower taxrate/output.

Owners with extremely small holdings should also

be excluded from the tax, partly because of the high administrative cost it would cause, but also because of the high risk of disadvantage for poor because of imperfect or unavailable insurance markets.<sup>19</sup> For example a bad harvest for a poor peasant could result in the loss of the property because of bad liquidity.

### 3.1.3 Farm size

Another central question when it comes to land policy is whether the size of the farm has anything to do with the production efficiency. According to the World Bank's Land Reform Policy Paper from 1975, it has a connection and small or medium farms proportionally often have higher yields and probably higher total factor productivity, i.e. contribution to output of everything except labour and capital, than large farms that operate with hired labour. Binswanger et al claim that compelling empirical evidence has later proved this, as well as that small farms use more labour and less capital per hectare cultivated than large farms, which could provide employment.<sup>20</sup>

The advantage of the large farm is on the one hand that they usually have better access to credit; the disadvantage on the other hand is that they need to supervise their hired workers. According to Binswanger et al empirical data rarely show any evidence of economies of scale transcending the size of farm that can be operated by a family, which would mean that the

<sup>17</sup> Deininger 2003, p. 165-166

<sup>18</sup> Bird 1974, p. 182

<sup>19</sup> Deininger 2003, p. 168

<sup>20</sup> In: Umali-Deininger, p. 198

supervision cost advantage of small farms usually exceeds the credit cost advantage of large farms.<sup>21</sup> These findings can though be debated since big farms in some cases can have big advantages over small farms. Binswanger et al mention for example products such as bananas, tea and sugar that require harvest and proceeding closely coordinated.

When it comes to distribution of land, most reforms that in the past have shown a positive impact on productivity have had a previous system that mostly contained small peasant farms, with a high rate of insecure tenancy and absentee landlords. If a reform breaks up large efficient and modern farms to substitute with small producers who know little about modern techniques the impact often, with a few exceptions, is devastating for the productivity and the efficiency.<sup>22</sup>

### 3.2 Investments

*“Give a man the secure possession of a bleak rock, and he will turn it into a garden; give him a nine years' lease of a garden, and he will convert it into a desert.”*

The English agriculturalist Arthur Young 1792

From an economic point of view it is relevant to analyse the economic climate in the area studied to distinguish whether it is a favourable environment for investments or not. Here property rights are an important issue. A property right could be defined as “a bundle of characteristics that convey certain powers to the owner of the right”. This concerns for example conditions of appropriability of returns.<sup>23</sup> A distribution of land through a land reform should result in improved property rights for landless. According to Carter et al normally two effects of secured property rights are hypothesized. One could be called the security-induced investment demand effect, i.e. an investment increase because of the reduction in the likeliness of losing the land. If land is given to landless peasants through a land reform they will hence have incentives to work the land efficiently since they are the ones that are going to receive the benefit of their work. The other effect is a collateral-based credit supply effect, which is when lenders become more willing to make loans when they are assured that land as collateral is secure.<sup>24</sup>

Petit draws it further and states that “if the policy and institutional framework is adequate, allocating individual property rights to land provides a powerful tool to create gainful

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<sup>21</sup> In: Umali-Deininger, p. 198

<sup>22</sup> Perkins et al, 2001, p. 592

<sup>23</sup> Perman et al, p. 124

<sup>24</sup> Carter et al, p. 173

employment, reduce poverty and improve the nutritional status of the poor, and increase output and efficiency.”<sup>25</sup>

### 3.3 Inequality

*“Latin American countries have one foot high up on the ladder and the other so low that they cannot climb”*<sup>26</sup>

Whether or not the reallocation of resources through an agrarian reform reduces inequality in the society, depends on how the distribution occurs. If the landless is required to pay the landlord the full market value of the land received, the wealth distribution for the society is the same as before. If there is no compensation the reform will have a major impact on distribution of income and might reduce inequalities between rich and poor.<sup>27</sup> It is hence of interest to touch the issue of equality to see whether it is a positive or negative phenomenon for the economy.

The opinions differ a lot in this area. A summary of the classical model, launched by the Nobel prizewinner Arthur Lewis, is according to Perkins et al “grow first, then redistribute.”<sup>28</sup> de Ferranti et al nevertheless claim that later studies have shown that countries with more unequal land distribution tend to show lower rates of economic growth. This, among other things, because of the possibility to miss highly profitable investments as a result of unequal credit access, as well as losing possible contribution to society because of unequal education.<sup>29</sup> Johansson is of a similar opinion and argues “a reallocation from a higher income person to a lower income person yields a utility gain to the lower income person that exceeds the loss to the higher”.<sup>30</sup> This gives evidence of a diminishing benefit function in the same line of argument as in figure 2 in the beginning of this chapter. Perkins et al however are of the opinion that it has to do with the management. If an asset, for example a farm that has been expropriated, is less productive under the new management then some or all of the redistributed effect is wasted.<sup>31</sup> A distribution of land has resulted in that resources get in the hands of people that are less willing to pay for them and would then be a socio-economic degradation.

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<sup>25</sup> In: Umali-Deininger et al, 1994, p. 451

<sup>26</sup> King 1977, p. 70

<sup>27</sup> Perkins et al 2001, p. 592

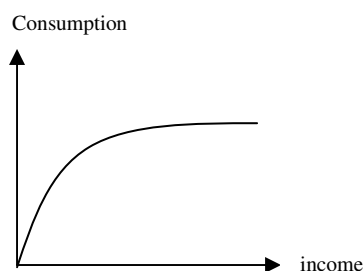
<sup>28</sup> Perkins et al 2001, summarize the work of A. Lewis, p. 141

<sup>29</sup> de Ferranti et al, 2004, p. 4

<sup>30</sup> Johansson, 1991, p. 36

<sup>31</sup> Perkins et al 2001, p. 142

King describes a different view and states that income redistribution through land distribution can result in that the poor gets a little extra income which can have a significant impact on de-



**Figure 9**  
*Interpreted by author*

mand, and hence the whole economy, especially when it is combined with the security that their efforts can yield them more in the future.<sup>1</sup> This would however presuppose that the demand curve for consumption is steep on low income levels but diminishing on high levels, as shown in figure 9.

## 4 Background on Venezuela and the reform

Venezuela's agrarian history is essential to know to understand the agrarian politics of today, but other things in the Venezuelan history are also important to know to grasp the problems that Venezuela is facing today. The following chapter will therefore give a brief introduction to the history of Venezuela in the 20<sup>th</sup> century as well as prevailing facts.

### 4.1 Modern history of Venezuela

#### 4.1.1 Oil and its effects

Oil was found around 1910 in the area of Maracaibo in the north-western parts of Venezuela. Then the backbone of the economy was coffee and cacao but in the end of the 1920s, Venezuela already was the biggest exporter of oil in the world. In 1920, Venezuela's exports constituted 96 per cent of agricultural products, coffee and cacao alone made up 80 per cent of the export. 45 years later it had decreased to 1.5 per cent and at the same time the export of oil amounted to 91 per cent.<sup>32</sup> Today only 4 per cent of the country's territory is under cultivation, although much larger areas are said to be potentially cultivable.<sup>33</sup>

One major influence the oil strike had on the Venezuelan economy was the so-called Dutch Disease. This economic phenomenon occurs when the discovery of a natural resource raises the value of that nation's currency, making manufactured goods less competitive with other nations, increasing imports and decreasing exports. This trend became more than evident in

<sup>32</sup> [www.ne.se](http://www.ne.se), Venezuela, historia.

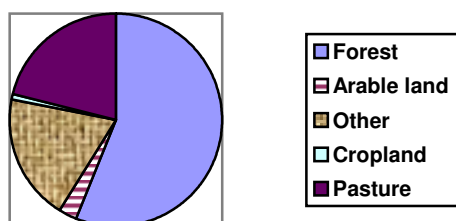
<sup>33</sup> King 1977, p. 147

the case of agriculture and although statistics vary quite a bit, Venezuela is today importing more than 50 per cent,<sup>34</sup> some argue as much as 70 per cent,<sup>35</sup> of its agricultural products.

The changes in the economy and in the production in Venezuela created a massive urbanisation in a short period of time. In 1921, 15 per cent lived in urban areas but in 1961 the population in the cities had grown to 67 per cent.<sup>36</sup>

Today about 14 per cent of the population works in the agricultural area<sup>37</sup> and agricultural products contributes to only a few per cent of the Venezuelan GDP. For comparison it can be mentioned that the neighbouring countries Colombia and Brazil have an agricultural contribution to GDP with 14 and 8 per cent respectively.<sup>38</sup>

Most of the land in Venezuela is covered by forest and the country has massive rainforests in the south to a great extent protected by national parks. Simplified, the centre of the country, called *los llanos*, is dominated by cattle farms and in the western parts the mountain chain of the Andes and the lake of Maracaibo make up a great part of the land.



As seen in the diagram, forest covers 56 per cent of the Venezuelan land area, arable land and cropland together make up 4 per cent and pasture covers 21 per cent.

**Figure 9.** Land use (% of total) in 2000. Source: World Bank Environment at a Glance 2004, Venezuela

According to the Ministry of Agriculture and Land (MAT) the State today owns 18 million hectares of the land while private owners hold 25 million hectares.<sup>39</sup>

#### 4.1.2 Venezuela's political history

Venezuela was a dictatorship until the end of the 1950s. There had in the past been some attempts to create democracy but it was not until 1958 democratic forces could take the power. During the following 40 years two parties, AD and COPEI, ideologically not far from each other, alternately governed Venezuela. Throughout a long period of time Venezuela

<sup>34</sup> Machado, professor at IESA and Mora, wx President of IAN, personal messages

<sup>35</sup> Molina, MAT, personal message

<sup>36</sup> Delahaye 2001, p. 76

<sup>37</sup> Delahaye 2002, p. 351

<sup>38</sup> Nationalencyklopedin [homepage], Venezuela, Brasilien & Colombia, Jordbruk

<sup>39</sup> Molina, MAT, personal message

could enjoy big revenues from high oil prices and the State expanded. When prices however declined the government had to borrow to sustain its expenditures which resulted in an economic and political crisis at the end of the 1980s. The chaos that followed made people lose confidence in the present government, which paved the way for Hugo Chávez and his party MVR. Chávez's promises of radical changes in the society appealed to many voters and in the election in 1998 he broke Venezuela's political pattern and became the president of the country. His change of the constitution in 1999 as well as the new laws introduced in 2001 has polarized the population politically and protests against him as well as major strikes have several times resulted in severe economic crises.

## 4.2 History of agrarian reforms

Land has for a long time been a big issue in whole Latin America. Most countries have performed or tried to perform land reforms in order to change the prevailing system. Ezequiel Zamora was a Venezuelan general and leader in the mid 19<sup>th</sup> century who fought for peasants' rights. He encouraged war against the oligarchy and wanted distribution of land to the peasants and has therefore become a symbol for peasants throughout Venezuela.

The first agrarian reform in modern time in Venezuela was the Law of Agrarian Reform in 1960. In 1945 and 1948 there had been attempts to create one, but a coup d'état in 1948 stopped this and it was not brought up again until after the dictatorship, which lasted until 1958.<sup>40</sup>

The Agrarian Reform of 1960 intended to work for “the transformation of the agrarian structure of the country and the incorporation of its rural population towards, economic, social and political development of the nation, through the substitution of the latifundian system for a fair system of property, possession and exploitation of land, based on equal distribution of land, an adequate credit organization and a far-reaching assistance for the producers in the countryside.”<sup>41</sup>

The law of Agrarian Reform was used during 41 years and the opinions about its appropriateness differ a lot. However, a general judgement is that the law as time went on got rather paralysed, but the discussion about this issue is beyond the scope of this paper.

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<sup>40</sup> Duque, dr in Law, personal message

<sup>41</sup> Borghi, 1999, p. 3, see appendix 2 for original text

## 4.3 The Law of Land and Agrarian Development

### Mission Zamora

*Bolivarian Revolution, sovereignty and secured food supply.*

*Fight against the latifundian system!*

*Honour the peasant!*<sup>42</sup>

The Land Law, also called *Plan or Mission Zamora* after Ezequiel Zamora, was introduced in November 2001 and substituted therefore the Agrarian Reform law from 1960.

### 4.3.1 The Constitution

The constitution from 1999 contains the foundation of the land of law and it is declared that “the State should promote the conditions of a far-reaching rural development, with the purpose to generate employment and to guarantee the peasant population an adequate level of well-being.”<sup>43</sup> The constitution further states that it is elementary to guarantee food security and food production is of national interest, fundamental for the economic and social development of the nation.<sup>44</sup>

### 4.3.2 Head actors

The Ministry of Agriculture and Land (MAT) has the general responsibility for the agrarian development in Venezuela. In connection to the Ministry three autonomous authorities were created to replace IAN when promulgating the new law; the National Land Institute (INTi), The Venezuelan Agrarian Corporation (Corporación Venezolana Agraria) and the National Institute of Rural Development (Instituto Nacional de Desarrollo). INTi has the executive power<sup>45</sup> and is in charge of the regulation of agricultural land, the declaration of idle land, the certification process, as well as to handle expropriation and return agricultural land that belongs to the State. The Venezuelan Agrarian Corporation has the task to develop, coordinate and supervise the entrepreneurial activities of the State for the development of the rural sector. The National Institute of Rural Development is to contribute with far-reaching rural development of the agrarian sector when it comes to infrastructure and education.<sup>46</sup>

This section has given a short introduction of the Law of Land by describing the overriding facts, but more information is needed in order to understand the economic perspective and in chapter five the agrarian reform will be discussed more deeply.

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<sup>42</sup> INTi, [homepage] 2006-02-27

<sup>43</sup> Constitución de la Republica Bolivariana de Venezuela. Article 306. See appendix 3 for original text.

<sup>44</sup> Ibid. Article 305.



## 5 The empirical study

In this chapter I make substantial use of the 17 interviews with landowners, peasants and professionals during the investigation period in Venezuela. For more information and background on the persons interviewed, see the reference list, personal messages.

In the following text the Law of Land and Agricultural Development is described more in detail to make a comparison possible between the theoretical facts and this law. The first section is a description of the changes in ownership that the Law of Land induces, which includes smaller holdings where the peasants cooperate. Further follows a description how the soil is classified according to the new law and the section thereafter describes the inactivity taxation of land that will be introduced in 2007. The two final elements of this chapter contain the process of application for landowners and peasants as well as the distribution process of land to the peasants.

### 5.1 Change in ownership

#### 5.1.1 Latifundia

The definition of this originally Spanish word is a large estate, but the latifundian system is often characterized by a great concentration of land ownership in the hands of a few people. According to the Law of Land and Agrarian Development, a property is latifundia if it is idle and larger than the average size of land located in the same region. Idle is determined when the land indicates a yield of less than 80 per cent of the suitable yield.<sup>47</sup> The suitable yield is calculated through a complex set of rules according to Título III in the law.

Many professionals within the area have criticized these definitions and Román Duque<sup>48</sup>, Dr in Law, questions the ambiguities about what average occupation and suitable yield is. He claims that the lack of clear definitions makes the denotation of latifundia dependent on interpretations of each case which will result in a great insecurity for the landowners.

Most of the persons interviewed agreed that there is a problem with latifundias in Venezuela, but they varied considerably in their opinions about how serious the problem is. According to

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<sup>45</sup> Molina, MAT, personal message

<sup>46</sup> Ley de Tierras y Desarrollo Agrario, p. 8

<sup>47</sup> Ibid. Article 7, see Appendix 4 for original text

<sup>48</sup> Duque, dr in Law, personal message

Guido Molina<sup>49</sup> at the Ministry of Agriculture, about 600 families own 25% of the Venezuelan territory which he assures makes it impossible to develop a country. Professor Carlos Machado<sup>50</sup> though asserts that there is no demand for land in Venezuela and hence latifundias are not a problem. Further he continues not all latifundias are unfavourable for a country and he exemplifies Mexico and the USA as examples where great farms are highly efficient and generate much employment.

The biggest latifundia in Venezuela according to INTi, is *La Vergareña* in the State of Bolívar with a size of 200 000 hectares.<sup>51</sup>

### 5.1.2 Idle land

Since most of the persons interviewed, both proponents and opponents of the law, considered latifundias to be a problem in Venezuela, it is of interest to discuss why people own land they do not cultivate. One argument brought forward is that in countries with instable economy for example high inflation, people want to maintain the real value of the capital by buying for example land. Further, land holdings are in some countries connected to other privileges such as power. The landowner interviewed in this study explained the matter such as “land is always land”, i.e. no matter what happens, land will have the same value. Professor Badillo<sup>52</sup> considers it far more profitable to have money in land than in the bank since interest rates are low and inflation is significant (about 16 per cent<sup>53</sup>) in Venezuela. However, he states, wealthy Venezuelans hold dollars and inflation is therefore not the whole answer to the idle land in Venezuela. Professor Oswaldo Ramos Ojeda<sup>54</sup> argues that the reason is the value increment on land. But Perkins et al hold on to the inflation theory and claim that in countries with high rates of inflation, entrepreneurs and managers spend more time trying to profit from inflation and devote therefore less energy to producing more efficiently.<sup>55</sup> Badillo maintains that the unproductivity is due to the lack of incentives because of a non existing external market and exemplifies the beef market as one example where Venezuela is unable to export their products to other markets because of sanitary reasons. Tamara Bergkamp<sup>56</sup> general manager at Venezuela’s Beef Council, also mentions these limitations in the production and asserts that they have to be removed before producers actually can increase their production.

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<sup>49</sup> Molina, MAT, personal message

<sup>50</sup> Machado, professor at IESA, personal message

<sup>51</sup> Miranda, INTi Caracas, personal message

<sup>52</sup> Badillo, vice Minister of Agriculture 1998, personal message

<sup>53</sup> Swedish Trade Council, [www.swedishtrade.se](http://www.swedishtrade.se)

<sup>54</sup> Ramos, retired professor at the University of the Andes, personal message.

<sup>55</sup> Perkins et al, p. 172

The State has to focus on regulating these things first, she argues and thereby make the production competitive and more efficient.

Since agricultural production according to the Venezuelan constitution is of social interest, latifundias are considered against this interest according to article 307 and are to be eliminated.

### 5.1.3 Expropriation

Article 69 in the Law of Land declares that INTi has the right to expropriate private agricultural land necessary in order to assure food supply. Article 58 states further that the State has the right to expropriate if it is necessary, for social or public reasons, to establish a special production, an ecology project or when there is a group of people adapted for agricultural work but without, or in possession of very little, land.

The land of interest will be valued by INTi and there will be a negotiation about the compensation. Guido Molina<sup>57</sup> (MAT) describes the process as a normal purchase, with the State as the buyer. If an agreement cannot be reached, the State can however proceed anyway and force the purchase through according to article 76 in the land law.

The opinions about the expropriation differ, among the people involved in the Law of Land. According to Molina<sup>58</sup>, expropriation of private land works similarly in most countries. If land is needed by the State for the nation's development, security etc. a negotiation is brought about and the State buys the land from the landowner. Román Duque Corredor<sup>59</sup>, Dr in Law, though points out that expropriation only should be applied in exceptional cases and article 58 is very broad, which makes it impossible to know when the State will utilize it. He also maintains there ought to be some exceptions because the present situation will create uncertainty since landowners never can be sure of their holdings. This will in turn prevent them from long-term investments.

### 5.1.4 Repossession of land

One part of the Law of Land is to return State-owned property to the State. This is according to Maria Eugenia Cespedes<sup>60</sup> at INTi an inventory of the papers the landowners hold, necessary because some possessors hold great estates but lack proof of ownership for it all. If

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<sup>56</sup> Bergkamp, CONVECAR, personal message

<sup>57</sup> Guido, MAT, personal message

<sup>58</sup> Ibid.

<sup>59</sup> Duque, dr in Law, personal message

the proprietor does not have the appropriate evidence of ownership the State will reclaim the land. This is, according to Molina<sup>61</sup>, not a matter of expropriation since this is land that belongs to the State.

The issue has been debated a lot and the critics maintain the impossibility to know who owns the land because a cadastre never has been completed.

### 5.1.5 Cooperatives

The main idea behind the cooperatives is to create collaboration among the peasants in order to be more successful. The cooperatives are regulated in a different law and the promotion of them is only briefly mentioned in the land law. One example is in article 5 where it is declared that agricultural activities such as harvest, transportation etc. should be established with codetermination through cooperative or collective organizations. Maria Cespedes<sup>62</sup> claims the State wants to see more unions of peasants because of the many advantages there are for groups within the agricultural work in comparison to individuals. One advantage is that liquidity rises which makes it possible to pay the cost of capital, which often is high when starting agricultural work. To induce people to join cooperatives Cespedes mentions higher credits as one carrot. This policy seems to have had effect; Franco Manrique<sup>63</sup>, who works close with the peasants, has seen a big increase in the cooperative area since the promulgation of the land law. Duque<sup>64</sup> is not surprised since he claims that the State in practice only gives land to cooperatives and not to individuals, which he considers to be a limitation because working in a cooperative may not suit everyone. In the group of peasants interviewed in the rural village Guasdualito in the southwestern parts of Venezuela, several were organized in cooperatives. They confirmed a well working system in some areas but explained the difficulties in the region of Alto Apure. The most common problem they gave example of was coordination difficulties, often related to money, which led to dissolution of cooperatives. Domingo Santana<sup>65</sup>, coordinator of the peasant organisation FNCEZ in Alto Apure, agrees on the organisational problems with cooperatives but maintains that they are generally working satisfactorily.

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<sup>60</sup> Cespedes, INTi, personal message

<sup>61</sup> Molina, MAT, personal message

<sup>62</sup> Cespedes, INTi, personal message

<sup>63</sup> Manrique, Urban Land Committee, personal message

<sup>64</sup> Duque, dr in Law, personal message

<sup>65</sup> Santana, FNCEZ, personal message

## 5.2 Classification of land

To secure the food production in the country article 115 in the Law of Land contains a classification of land related to the potential of different soils. The land in the country is classified according to 10 different levels, see figure 9, where the best soils are given low numbers and are to be used for food production.<sup>66</sup>

Classes	Utilization area
I, II, III, IV	Vegetables
V	Cattle
VI, VII, VIII	Forest
IX	Conservation
X	Agro-tourism

If the land is not used according to the classification, it is, with some exceptions, considered idle according to article 104 in the law.

*Figure 9. Land classification system*

The classification system is intended to prevent a bad use of the land in order to raise the production of alimentaries. Juan Comerma<sup>67</sup>, Dr in Agronomy, is conversely of the opinion that it is not appropriate to decide specific recommendations for certain soils. This because other factors such as culture, infrastructure and the market have to be taken into consideration, since they also are likely to influence soil possibilities. Tamara Bergkamp<sup>68</sup> continues on the same track and remarks on the lack of realism within the law and exemplifies it by a farmer producing in an area with bad infrastructure and a very long distance to civilisation. In this case, Bergkamp claims, it is irrelevant if the land is classified as type I, because the farmer does not have the possibility to transport the goods. Julio Mora Contreras<sup>69</sup>, ex president of IAN, believes that the system will be complicated since the classification system could signify that one single farm could have several different soil types.

## 5.3 Inactivity taxation

To prevent a low utilization level of land, article 97 in the Land Law contains an inactivity tax, where the tax rate is set by the productivity. Agricultural land, or land with cattle or forest, with a productivity rate of more than 80 per cent generates no tax, but if the rate is lower, a progressive tax must be paid. The rate of unproductivity also comprises bad use of the land and in order to be productive the farmer must use the land according to the classification of soils. The lower the productivity is, the higher the tax for the farmer will be.

<sup>66</sup> La Ley de Tierras y Desarrollo Agrario. Article 115

<sup>67</sup> Comerma, dr in Agronomy, personal message

<sup>68</sup> Bergkamp, CONVECAR, personal message

<sup>69</sup> Mora, ex president of IAN, personal message

Some are nevertheless excluded from the taxation, among others:<sup>70</sup>

- 1) Proprietors of land covered by natural forest or land not adapted to cultivation because of topography or soil quality.
- 2) Owners of less than 15 ha land.
- 3) Cultivators in a zone that has been affected by natural disasters.

Julio Mora Contreras<sup>71</sup> believes the tax to be the most complicated part of the law because of lacking reliable statistics about land in Venezuela. Most producers do not hold registers about their production and the lack of an official register makes the issue, according to Mora, very complex. Olivier Duque, Carlos Machado and Arnaldo Badillo<sup>72</sup> can see the advantages of taxation on land but agree on the complexity of the system implemented. Delahaye<sup>73</sup> suggests the law ought to be a local tax because only on the municipal level it is possible to know the soil categories and make it work in reality. Machado and Badillo<sup>74</sup> prefer a tax on the size of the holding which is a simple system that might decrease the amount of big idle farms.

The taxation system has not yet been set into effect and will be implemented in 2007.<sup>75</sup>

## 5.4 The application process

### 5.4.1 The Landowner

The landowner has to apply for a productivity certificate at INTi. If the Institute's analysis shows that the land is not fully productive the owner has 20 days to apply for an improvement certification for the farm (certificación de finca mejorable). If no application reaches INTi the land could be expropriated or repossessed.<sup>76</sup> From the date of certification the applier has a period of two years to improve the productivity of the land according to the guidelines of INTi<sup>77</sup> to finally be able to get the productivity certificate which is valid for two years<sup>78</sup>. If not enough is done to improve the productivity during the two-year period the owner has to pay inactivity tax per every unused hectare of land or the land could be expropriated or

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<sup>70</sup> Ley de Tierras y Desarrollo Agrario. Article 97 & 101

<sup>71</sup> Mora, ex president of IAN, personal message

<sup>72</sup> Duque, dr in Law, Machado, prof. at IESA, Badillo, ex vice Minister of Agriculture 1998, personal messages

<sup>73</sup> Delahaye, professor at UCV, personal message

<sup>74</sup> Machado, professor at IESA, Badillo, ec vice Minister of Agriculture 1998, personal messages

<sup>75</sup> Bolívar, INTi, personal message

<sup>76</sup> Ley de Tierras y Desarrollo Agrario. Article 47

<sup>77</sup> Ibid. Article 49

<sup>78</sup> Ibid. Article 45

repossessed by the State.<sup>79</sup> A respite of another two years is possible if something unpredictable has occurred, that was out of the landowner's control.<sup>80</sup>

#### 5.4.2 The Peasant

Any Venezuelan citizen might, according to article 35, report knowledge of idle land to a regional INTi-office. The land is inspected and the matter is sent to several other instances within the Institute to be investigated. This procedure could, according to the INTi-official interviewed in the state of Apure, last for years, since INTi has to make clear that the owner cannot or does not want to improve the land. The peasants are during the process strictly forbidden to use the land since this would be classified as illegal occupation of land.

It is possible to legally occupy land, but only with an agrarian card (carta agraria). This is a proof that the peasant has gone through the administrative process and has access to the land and according to Franco Manrique<sup>81</sup> it also gives the possibility to receive credits. He however remarks that it has nothing to do with the productivity level, but is a certificate of the possibility to use the land and only a first step towards a productivity certificate. The provisional card is valid for three years and after this period of time INTi decides if a productivity certificate could be considered. Delahaye<sup>82</sup> however claims that the agrarian cards do not have any legal foundation and fears that they never will be transformed into a permanent title. This could according to him result in that the peasant might lose the land and he mentions Nicaragua as a country where this occurred. Imperfect credit markets, insecure property rights and poor access to market opportunity in Nicaragua caused the beneficiaries of land reform to sell their land, often at prices well below its productive value.<sup>83</sup>

INTi though considers the process before the real certification important since they only want serious applicants that truly want to work the land.<sup>84</sup> This, especially the access to credit in this early stage, has however been very criticized by the opponents to the law and the landowner<sup>85</sup> from the state of Apure claimed he had seen several cases of farms that have been left abandoned after the legal occupation by peasants using the system to get hold of credits.

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<sup>79</sup> Ley de Tierras y Desarrollo Agrario. Article 49

<sup>80</sup> Ibid. Article 54

<sup>81</sup> Manrique, Urban Land Committee, personal message

<sup>82</sup> Delahaye, professor at UCV, personal message

<sup>83</sup> The World Bank, *Agricultural Growth for the Poor – an agenda for Development*, 2005, p 79

<sup>84</sup> Cespedes, INTi, personal message

<sup>85</sup> Male landowner, personal message

## 5.5 The distribution

When the peasant has maintained the land effectively in production for three years it is possible to receive a permanent title. This title is no real ownership; the land cannot be sold and will be owned by the State. According to Molina<sup>86</sup> no one is allowed to get land if not a far-reaching development plan is established and INTi may also repeal the title if it is not handled according to the regulation. However, the peasants have usufruct of the land and their descendants may inherit it.<sup>87</sup>

### 5.5.1 Stateowned land

The fact that the land always will belong to the State has both been supported and criticized by the professionals in Venezuela. Carlos Machado<sup>88</sup> on the one hand discusses the issue about weak property rights and points out that it is difficult to have the necessary long-term perspective on agriculture if the State is the owner of the land. Juan Comerma<sup>89</sup> on the other hand considers the fact that the State now is the owner as an improvement compared to the law from 1960, even though he is cautious what this in the long run actually will bring about. In the previous law a lot of the redistributed land got back in the hands of the former landlords, because of less regulation in this area. Amado Bolívar<sup>90</sup>, lawyer at INTi, also maintains that this is an improvement because in the previous law the land could be used as collateral which in several cases resulted in that the ownership was transferred to the bank, who sold the land. This caused according to Bolívar the regression back to old structures. Mora and Duque<sup>91</sup> however claim this prohibition to sell land will make it impossible for banks to lend peasants money, which will prevent the economy from developing.

The possibility to inherit the land most consider as a good idea since this creates stability and incentives to long-term investments. According to Badillo<sup>92</sup> the areas distributed though are too small to be helpful for the next generation. Five or ten hectares inherited by five children give negligible areas useless for production, he claims.

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<sup>86</sup> Molina, MAT, personal message

<sup>87</sup> Ley de Tierras y Desarrollo Agrario. Article 64 & 67

<sup>88</sup> Machado, professor at IESA, personal message

<sup>89</sup> Comerma, dr in Agronomy, personal message

<sup>90</sup> Bolívar, lawyer at INTi, personal message

<sup>91</sup> Mora, ex President of IAN and Duque, dr in Law, personal messages

<sup>92</sup> Badillo, ex Vice Minister of Agriculture 1998, personal message



### 5.5.2 Informal market

Because of the prohibition against purchase of distributed land some people fear a development of a black market of land. This could happen if the peasant's Willingness To Accept (WTA) after the distribution is lower than the buyer's Willingness To Pay (WTP), i.e.  $WTA_{\text{seller}} < WTP_{\text{buyer}}$ . If an illegal market is to come about the buyer however has to consider a risk of losing the land on an illegal market but if the risk is considered and the  $WTP_{\text{buyer}}$  still transcend the peasant's WTA the transaction may occur on an informal market.

This is said to have been the case in the Law of Agrarian Reform from 1960 and Delahaye asserts that during the former law, the land market in Venezuela had two faces, one formal and one informal and that the informal and illegal part probably was essential.<sup>93</sup> Bolívar<sup>94</sup> at INTi regards the development of a black land market today as a possibility but states that the people involved will not benefit from it because the documents have to have authorization by INTi or else they are illegal and worthless. Guido Molina<sup>95</sup> at MAT states that the creation of a black market is not probable since they now are aware of the problem and Maria Cespedes<sup>96</sup>, INTi, claims that there is more control now than previously. Since the title is drawn on the person that receives the land and that actualisations are done currently, she considers it hard for an informal market to survive. Delahaye<sup>97</sup> however maintains that even after the promulgation of the new law, an informal land market exists and takes corruption as one main factor of its existence. He therefore considers it impossible to eliminate this market by control and believes the only way to solve the problem is through a legalization of purchase. Against this speaks that the land then might return to the owners of large estates and therefore counteract its purpose but Delahaye comments that this might not be the case. He as well as Mora<sup>98</sup> claim that studies have shown that it is not the largest farmers that have benefited from the 40 years of agrarian reform but the medium owners. The small farmers, that were the object of the reform, however have remained in the same situation as before. Delahaye considers this as a proof that prohibition to sell does not favour small farmers, an extensive illegal market has though not benefited owners of large estates either, and he therefore sees the possibility of a successful legalization.

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<sup>93</sup> Delahaye 2001, p. 154

<sup>94</sup> Bolívar, lawyer at INTi, personal message

<sup>95</sup> Molina, ex President at IAN, personal message

<sup>96</sup> Cespedes, INTi, personal message

<sup>97</sup> Delahaye, professor at UCV, personal message

<sup>98</sup> Mora, ex President of IAN, personal message

### 5.5.1 Support to the peasants

The Venezuelan constitution article 306 declares that the State should stimulate the agricultural activity by providing infrastructure, credits, further education and technical assistance.<sup>99</sup> Franco Manrique<sup>100</sup>, who is working closely with peasants, describes this as a huge improvement of the agrarian reform since according to him the possibilities for peasants to obtain credit in the previous law were very limited. The financial help is to be used on land and machinery, but could occasionally be given for the construction of houses, he asserts. He continues that the money received is either a loan with low interest rate or sometimes a subsidy, and that credits are followed up by education. According to Cespedes<sup>101</sup> cash-payment is given very limited, and only together with a detailed presentation of the project. Support is given for seeds and crops but most commonly as machinery because of international agreements with for example China to deliver tractors. Mora<sup>102</sup> though opposes this method and insists this was something they tried in the former law and he has witnessed the consequences with rusted tractors standing still because the battery is finished or something minor is broken. Machado<sup>103</sup> believes that the credit system from the State is going to bring the peasants into a vicious circle of poverty. Based on experience he does not think the peasants will be able to repay the loans to the State and he considers that a system cannot be built out of gifts, it has to be built on incentives and willingness to progress. He claims this help to the peasants only will be temporary and it will likely vanish when the oil price goes down and the peasants will then sink even deeper into poverty. Delahaye<sup>104</sup> agrees and argues that this form of clientelism has to be brought to an end in order to help the peasants to long-term progress. The INTi-official in Apure however claims the opposite to be the problem and states that in his region the help has not yet reached the peasants and only established farmers have received credits, mostly for tractors and cattle.

## 6 Analysis and Discussion

This chapter aims to address the questions stated in chapter one, based on the theoretical framework and the empirical data. I will analyse and link the two areas together, to determine the economic potential of the agrarian reform in Venezuela.

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<sup>99</sup> See appendix 1 for original text

<sup>100</sup> Manrique, Urban Land Committee, personal message

<sup>101</sup> Cespedes, INTi, personal message

<sup>102</sup> Mora, ex President of IAN, personal message

<sup>103</sup> Machado, professor at IESA, personal message

<sup>104</sup> Delahaye, professor at UCV, personal message

## 6.1 Efficiency

As stated in chapter three it is relevant to evaluate efficiency, when discussing economic perspectives. Relevant in the argumentation is the efficiency of the reallocation of resources that will take place as a result of the law. Further an analysis of the importance of the farm size in an efficiency perspective as well as the taxation system will be discussed in this section.

### 6.1.1 Reallocation of resources

Land for distribution is to be taken from state-owned land, including the repossessed land, but also, if necessary from expropriated land. Whether an efficiency gain will take place in Venezuela depends among other things on the compensation to the landowners in the case of expropriation. Since I discuss this law from a theoretical standpoint, the repossessions are merely state-owned land I will not discuss this separately. I am aware of the discussion going on in Venezuela about the fairness of these repossessions and that some argue that the State is actually stealing land, but this discussion is beyond the scope of this paper.

To determine if the reallocation of resources as a result of the agrarian reform in Venezuela is efficient, some additional information is needed and I will have to make some assumptions in order to discuss the matter. To pass the Kaldor-Hicks' compensation test the winner must be able to compensate the loser, at least theoretically, and still be better off. In the case of expropriation three assumptions can be made: (1) If the compensation is, or could be, taken from funds that mainly were meant for peasants, (2) if the amount corresponds to the market value and (3) if the peasant's quality of life is improved, the reallocation could be efficient according to Kaldor-Hicks' compensation test. In the Venezuelan land reform this is not the case, since the money used to compensate the landowners is taken from the government and would probably also benefit landowners in the case of no land reform. Simplified it may be explained as the landowners therefore are compensated partly with their own money which would mean they had to be given more than the market value if the arrangement is to pass the compensation test. This extra amount would have to be taken from the peasants, at least in theory, which might be hard in the Venezuelan case. Well functioning credit institutions would however improve the chances of an efficient outcome according to the Kaldor-Hicks' test. An agrarian reform could however pass an efficiency test if a diminishing marginal utility of income is considered. The efficiency level and the contribution to society welfare will then depend on how big the improvement in life quality is for the peasants as well as how small the change is for the landlords and hence how great the curvature in figure 2 in chapter

three is. These two factors are difficult to measure empirically. Some that are working close with peasants such as Franco Manrique<sup>105</sup> however claim that there has been an upgrading in the quality of life among the peasants that have received land in the Venezuelan reform. He adds however that a lot of other factors matters, such as water and seed access, in order to improve life substantially. Manrique has seen a change in these areas as well, but some fields have been neglected which has prevented an even greater improvement.

### 6.1.2 Farm size

Small farms are according to some literature said to have efficiency advantages when it comes to growing most crops. These findings are rather controversial since large scale production normally is associated with economies of scale. Delahaye however confirms that small farms seems to have this advantage also in Venezuela, where in 1971 more than half of the production came from small and medium farmers although this group only occupied 7.58 per cent of the agricultural area exploited.<sup>106</sup> Even though the statistics may seem old, these things do not change rapidly and can still give an indication of the situation. The question is however why large proprietors proportionally don't produce as much as small producers. In the case of Venezuela I question if the problem is low efficiency and not the fact that holders of large estates do not produce at all or only produce on parts of their holdings. It may depend on lack of incentives or reluctance because they are not obligated to do so in order to enrich themselves, but whatever the reason is, this has to be changed for the production to rise. If low production is considered a problem one way of adjusting it could be to eliminate great estates, let small and medium sized farms dominate and thereby reach more production. This argument would speak for that the Law of Land in this sense could be regarded defensible from an economic perspective. This is though not the only way to solve the problem and another possibility could be to raise the incentives for large farmers so that they produce more.

Apart from the efficiency part, small farms are also considered to be more labour intensive than large farms, which is not a controversial argument since large farms instead usually are more capital intensive. The use of more labour might in an industrialized country be considered inefficient, since labour is one of the most expensive parts in the manufacturing process. In developing countries, like Venezuela, labour is however inexpensive and can be used to a great extent. This would besides generate employment in the countryside. Essential

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<sup>105</sup> Manrique, Urban Land Committee, personal message

<sup>106</sup> Delahaye 2002, p. 352

to remark is however the importance to keep large existing farms that are efficient. For instance could be noticed that bananas and sugarcane are crops of some importance in Venezuela and the advantages of large farms when it comes to these crops should not be neglected.

A challenging factor that might prevent efficiency gains in the case of a distribution of land could be the increased responsibility that will face the peasants afterwards. Valdes writes that some smallholders may never have the capacity to adjust to the demands of a modern competitive agriculture.<sup>107</sup> This increased responsibility must be carefully followed up by education about how to handle the new situation. King mentions that landless labourers cannot be turned into efficient owner-farmers overnight<sup>108</sup> and it will probably take time for a production increase to come.

One way to solve the problem with increasing responsibility could be cooperation. The increasing amount of cooperatives in Venezuela could be effective for the society because transaction costs could decrease. Adams claims that working with groups is one way to reduce transaction costs, since the costs are less if the intermediary makes one relatively large loan to a group of individuals rather a number of smaller loans to individuals.<sup>109</sup> However a lot of information and education about this system has to be delivered to the peasants in order to create stable cooperatives.

### 6.1.3 Land taxation

Governmental interventions might reduce problems such as external costs but they frequently bring negative consequences. Since land supply however is inelastic, land taxation might be a preferable way to achieve production since it will not result in dead weight losses. Besides it induces the owner to sell off unutilized land since the price of owning land has increased. According to the theory about land taxes referred to in chapter three above, the Venezuelan tax system might also in other ways be efficient from an economic perspective.

The tax system integrated in the Law of Land is a progressive tax that punishes low production and gives incentives to raise the production above the taxation limit. It excludes small farms from taxation, which gives lower administrative costs and less risk for poor farmers. It also has a classification system that eliminates injustice when it comes to land

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<sup>107</sup> In: Umali-Deininger 1994, p. 74

<sup>108</sup> King 1977, p. 71

<sup>109</sup> In: Umali-Deininger, p. 255

qualities. Major problems are still that a cadastre never has been done properly which might make the taxation system very complicated, as well as the ambiguities that the law might contain when it comes to the definitions. Since the taxation system yet is in the future the question is how the Venezuelan authorities will apply the law. In the case of ambiguities, this will create insecurity, which probably would lead to less efficiency and less investments, and if an official register is not complete the taxing system will be unjust or only work partly.

## 6.2 Investments

Investments are essential for an economy to develop and a favourable environment for investments include well defined property rights but also credit possibilities for investors.

### 6.2.1 Property rights

Secured property rights are important in order to reach efficiency and above all the long-term investments that are needed in agriculture. This issue is difficult to estimate in the Venezuelan case and the question is whether investments will increase because of secured property rights for the peasants or decrease because of the insecurity that large landowners experience. Against an increase indicates the ambiguities in the law and the future will tell how easy it is, in reality, to expropriate land. Important to keep in mind is that the expropriation for social or public reasons in article 58 in the law itself is not anything extraordinary but present in most laws, including the Swedish. In the Swedish constitution chapter two is stated in 18 § that property is protected from expropriation *except* when it is required in order to consider public interests. The issue is thus again the interpretation of the law, and more insecurity, banks that refuse to give credits and fewer investments made by landowners would be the result of an application of the law where it is unproblematic to expropriate land. Another issue is the fact that the peasant will not own the land after the distribution and whether this will give the security required to invest, since a change in the political sphere could lead to new huge structural modifications. Assumed this would create caution in the willingness to invest among the peasants as well, we would be in a situation where neither the security-induced-investment-effect (more is invested because of security) nor the collateral-based-credit-supply-effect (where banks are keener on giving credits) would apply.

### 6.2.2 Credits

For increased investment indicates that bigger areas after the distribution can be cultivated and people who before were excluded from the land and credit market now can get the possibility to actually make investments, which might be highly profitable for the society as a

whole. If seen from this point of view, a distribution of land and the State as a creditor only is a torsion of a distorted market, back to the point where it is supposed to be. That is, if land markets did not work adequately before because peasants due to credit constraints did not have the option either to get land or to invest in agricultural production the market is put right by this agrarian reform. According to my opinion there is no difference between the State as lender and private banks and if the credit process works satisfactory, which is essential for the whole project, I do not see a large risk in the fact that the State owns the land. Even though the peasants will not own the land they will be the ones receiving the benefit from their work, which should increase the willingness to invest.

### 6.2.3 Industry and agriculture

An increased agricultural sector might besides result in investments in other areas in the society besides rural regions. Mora<sup>110</sup> mentions that industry, factories and services could have production connected to agriculture and create employment and possibilities for Venezuela. Hence Venezuela does not only have to concentrate on the primary production but on refinement of the products produced and thereby combine their rural potential with urban modern technology. Venezuela could find a niche in another area than the oil business where they also might be competitive on a global market. One problem with this argumentation is the Dutch Disease. If this mechanism still is a fact it will be difficult for Venezuela to compete on the world market because of the high prices. If the products cannot reach the international market, big subsidies from the State are necessary to keep up the production and this requires fiscal income to the state. Income taxes might be one way to solve the problem but this requires a good organisation. A deeper analysis of this matter is however outside the scope of this paper.

## 6.3 Inequality

Since the distribution of stateowned land and the fact that the compensation to the landlords is financed through governmental funds, the land reform in Venezuela partly reduces inequality in the society and makes the peasant's income share rise. How large the reduction is and how big a rise depends on the share of money from the state to the peasants in the case of no land reform. A larger share would mean less reduction of inequality in the case of land reform, i.e. a land reform would change the prevailing situation less.

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<sup>110</sup> Mora, ex President of IAN, personal message

However it is possible to question the importance of a reduction in inequality in a country like Venezuela with such small agricultural sector. An important question to bring forward is whether or not other reforms might be more cost effective in order to reach the purpose of equality, but this argumentation will not be further developed in this paper.

Another factor that reduces inequality is the repossession of land taking place in the country, since in all probability it is an investigation of large holdings. This investigation is necessary in order to get essential knowledge about the country's land but a very difficult project that could be a threat against the property right, but, as mentioned before, this discussion is beyond the scope of this paper.

One factor that might prevent equalization, or at least make it less important, is the development of an illegal market of land. According to my opinion the risk for this is considerable if the credit system does not work. To prevent an illegal market, the peasants' Willingness To Accept (WTA) has to increase, i.e. increase the value of land for them. To realize this, the State's credit system has to work adequately to give incentives for the peasants to invest. This has to be linked together with education that gives understanding for long-term solutions. Both these areas are included in the law text and hopefully the widespread corruption in Venezuela will not prevent them from being implemented.

## 7 Conclusions

The last chapter of this study intends to address the research question stated in chapter one. My aim was to investigate whether the agrarian reform in Venezuela could be defensible from an economic perspective and my findings are summarized below. Because of its complexity, the question cannot be answered just by a *yes* or a *no*, however some conclusions can be made.

The land reform taking place in Venezuela is not efficient according to traditional economic efficiency theories, such as Pareto and probably not according to Kaldor-Hicks' compensation test either. It can however be efficient if a diminishing marginal utility model is considered, on condition that the outcome of the reform gives a substantial increase in the peasants' life quality. The efficiency level depends however on the preferences of the people involved (peasants and landlords) and their utility of income.



The indication of a greater productivity when it comes to small farms is uncertain, but small farms might after all be more preferable in a developing country such as Venezuela because of the use of more labour. The reform could therefore possibly be defensible from this point of view but added must be that these findings are quite uncertain and other methods might be more favourable in order to reach a higher employment rate and more efficient farms.

Moreover the reform could be economically favourable when it comes to land taxes. When external effects are present a governmental intervention could solve the problem and if low production is seen as a negative external effect a tax on unproductive land might remedy this. The system introduced in Venezuela seems to, in broad outlines, correspond to economic theory about how a land tax should be designed. The system could however under the prevailing circumstances in Venezuela be too complicated and the future has to show whether that is the case.

When it comes to investments two different directions could be expected as a result of the Land Law. One is more investments because of a higher rate of security for the peasants and the other is lower investments because of insecurity for the farmers. The interpretation of the law will have a major influence on which direction will be the dominating. Improved productivity can only be reached if the peasants receive help on other areas after receiving land. Infrastructure for transportation of goods, water for irrigation but also a working health care and educational system are of importance. Education for the peasants so they can handle the new situation is also essential and if the government does not provide this support we will probably never see a living countryside in Venezuela, but rather less investments, since large companies do not have the security to invest in long-term projects.

The reform will probably partly reduce inequalities in the society which could be favourable for the economy. One major factor influencing the issue is however the corruption in Venezuela and the question is how the government manages to fight this matter.

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Professor, Land specialist at INTi (Instituto Nacional de Tierras) oficina tecnica Agraria, Caracas.

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Comerma, Juan

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Personal meeting 2005-10-17

Male landowner of about 200 ha land, ca 50 years old. State of Apure.  
Personal meeting 2005-10-15

# Appendix

## Original text

### **1) Artículo 306, Constitución de la Republica Bolivariana de Venezuela.**

Igualmente fomentará la actividad agrícola y el uso óptimo de la tierra mediante la dotación de las obras de infraestructura, insumos, créditos, servicios de capacitación y asistencia técnica.”

### **2) Tierras de Reforma Agraria – orígenes, conceptos y trámites para su adjudicación**

”La transformación de la estructura agraria del país y la incorporación de su población rural al desarrollo económico, social y político de la nación, mediante la sustitución del sistema latifundista por un sistema justo de propiedad, tenencia y explotación de la tierra, basado en la equitativa distribución de la misma, la adecuada organización del crédito y la asistencia integral para los productores del campo”

### **3) Artículo 306, Constitución de la Republica Bolivariana de Venezuela**

”El Estado promoverá las condiciones para el desarrollo rural integral, con el propósito de generar empleo y garantizar a la población campesina un nivel adecuado de bienestar”

### **4) Artículo 7, La Ley de Tierras y Desarrollo Agrario**

“Se determinará la existencia de un latifundio, cuando señalada su vocación de uso, así como su extensión territorial, se evidencie un rendimiento idóneo menor a 80%”

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Institutionen för ekonomi  
Box 7013  
750 07 Uppsala  
Tel 018-67 21 65  
Fax + 46 18 673502

Swedish University of Agricultural Sciences  
Department of Economics  
Box 7013  
SE-750 07 Uppsala  
Sweden

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