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Neglected Structural Imbalances and Macroeconomic Constraints in Progressive Land Reform:

The Case of Nepal

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Abstract

The Millennium Development Goals (2004, 2015) has identified the eradication of poverty as a leading global priority. Given the primarily agricultural character of developing countries (where the majority of the world's poor reside), land reform has resurfaced as a core policy to reach this goal. The policy has two major aims: to increase land tenure security in order to encourage investment in intensive farming, and to eliminate slash and burn agriculture to protect the environment in countries facing pressing environmental and political problems where poverty and agricultural stagnation are the norm. State intervention is once again being called upon to intervene in the land market, however, this time it is to deregulate the operation of land markets rather than impose regulations. The state is assumed to take the form of land allocation, a process which combines the protection of some areas of village land with the formal recognition of private ownership in authorized farming areas.

The continued widespread and continued support of land reforms as a highly progressive policy to root out the twin evils of inequality and inefficiency, contradicts the historical experience of the majority of land reforms in the Third World in the 1950's-2010 (with notable exceptions-- South Korea, Japan, Taiwan, and China), which worsened the welfare of the intended beneficiaries, the poor tenant-cum-borrower.

This paper challenges the established orthodoxy and perspective in development economics and social science in general where individual, formal, and private ownership of land (with

associated rights), regardless of its size or physical and structural limitations, is generally assumed to be more efficient than the alternative and diverse “pre-capitalist” social and contractual arrangements that persist and prevail in developing country agriculture. By exclusively holding the English system of capitalist farming as the ideal model in each approach, land reform proponents ignore the unique history of developing countries and a history of colonization, which has given rise to the very institutions that are to be transformed (institutions that are inevitably held constant in pre- and post- land reform analysis), and the wider social-economic context. Land reform has historically always been entangled with Western notions of universalism, progress, and historical inevitability.

This paper traces this large-scale failure on three separate and related levels: a failure within neoclassical theory to justify an attack on the sovereign rights of property, a new historical analysis of Nepal’s historic and comprehensive Land Reforms of 1964 pointing out the limitations and unforeseen consequences of past state-led land reforms, from a historical analysis of Nepal, the necessary but not sufficient macroeconomic and structural conditions for successful land reform. I conclude based on this theoretical and historical analysis of both state- and proposed market led-land reforms In Nepal, that without a radical change in the external imbalances and macroeconomic conditions, even the best and most well intended progressive land policies are doomed to failure and will unintentionally result in further division among the rural poor, such divisions they can ill afford.

Of course, the political dimension will of land reform is impossible to ignore in Nepal today and is motivated less by the communists as part of an overall social and economic transformation than by the “foreign stakeholders” to pacify long standing discontent and grievances. The communists argue for a radical redistribution based on a wider economic system move from predatory capitalism to one of socialism, whereas all other parties advocate for some form of market-assisted land reform relying exclusively on the private sector. With respect to economics, I argue the communists are on right.

## **I. Global Debates on Land Reform and Tenure Security**

Recent Marxian economists such as Samir Amin (2014), Prabhat Patnaik (2015), Fischer (2015) and West (2014) have argued that deepening US-led imperialism has resulted in the inevitable and growing clash between the First World and Third World, which can be seen in the expansionist strategy of capitalism in the West and its increasing resistance throughout the developing world. In the post-2008 crisis only two countries have attempted forward movements towards socialism, one from Europe, namely Greece, and one from the Third World, namely Nepal. Although both countries are entirely dominated by the forces of global imperialism, both have different historical contexts which suggest different policy options to combat such forces.

This paper, unfortunately, will not go into these important differences between these two countries and what they mean for the future of neoliberalism, but rather concentrate on arguably one of the most advanced resistance to US-led imperialism in the Third World in 21<sup>st</sup> Century, where a peaceful election on April 10, 2008 led to the stunning success of the Communist Party, after nearly twenty years of civil war.

However and not surprisingly, after such a victory, there was even a larger punishment from the US, India, and the wider international community to launch the largest counterinsurgency measures against the people of Nepal in its history. This has put Nepal in a prolonged near-decade old constitution-less crisis with the economy falling even deeper into recession, with now even less likelihood of socially democratic policies once expected after the historic communist victory in electoral politics in 2008. It is equally important to note that there has been a major division among the Communists as those who support the multi-electoral party political system and those who think any progressive change must come outside such (neo)-colonial superimposed multiparty politics. The record clearly shows the so-called “hardliners” by the mainstream media in Nepal have been correct and the inability of communists in Nepal to administer on any remote inkling of their socially democratic promises further reveals that progressive change must come outside the so-called political system. Thus far, all the important politics in Nepal have occurred outside the political system, so it would be naïve to think the very same system can produce radically different results, all else constant.

The notion of land reform does not come out of the sky but has a unique history. The Thirty Years crisis was a basis for a new world order that radically redistributed economic, political, and cultural power within countries, and even more importantly, between the First

World and the Third World---the rise of Eastern Socialism, the rise of social democracy in the West, and the rise of national liberation movements in the Third World. The epitome of large scale change is reflected in the most important and famous international meetings in Bandung, 1954 (the non-aligned movement). And one of the key redistribution policies throughout the following 30 Glorious Years of Capitalism to current “Thirty Year War” continues to be the widespread calls for land reform to solve the lingering “agrarian question and agrarian crisis,” a problem that has only become even more profound with far reaching implications (Patnaik 2015, Amin 2014). One such implication is that the vast majority of mankind is systematically denied their basic economic and social rights in spite of such radical calls. We attempt to critically explore the failures of land reform relying on a historical analysis of Nepal’s historic 1964 land reforms.

After decades of silence, calls for various types of land reforms have resurfaced to combat poverty, inequality, and agricultural stagnation. Through a Marxian economic framework based in broad political economy, this paper describes various theories associated with differing visions of land reform. We find that the Marxian economic perspective ---with a dose of institutional pragmatism--- goes beyond ‘getting the prices and/or institutions right’ by identifying key structural constraints for land reform and attempts to locate these constraints within the wider political economy of developing countries. A Marxian framework reveals that these features (or structural variables) are commonly overlooked in the current global debates on land reform, which include (1) an adverse macroeconomic environment; (2) how rural markets actually work with respect to existing social arrangements; (3) economic deprivation and related grievances of the poor; (4) and the pressure of modern European forms of property rights on the natural and physical environment. These structural limitations not only seriously complicate the

role of land reform as a panacea for rural economic development and larger global sustainability but also suggest that the strong and prevailing beliefs in support for land reforms, which are advocated by both the academic left *and* right, and to which both are seen to be ideologically driven. This paper highlights the importance of a Marxian approach to understanding not only the limitations of land reform in Nepal, but also sheds light on Nepal's uncertain future. In fact, Nepal is the sole remaining place on earth with an active, aggressive, and growing Maoist insurgency, a political-economic-social model that has been supposedly discredited by history and (Western) social science by almost all accounts.

The theme of land policy in general, and land reform in particular is a key issue not only for the agendas of (inter) national (non-) governmental development institutions, states, but for academics as well. Globally, poverty still has primarily a rural face. Effective control over productive resources, especially land, by the rural poor is important to their autonomy and capacity to construct an ecologically sustainable rural livelihood and overcome poverty. This is because in many agrarian societies significant portion of the income of the rural poor still comes from farming, and hence access to land is strongly correlated to poverty processes.

Moreover, for many rural people land (and landed property rights) has a multidimensional character: in addition to being an economic resource, it also has significant political, cultural and social dimensions. As a consequence, lack of access to and/or loss of land can foster social exclusion, a diminution of human capabilities, and cultivate violence and conflict. The agrarian question and the question of global sustainability seem inextricably intertwined.

Historically, land reform has been conceptualized to address the problem of lack of access to and control over land resources by the landless and near landless rural poor. The past

century had witnessed the widespread, albeit highly uneven, implementation of land reform in most developing countries. Most of the land reforms carried out during this period were state-led; today many are market-led under the auspices of the World Bank in partnership with states and NGO's. A few of these were highly successful in restructuring land-based production and distribution relations; however many others were not. Thus, to a large extent, landlessness, poverty, and inequality have persisted.

This paper looks at the idea of land reform in Nepal and argues that World Bank proposals to prime tenure reform by GPS mapping and development of the titling system will do little to address the underlying issues of low productivity and inequality. This paper presents ideas about land reform as reflections of different perspectives, some religious in character. Nepal's trading opportunity set in the world economy should not be neglected in must be taken into account. Weakness there, that is, the lack of something profitable to sell to the world combined with an internal policy regime unfavorable to agriculture, clearly undermines the ability of most rural players to improve their lot. At present the internal and external structural imbalances cannot provide support to an ever-rising number of rural people who need a way out of their constrained situations, a way out that does not involve the desperate measure of taking to arms and insurgency.

This paper also points out that while on the one hand land reform may seem like a logical solution to Nepal's many rural problems, on the other hand history has shown it to be no panacea. Previous attempts at land reform in Nepal have in fact had the unintended and unforeseen consequence of limiting and undermining opportunity sets for the rural poor rather than expanding them. I argue that while redistributive land reform could go far to help provide a more stable place in the world for many people in Nepal, it will not solve the underlying cause

of the problem of providing farmers with something they can grow and sell and better themselves with. For this reason, land reform, to be effective, must occur in an overall revolutionary environment that is bent on transforming the very economic and political system under which reforms are to occur, so *all* markets (including credit and labor) are transformed to meet the economic needs of its people. Therefore, politically motivated calls for land reform will do nothing to address the wider dynamics that lead to landlessness and marginality in the first place suggesting land reform is a bad option for achieving its stated objectives of equity *and* growth.

## **II. Different Perspectives Behind Land Reform**

Much of the thinking about land reform can be attributed to a few perspectives. The first, a traditional neo-classical one, exemplified perhaps by Klaus Deininger of the World Bank, believes that land reform must be done so that land does what the World Bank wants it to do, become a mere factor of production that is freely bought and sold until it trades into its most efficient use and hence into the hands of the most neo-classically efficient owner. Enforceable laws and effective armies, police forces, and judiciaries are usually needed to impose or make stick any land reform, which is basically a social relationship. When these three conditions for a full-fledged reform are absent, as they are most of the time in Nepal, adepts of this perspective propose interim measures such as GPS mapping projects and computerized titling systems. These second-best policies are not just whistling in the wind. Developers put them out there in the hopes of gaining some modest efficiency improvements to weak land markets and at the same time build up local support for more full blown reforms.

Another perspective within bourgeois economics is that the presumed benefits of market-led reform are assumed to be real, although they are but derived from mathematical theories

without much empirical validation. With worshipers of the God of Efficiency, if a mathematical model says one type of land tenure system is efficient, then it must be true. The strength and spread of Nepal's Maoist has posed a substantial puzzle for this perspective, not least for the staffs of the World Bank and the IMF who had hoped to modernize and de-feudalize Nepal and oversee the growth of a society of prosperous peasant farmers on the high slopes of the Himalayas. Instead, Nepal has witnessed mass pauperization worse than Marx could have ever imagined or predicted.

A related perspective about land reform is one that tries to temper the violence and assertiveness of the God of Efficiency with a concern for the small producer and the democratic virtues to a larger society of a small-holding class of farmers. These people may be called worshippers of Democracy and a rural Middle Class. Land in this perspective is not just a productive asset, it is an asset that if evenly distributed, will create a self-protecting middle-class and promote food self-sufficiency and lead to a nirvana of democratic stability. This group often proposes land ceilings, protectionism and other policies deliberately designed to protect the middle-class farmer rather than the big guys or the completely marginal and landless populations. They often make a natural ally for Worshippers of Efficiency.

A third perspective about land reform is one shared by the worshippers of ecological sustainability. Land is not just a productive asset to be made efficient or a source of democratic stability, it is also a physical manifestation of a delicate eco-system and thus requires care and tending, "husbanding" in the old sense of the term. It is also a home for people, where lives are created and ended, where culture is made, in short, a place in the world. Holders of this perspective are a hodgepodge collection of unlikely and rarely encountered and not—very-loyal allies: localists, defenders of the commons, or in Nepal, the splintered party of the Maoists who

promote radical reform within the system simply as a “policy option.” So even if the poor and landless don’t end up producing a lot of food for sale, land has a role as a place in the world to return to when selling newspapers amid the traffic jams of the cities fails as a survival strategy. Pessimists might say it is where they can have a place to belong in the world to await the arrival of the Messiah of development economists: foreign investors filled with the intention and means to build factories and hire workers and export something. This perspective generates land reform policies intended to protect the poor, to distribute assets, to safeguard remaining the commons, and promote sustainable husbandry within a neocolonial economic system.

A fourth perspective also floats about this discussion, that of institutional pragmatism. In this perspective, land reform is not an exercise determined by a mathematical model about the value of land. It is about changing the rules of the game of survival and betterment that is institutional change. Doing something that radical for the pragmatist or “institutional view” is all about relative power and the enforceability of current and proposed rules. Enforceability is in turn about economic power and the physical power of those who can use the police and army to get what they want. It has nothing to do with ideas about efficiency, husbandry, or a place in the world. Pragmatists ask, who has the means to get what they want? The means in question can be guns, an army, a judge, or just the power of inertia to stay in place regardless of what someone wants. The perspective says do what policy making you want, but be clear about who your policies are intended to favor and make sure that their new situations and opportunity sets and claims on society can be enforced locally in the legal system and by whatever powers of coercion exist in the society. In the pragmatist school, predatory behavior and the abuse of rules and situations by the powerful is hardly a surprise, it is to be expected. Moreover, pragmatism suggests that rural institutions and contracts do not exist in isolation but rather embedded in a

host of social relationships that can also influence economic outcomes. For example, the nature of the social relationships between the landlords and tenants can significantly influence economic outcomes. However, although the pragmatists and institutionalists are right to point out that power, institutions, and social arrangements matter, they (just like the other three perspectives) tend to fail to locate the failure of institutions in a wider political economy context of any given country by almost exclusively worshipping the god of good institutions.

The first two perspectives hopelessly neglect the problem that land reform is a social agreement to do something different: to change, create, and redistribute opportunities. Holders of the third perspective tend to be more pragmatic. For the first two systems, this neglect is a serious problem. Land reform is just not a technocratic exercise of two-like-minded bureaucracies agreeing to do what an economics model suggests. The fourth perspective goes even further to understand how economic outcomes are shaped by power rather than merely political participation and focuses on a microeconomic approach in “getting the institutions right.” However, to the extent that the failure of land reform is the outcome of these varying perspectives, they all fail to account for the structural processes and imbalances of development that generated this failure to begin with!

Therefore, a fifth perspective is introduced, that is mainly derived from a rich international Marxian economics literature over the past fifty years. This system builds from the fourth perspective of institutional pragmatism by adding a useful insight: land reform is a *social relation*. It is explicitly political. One of the first issues then is how to either impose reform: by bureaucratic fiat; by violence or by a process that arises out of a widespread social agreement to do reform. A prerequisite for the latter is to generate some agreement.

In Nepal, however, the Maoists continue to be the main group who frequently bring the issue to national attention. And now that they or the constantly changing political landscape have a seat at the table of power, the question is, what will they do? Is land reform for them merely a recruitment tool? Is it all rhetoric? And who exactly do they propose to help most with reform: middle farmers, marginal farmers, or the landless? After all, there most likely is not just enough land to go around helping everyone.

Nepal has a constellation of structural problems that seem daunting for anyone thinking about reform that a Marxian approach can explicitly take into consideration:

1. Agriculture is not a great business to be in, regardless of how much land you have. There aren't a lot of ways for small or middle farmers (the terms are all relative to Nepal's reality) to improve their lot. Export markets for what they produce are weak and don't really create an avenue for upward mobility, if even an avenue for survival.
2. The land frontier was reached a long time ago, and population pressure and abuse have made soil erosion and deforestation a major problem: the underlying resource has been weakened.
3. Building roads and providing credit might have worked decades ago, but now there are just too many people and not enough business opportunities for an enterprising farmer.
4. Uneven development and political instability coupled with rising inequality and poverty have been the rule rather than the exception providing a solid economic grievance from the rural population who are demanding new social arrangements with the stakeholders of their country.

In Nepal, the first four perspectives are useful for understanding how different foreign aid players and their policy ideas are animated by particular perspectives, consciously or not. Since

the four are generated by ideological concerns with idolatry and worship of specific Gods, none of them pay enough attention to either rural reality or the processes that generate such realities in the first place. Like the fourth perspective, a Marxian system openly adopts the analytical tools of the pragmatists without which policy prescriptions and the implementation of any of their reforms is bound to fail. This paper suggests that a Marxian perspective combined with a simple pragmatism might lead to better informed policies in Nepal among the foreign aid community and the various stakeholders who continue to imperialistically dominate the decision making of the country.

### **III. Underlying Situation of Land Markets and Land Reform in Nepal**

Abysmal levels of poverty and inequality, over 10,000 lives lost in a Maoist uprising<sup>1</sup>, a king who assumed power and dismissed the parliament after the crown prince's slaughtering of the royal family – these are among the dismal realities that make up Nepal's recent past. This small nation's ability to develop in the future, amid the disparate political and economic forces of nearby China, India, and Pakistan, promises to have significant global consequences.

Nepal, a country widely portrayed as a “mythical kingdom” characterized by stunning landscapes and “exotic, peace-loving people,” stands in stark contrast to this Western mythology, a mythology that has firmly taken root to even Nepal's neighbors. Since embracing the concept of Western style “development” as a national priority over five decades ago, local agents have been willing to receive – and outside donors have been willing to extend – unprecedented financial resources. Relative to other recipient nations, Nepal has accepted striking levels of aid from international donors in the name of addressing short-term national wellbeing and to fund longer-term traditional development programs. In spite of these immense efforts solve the problems of poverty and dismal growth, Nepal remains gripped by economic hardship. The

country exists in perpetual political instability (despite recent heroic efforts to include the Maoists into the current government), poor governance, corruption, and continues to be economically divided into urban elites and marginalized lower castes (especially with respect to indigenous groups such as the Magar, Khambu, Limbu, Newa Khala, Tarai and Tharu). Further corroding any budding agenda of economic, political, and social progress is the bloody civil war of brutal and indiscriminant violence between the State and the Maoist forces.

In Nepal, the system of ownership and tenure of land has been used by successive governments to consolidate and widen their power base, and extract revenues from the state, supporting an inegalitarian economic system and significantly disrupting the relationship between rural populations and their environment. Needless to say, this relationship has been heavily biased and uneven to groups in society. The poor and landless have considerably increased (in both relative and absolute terms) whilst agricultural innovation and neoliberal policies have stultified land fragmentation, environmental deterioration, desertification (essentially in the form of soil erosion), poverty, hunger, and widespread unemployment throughout the agricultural sector, where the vast majority of Nepalese struggle to survive.

Only a few countries have undertaken genuine agrarian reform: Mexico in the early days of the twentieth century; Japan, Taiwan, and South Korea after the Second World War; China and Cuba after their revolutions. Almost everywhere else including Nepal the laws that were passed all over the world in the 1950's and 1960's have never been faithfully applied and more often than not led to counterproductive results, especially or the intended beneficiaries. In South Asia, only West Bengal and Kerala states, where 10% of the region's population lives and both self-proclaimed communist states, have completed land distribution.

Societies throughout South Asia have experienced a rapid growth in demand for land as a principal means of subsistence and household economic improvement. Land is a critical source of subsistence for many developing countries, including Nepal, since the vast majority live in rural areas. Importantly, land is not simply a physical asset, but also a symbol of prestige, a mean to power, a form of social security, and a *social relationship and agreement*, as well as a source of inevitable conflict between those who own it and those who do not. It is not surprising that land ownership and closely associated levels of poverty and inequality remain an explosive issue globally. Nepal is no exception.

In Nepal, with the closing of the land frontier, the resulting increase in the demand for land is often expressed in violence of all types: increased land disputes between neighbors, villagers and powerful political representatives, killings and extortion of farmers by hired individuals and groups, etc. The strange prior that unites many perspectives as described above is that through institutional interventions in property relations and modernization of agriculture, a basis would be created for a more egalitarian society that would ensure minimum social welfare and justice in rural areas. In particular, land reform has the capacity to target those most vulnerable---the landless, women, indigenous groups, children. However, bringing about these changes must inevitably involve confronting (and coordinating) power relations and associated *social agreements* among various groups, including landlords and tenants, the landless, bureaucrats, (I) NGO's, international institutions, and the entrenched Nepali political and industrial elite.

Land reform, therefore, involves the question of complex structural change through the formulation of policy, activating appropriate government and civil society organizations, and mobilizing the poor. The change that land reforms intend to bring about depends largely on the

changing social agreements and relational issues construed and controlled by multiple factors of class, caste, culture, politics, religion and history. These involve the network of relations and social agreements between institutions, people and their environment, who either draw their livelihood from lands or have an abiding interest in it (Thorner, 1956).

Land reform invariably means significant changes in agrarian structures and relationships for securing access to new land (redistribution) and favorable tenure for those who actually work on the land, including a secured title to land, legally fixed rents, and better working conditions for tenants and agricultural laborers (Carter, et.al. 2004, 2014). It also encompasses the access to agricultural input, markets, services and other needed assistance, such as the introduction of high-yielding varieties of seeds, chemical fertilizers, and irrigation services.

The sheer presence of deep and extensive poverty across the region has generated a demand for land reform that also has strong ideological overtones. For the independent kingdom of Nepal (as in India), the impulse for land reform came from South Asian radical demands during the period of undivided colonial India. The nationalist leaders used agrarian unrest as a component for the anti-colonial movement and an independent government, which also brought together a wide range of classes, social groupings and interests. The South Asian Marxist movement, which was in its crescendo between the 1950s and the late 1970s, had also created significant pressure on the states for structural agrarian change, which resonates among the Maoists in Nepal today.

Unlike most past state-led land reforms and market-led land reforms advocated today<sup>2</sup> --- which were piecemeal with respect to intervention and approach---the currently Nepalese Maoists are calling for a radical land distribution targeted not to some idealized ‘small farmer’

(Bernstein, 2006), but to the landless, in addition to other structural changes in the economy and society. Interestingly, a Marxian perspective towards land reform is equally critical of both redistributive and tenurial reforms in the context of economic dependency. Alternative theories almost always strongly critique redistributive measures on the grounds that they only delay the process of proletarianization<sup>3</sup> while neoclassical economists generally critique tenurial reforms. The Maoists of today have transformed the issue of land reforms into a nationalist theme that relies upon an old formula of landlord-tenant relations accompanied by an expanding rural proletariat, and argues for a redistribution of key assets via land reform supported by state-managed credit and services.

In Nepal, since land is in such short supply or in many cases virtually nonexistent, any redistributive measures would only provide limited relief for the poor at best (the general rule of 3:1 of supply to demand is hard to imagine with the closing of the land frontier years ago). Efforts should therefore be concentrated on raising productivity supported by modern agricultural inputs. Technological innovation and the necessary land improvements which increase agricultural productivity are presumed to be greatly influenced by the ownership and control over land. It is in this context that land titling and tenurial reforms in general are meant to pave the way for redistributive reforms later by priming the demand side of land market (as opposed to state-led or radical reforms as suggested by the Maoists which develop the supply side) leading to a better and more competitive functioning of land sales, land rental, and credit markets.<sup>4</sup> The underlying dynamic of the reformative strategies of the states was also based on the increased commercialization and development of the agrarian economy, which would generate more income and employment opportunities. In this way, those who did not hold land could also make a decent living.

But it became quite clear that regional agrarian economies were subjected to an extensive process of polarization between those with increasing ownership of land and those who become landless with nothing but their labor power to sell. The technological and market inputs have scarcely created favorable conditions for improvement for the vast majority of the rural poor and the landless in the region. Instead, in most circumstances, the market economy approach has further deteriorated the existing ecological balance in much of South Asia including Nepal while increasing poverty and landlessness (Shrestha, 1991). In fact, the new push for market-assisted land reform has recently been the subject of critical examination by a number of authors over a wide range of case studies.<sup>5</sup>

What dominates the debate on land reform today in policy circles are the first two perspectives, as described in the previous section, which both carry the 'strange prior' that the English system of capitalist farming is the ideal model. This strange prior is accompanied by another strange prior, namely that Nepal's history is similar to that of feudal Europe where individual property rights emerged after a considerable evolution.<sup>6</sup> The ultimate goal of these perspectives is to develop property rights system, good governance, marketable commodities, voluntary exchanges, and importantly, produce ever more commodities. Western forms of ownership of land, regardless of size, are merely assumed to be more efficient than other all other forms of tenure (be they communal, state, common, religious, or open-access) independent of the country's Marxian ---its natural and physical constraints, its particular history, its institutions and social arrangements, and its culture.<sup>7</sup>

Moreover, the fact that the negation of capitalist forms of employment occurs in a region such as the Nepalese Tarai makes the discourse particularly compelling. Agriculturally relatively backward and stagnant, socially mired in class exploitation and caste oppression, the

Nepalese Tarai often evokes revulsion both to its north in the hills of Nepal, and to its south in neighboring states of India. It is looked upon as a region where feudal domination continues unabated, in violent conflict with Nepal's struggling political democracy which represents modernity and progress. Even in colonial times, the Nepalese Tarai was too far from the imperial centers of Delhi, Calcutta, and Kathmandu. Because of this history of marginality, the region appears to be a place overlooked by the forces of modernization, lending credibility to the mythology that the current state of crisis is linked to its backward legacy of the Tarai's 'pre-modern' past.

In the absence of resolving the above theoretical issues, modern proponents have retreated to empirical justifications of small farmer productivity theory (i.e. small farms are more efficient than large farms), and even though the empirical evidence is anything but clear (even the English system was certainly not a place of triumphant small owners), strong arguments are still made assuming the well-known inverse relation (Bhandari, 2006, 2011, 2015). The doubt over productivity effects removes the economic façade from land reform arguments which taken at face value promote smaller owner-occupied farms (which dominate rural Nepal today as a result of past reforms) as the favored post-reform system.

Despite the lack of empirical evidence, the still strongly held belief and positive presumptions of land reform based on small efficient and egalitarian farms (family-based and self-employed) has been exposed as having a strong Eurocentric and class bias.<sup>8</sup> The fundamental fallacies involved in such an assumption, and the logical implications of an idealized Jeffersonian vision of homogenous and undifferentiated small farms seem to have little empirical support for such a strong belief on which reforms are based. It seems wholly inappropriate to impose a perspective using an individual behavioral calculus based on leisure

preference in a radically different Marxian, i.e. on farmers in the context of extreme poverty. If farmers have higher intensity labor use on small farms, it seems more reasonable to conclude it is the effect of extremely low wages, a lack of alternative income generating activities, and overall agricultural stagnation rather than the standard neoclassical labor-leisure tradeoff.

Given no alternative sources of income and employment, a 'small farmer' would try to produce the maximum output and hire labor as much as possible to meet his minimum consumption needs and minimum cash needs. The structural imperatives of living in impoverished conditions itself suggests that the factors that drive some 'small farmers' at least to intensify labor input are radically different than those that the dominant perspectives permits them to do so (i.e. there exists a striking gap between the theoretical potential of family-based small farming and the dismal reality of small farming).

In other words, the inverse relationship can be one of distress and 'SOS' calls rather than a sign of relative efficiency and small farm efficiency. In fact, land sales in Nepalese agriculture more often go in the reverse direction from what standard land reform theory would predict: small farms are selling their plots, despite their comparative advantages, to large farms. Small farms are simply not viable alternatives where the majority of small farms in the countryside are on average only one-fourth to one-half of one hectare in size. What is even more revealing is that at the micro level, so-called 'distress sales' are not only common, but also on the rise after adoption of liberalization and privatization policies implanted by the World Bank and IMF during the 1980's and 1990's (Shrestha, 2001, 2013). A deeper examination of the small farm implies that viability itself cannot be assumed (and is misleading) where it is enforced by the acute risks of starvation, poverty, and instability that necessitate the severe stress on all family labor (Patnaik, 1979; Kautsky 1988; Sender and Smith, 1990; Bhandari, 2006, 2013, 2015).<sup>9</sup>

Distress sales have been accompanied by the changing notion of security itself to accommodate the policies of economic liberalization and privatization. In one study by the World Bank almost twenty years ago (Feder and Noronha, 1987), it was clearly stated that “in most Sub-Saharan African societies, land under cultivation by an allottee cannot be taken away,” the definition of security was explicitly changed even then so as to include the “ability of an occupant to undertake land transactions that would best suit his interests” (p. 159) including the ability of that individual to sell and mortgage the land.

Where small farms appear to be more efficient than large farms, speculation could more than likely be the cause. If this is the case, then a standard redistributive reform might rectify underutilization in the short-run, but *would not* change the overall attractiveness of land as an asset. Since there would exist a high incentive for repurchase by investors, re-aggregation, consolidation, and higher land inequality would likely result. As discussed in the next section, this is consistent with what happened after the Land Reforms of 1964. A redistribution of existing rights then would not go towards solving the problem. The error is to assume the inverse relation simply because of the immediate evidence of such as a truism thereby concealing the *underlying* reasons causing the observed inverse relation in the first place.<sup>10</sup>

The increased asymmetrical integration to the global economy and aid dependency of Nepal bears significant influence in determining the nature and magnitude of land reforms. They are also heavily influenced by the models developed by dominant funding institutions. In particular, in recent years, land reform has been significantly influenced by the policy of the World Bank in its vision of the small efficient, egalitarian, and privately owned farm with title and assumed enforcement (Deininger and Binswanger, 1999: 247).<sup>11</sup>

However, the broader context of power structures (IFAD, 2004, 2012) is entirely ignored by these perspectives that propose land reform, both international agencies and academic scholarship alike. Although Nepal has in the past adopted a certain number of agrarian reforms affecting the socio-economic status of the agrarian elite to some extent, the basic structure of wealth and power in the society has remained the same. The interests of both rural and urban elites are well entrenched in Nepal's current Marxian. The strong alliance between the business, bureaucracy and landed classes with support from international capital survives while the state reproduces laws and regulations which tend to be highly in favor of the landed classes. For example, average land ownership among the members of the National Parliament (MPs) representing rural constituencies is significantly higher than the national land-person ratios. In Nepal, 50% of farming households have barely 0.15 hectare on average, while MPs possess land over 16.8 hectares in hill areas and nearly 10 hectares in the plain (Ghimire, 2001: 4). The accumulation of land in the hands of a few has curtailed the interests of small farmers, who are unable to constitute a powerful lobby that could effectively pressure the governments.

Little, if any, poverty alleviation has been achieved since 1951; the year donor agencies became actively interested in the country's economic and social "development", and the same year that the multi-party democracy began.<sup>12</sup> Since 1951, Nepal has also become increasingly dependent on foreign aid and external influences. Over 80% of the country's budget for development programs comes in the form of grants and loans by donor agencies, the two largest being the World Bank and the Asian Development Bank. In spite of all of these efforts of major donors and policymakers, there are no indications whatsoever of sustainability. Simply, Nepal like many developing countries, too numerous to mention, has become an international beggar vulnerable to the whims and desires of the donor community (de Vries, 2003).

Nepal's development is characterized by low incomes, increasing food deficits, increasing unemployment, widening gaps between both rich and poor and urban and rural, growing dependency on foreign aid, persistent political instability and corruption. Traditional elites have maintained their dominance in society, re-legitimizing their influence through the institutions of democracy. Whilst democracy has given access to political power to the professional middle classes, left-wing parties and representatives of marginalized social and economic groups remained sidelined from the elite-dominated political processes. Importantly, a minority of the population has benefited from international initiatives ---15% of the Nepalese are beneficiaries of foreign aid, and these have been largely the urban and political elite comprising businessmen and powerful bureaucrats.

Along with the formal reinstatement of democracy in 1991 came a significant shift in economic policy from inward-looking to an extensive structural adjustment program with the standard policies including stabilization, getting the prices right for increased private sector activity, a reduced role of government and fiscal deficits, and increased openness in all areas. With deregulation during the country's experiment with democracy in the 1990s, the NGO sector exploded from seventy in 1994 to over 16,000 NGO's (excluding international NGO's) in 2000. Donors define the development agendas rather than the other way around (Panday, 1999). Moreover, the impact of structural adjustment in the 1990s alongside Nepal's experiment with democracy was anything but benign; Washington Consensus type policies resulted in rapidly eroding economic security for the middle peasantry which provided much fuel for the current insurgency (Deraniyagala, 2005). It should come as no surprise that these factors greatly contributed to the ongoing Maoist revolution more commonly known as the "People's War."

Financial liberalization in Nepal has led to the spread of financial institutions and financial deepening (reflected in the increase of credit as a share of GDP to about 46 per cent in 2001), yet there has been no increase of credit to rural areas, where poverty is concentrated. The government has, in fact, withdrawn from rural development banks and phased out priority sector credit programs that benefited rural development. As a consequence, in rural areas, indebtedness is on the rise, in conjunction with growing landlessness.

Micro-finance has been growing in Nepal but is largely donor-driven and has a small capital base. While a valuable tool for stimulating self-employment, micro-finance cannot substitute for a viable domestic rural banking system, which could provide adequate credit to farmers and employment-generating small and medium non-farm enterprises. Part of the explanation for the unequal distribution of the benefits of trade is the lack of a supply response from poorer farmers and small enterprises when increased trade has broadened economic opportunities. This is a particular problem in rural areas, where there is a lack of infrastructure, credit, marketing channels and public services.

Another part of the problem is the unequal distribution of benefits across regions in Nepal. Nepal remains wary of completely opening up their economies because of the potentially devastating effects on their industrial and agricultural sectors, especially if industrial-country markets for exports of agricultural commodities and labor-intensive manufactures from developing countries remain protected.

While Nepal has banked heavily on garment and textile exports, international competition remains intense in these sectors and foreign direct investment is footloose. Nepal warns us that too many developing countries are specializing in the same low-value-added products such as

garments and have not diversified their manufactured exports. Instead, they should ideally be concentrating on relatively income elastic and price inelastic export products.

Also, it should be noted that trade liberalization has only been partial in Nepal. For example, in 2010, the weighted mean tariff on all products was 17 per cent in Nepal. In Nepal trade liberalization has benefited only a small formal sector and an entrenched political, industrial, and urban elite. Exports are narrowly concentrated in garments, carpets and pashmina and have not increased as fast as the flood of imports. As a result, the trade deficit has risen to 20 per cent of GDP. Whatever income has been generated is becoming more concentrated in the urban industrial and commercial sectors.

Nepal's annual per capita income is around US \$210, with most of its income accounted for by consumption, and a savings rate at a dismal 14%. *But by IMF standards, Nepal is a stable economy!* Exports grew at an average annual rate of 22.3 percent in the last three years whereas imports registered a negative growth rate of 2.9 percent. Foreign loans grew at a low average annual rate of 1.3 percent. Furthermore, debt servicing, at less than 5 percent of current deposits, is not a burden, and inflation is not of great concern at a mere 4 percent.

The Nepali elite's subservience to the international financial institutions played a crucial role in the official inclusion of the Maoists in the political arena in 1996 in order to induce investor confidence and the promised panacea of global finance capital for economic development (Patnaik, 2003, 2015; Bhandari, 2015). Criticism in Nepal concerning privatization, foreign licensing, and foreign ownership that had begun to dominate the economy continues to grow and from all corners. Fiscal expenditures were focused exclusively on enhancing the role of the private sector and free market forces. Restrictive monetary policy effectively increased the real interest rate in agriculture making it much more difficult for the

vast majority of farmers to obtain loans. Furthermore, as in most developing countries, the planning process of Nepal became inextricably linked to the logic of Bretton Woods institutions, which are premised on the inherent benefits of stabilization and structural adjustment policies. These reforms ignored the structural realities and imbalances of both the agricultural sector and macroeconomy which has reinforced Nepal's continuing uneven development, landlessness, poverty and inequality (Bhandari, 2011, 2015).

Today, more than twelve million inhabitants (over half the country's population) live below the poverty line and nearly half of the country subsists on incomes less than US\$1 per day. Differences in living conditions between the rural areas and urban centers are increasing. Prejudice against women, dalits, and other native minorities is also on the rise. Nepal's land ownership figures reveal further internal inequality. Just 6 percent of arable land is owned by 50 percent of the population, compared to the wealthiest 10 percent that holds over 75 percent of the arable land. This situation leaves many farmers unable to support themselves. With so many persistently poor, poverty has become an epidemic (Seddon, et. al., 2002) and the poor often see their misery increase along with their necessary household debt to government loan offices and local moneylenders. More than half the population faces malnutrition, with sixty percent of children under five years old considered malnourished (UN, 2004). Life expectancy averages below 50 years of age. Combining these factors with the abysmal condition of health care and elementary education, the poor have little reason to believe change is on the horizon. In reaction to these factors and a popular feeling of crisis, a militant left-wing movement has accepted the opportunity to take action. What is remarkable about Nepal, as compared to other developing countries with similarly depressing statistics, is that Nepal has received emphatic financial

attention from the so-called donor community. Regrettably, the results of this attention belie the resources injected.<sup>13</sup>

Lessons from other uprisings in the twentieth century show underdevelopment playing a large role in provoking popular uprising. One common theme in these upheavals is a rural population suffering from landlessness around 40 percent: in the case of Mexico (1911), 62 percent of the farmers were considered landless; Russia (1917) between 32 and 47 percent; Spain (1936) 40 percent; China (1949) 35-45 percent; Bolivia (1952) 60 percent; Cuba (1959) 39 percent; Vietnam (1961) 42-58 percent; Ethiopia (1975) 38 percent; Nicaragua (1979) 40 percent; and now Nepal (1996-), 42 percent (Taras, 2005, Bhandari 2011).<sup>14</sup>

Today, Nepal's broad political environment is subject to the volatile combination of systemic economic and social inequalities, marginalization of the rural population by Kathmandu's political order, and extensive underdevelopment. Whether the cause for Nepal's decline is attributed to historical, geographical, or cultural factors, the disruption of the political class by the Maoist insurgency is irrefutably in response to the absence of economic and human development.

To complicate things further, the impacts of the current conflict, both on the environment and the natural resource base, have been noted to be a significant barrier for Nepal to move forward. The loss of infrastructure from the protected area system in Nepal has continued to rise coupled with the loss of political will for environmental conservation may have created conditions conducive for opportunistic resource exploitation that seem to be making Nepal a classic case of the tragedy of the commons. High population density largely due to the high 'natural' growth rates forces the landless class to harvest environmental resources in which they depend and which further cause ecological devastation.

Importantly, the Marxian theory considers key structural variables (and their various feedback effects) such as an adverse macroeconomic environment, the root causes of landlessness, as well as the relationship between property rights and the environment. In addition, a Marxian theory does not neglect the role of horizontal and group inequality (chiefly rural/urban) in perpetuating Nepal's internal political conflict which all other perspectives take for granted or simply ignore; in fact, the notion of a causal relationship between inequality and armed conflict (Collier, et. al., 2003; Collier, et. al., 2005; Cramer 2003), in what is now known as the "greed versus grievance" debate, can seriously undermine land reform efforts.<sup>15</sup> In these theories, civil war is argued to be the result of 'greed,' where predatory behaviors of disgruntled civil groups, such as the Maoists, seek control over lootable resources. Of course, this view clearly begs the key question as to what are the causes of widespread predatory behavior in society itself. For that, one cannot ignore the role of persistent and growing horizontal economic inequality, and the potential role of neoliberal policies in perpetuating and even exacerbating such inequality (Deraniyagala, 2005).<sup>16</sup>

Nepal is a striking example of how group inequality can be a source of violent conflict (Stewart, 2000). Group inequality provides powerful grievances which leaders can use to mobilize people to political protest, by calling on cultural markers (a common history such as the landless movement commonly known as "Sukumbasi" movement) and pointing to group exploitation. This type of mobilization seems especially likely to occur where there is political as well as economic inequality, so that the leaders are excluded from political power.

Economic factors, such as "inequality, landlessness, and a general lack of opportunity reinforced by complex systems of caste and related discriminatory patterns, have provided sufficient motivation and support for the Maoist cause" (DFID 2005).<sup>17</sup> Disproportionately

limited opportunities may arise not only as a result of formal discrimination in education or employment towards tribal castes, but also from generations of relative impoverishment in the agricultural sector for a long period of time.<sup>18</sup> While one cannot fully trace Nepal's growing poverty and inequality to IMF and World Bank prescriptions, their homogeneous, one-size-fits-all approach to macro policy has significantly negatively impacted Nepal by all accounts (Patnaik, 2003, 2015).

The interconnections between neoliberal policies, insurgency, economic inequality (both horizontal and vertical), and political instability are emphasized in a Marxian economics and not assumed to be mere irritants or simply coincide by chance as in other perspectives.<sup>19</sup> A Marxian approach suggests at the outset that any effective policy package for Nepal must directly address the connections between macroeconomic reforms, structural imbalances, economic inequality, political stability, landlessness, and insurgency.

Unfortunately, current calls for market-assisted land reform in Nepal ignore these macroeconomic structural variables and their critical connections mentioned above, let alone the impacts on the environment and the ability of the landless to purchase arable land. By exclusively focusing on inequality within the agricultural sector without an understanding of what are the macroeconomic foundations of agricultural stagnation and why so many have become marginalized and landless in the first place may lead to misguided policy formulation with respect to land reform and tenure security.

The next section more closely looks at two radically different perspectives that dominate Nepal today, one from the international community as epitomized in the World Bank's efforts for market-assisted land reform, and the other from various public voices as reflected in proposals from the Maoists who have now settled in Kathmandu and cannot be easily eliminated.

#### **IV. What Is To Be done? Current Proposals from Maoists and the World Bank**

From the initiation of the People's War in 1996 up to the present period, around 80 percent of Nepal has come under the control of the Communist Party of Nepal and United Marxist-Leninist Party (UML-Maoist), while the old state's presence is now limited to the capital, district headquarters, and highways. The most potent mechanism aligning Maoists and their supporters is the common awareness of underdevelopment.

Today the dominant aspect of the current state of development is the civil conflict which shows no signs of abating. As discussed in the earlier section, the Maoist insurgency erupted in response to the perceived failure of the Nepalese government to address key issues as poverty, landlessness, inequality, corruption, discrimination and human rights abuses. The Maoists have proclaimed their intention to put an end to social injustice, extreme inequality, corruption, and foreign domination. In particular, they have pledged to empower women, lower castes, and indigenous groups. They have also taken a strong stand against alcohol, prostitution, child polygamy, gambling and domestic violence, and called for the establishment of people's courts where women are targeted to win justice. Included in their list of demands is the establishment of a secular state, ethnic autonomy, and equal status for all of the country's many diverse languages. However, their reign of terror has done little to support their stated goals resulting in school closures, extortion, kidnappings, forced conscription of children, bombings, and other acts of extreme violence, all of which have made it harder to move the country's poor state of development forward (Taras, 2006).

At the other extreme, Nepal is governed by a 'development industry' ever since it opened up its borders to both foreigners and foreign aid in 1951 (Khadka, 1997). The United States,

following the initial lead of India, eventually became Nepal's largest donor. Until this time, Nepal's main political objectives were independence and sovereignty, and although British colonial rulers ruled Nepal indirectly through India and had considerable influence over the monarchy, Nepal maintained an official position of self-imposed isolation. However, with the advent of Nepal's open attitude, the perception of Nepal's development becomes linked in the national psyche to dependence on both foreign aid and the foreign visitors (Kernot, 2006).

Since 1955, beginning with King Mahendra, Nepal has actively pursued a policy of attaining as much foreign aid as possible; today there are over one hundred countries represented by diplomatic missions in Kathmandu and over 200 international NGO's, in addition to foreign government agencies, UN departments and development banks. In addition to the considerable levels of foreign aid, foreign organizations bring conspicuous influence, both materially and socially. This influence extends to the formation of their own *ways of being*—new social, economic, and political echelons within the country—creating national policies of the highest consequence. International donors are seen as the *de facto* arbiter of nationwide policies, rather than the government itself.

It is rather bizarre, if not inappropriate, to impose a perspective on a country that is completely inorganic and mythical to the real conditions of the people, economy and society of that country. Imposing a perfectly competitive model on 18<sup>th</sup> century France which was anything but absurd. Moreover, the domination of the foreign development industry from agencies to NGO's to diplomatic mission, etc. has established a firmly rooted institutionalization in Kathmandu that the Maoists (among others) see as part of the problem rather than part of the solution and, hence, want to end.<sup>20</sup>

For instance, unlike in some other recipient countries, aid-givers and other foreign do-gooders are treated with great respect, hospitality and generosity, and are easily allowed to persuade themselves of their usefulness and importance. It is little wonder that very few people leave this paradise, even under requests from the majority of the population! It is this feature which has spawned what may well be the secret response of many outsiders who are at present living in Nepal, which of course would almost never be admitted to. The country is a haven for the international do-gooder. And the past decade and more of international manipulation and interference in Nepal's polity and economy, while it may have contributed little to the living conditions of the average Nepalese, has enriched and even captivated the lives of the many expatriates who have flocked there over the years. The personnel of these outfits range from experienced and perceptive old Nepali hands to young people who have barely graduated from college, eager to impose their expertise, however inappropriate, on the hapless residents. And young Nepali's with education see the most rapid route to mobility and success as being achieved through working with such organizations, or even through forming NGOs of their own which will receive aid funds. The entrenched ways of being among donors, expatriates, and development consultants not only support a colonial Marxian, but also, and equally important, maintain an exclusionary discourse. These continued ways of being are intensifying rather than ameliorating current ecological, social, and economic conflicts between the rural population and those in Kathmandu.

While the Maoists may pose a genuine security risk, the vast majority of the public in Nepal believes there is a lack of commitment on the part of international development workers to make the sacrifices necessary to ensure that funds are actually going where they are supposed to. The relationship between the NGO world and the government is also precarious. Much of

Nepal's aid is channeled through NGOs which has the twofold effect of removing state control over directing aid money, and making it compete as a recipient of funds at the same time. And although the government recognizes the vital role of NGOs in implementing local programs, each has shown an unwillingness to work with each other and each has accused the other of both corruption and inefficiency (Shah, 2002). As such, the two sectors continue to operate independently. How any successful land reform could possibly be initiated by the government or NGOs is anybody's guess.<sup>21</sup>

Ironically, the civil war has not reduced the impact on donor-state relations, but rather strengthened their resolve. The Asian Development Bank among many others have found a renewed purpose to facilitate the peace process and human rights initiatives, the construction of communication and health facilities, and "capacity-building". US-AID's development strategy in Nepal even focuses on the conflict, claiming that good governance and increased income will promote peace (USAID, 2005). How these promises might come to pass is not addressed. However, one thing is clear: Nepal seems all too willing to accept foreign aid and high indebtedness, despite the observed costs of its dependency.

The Maoist movement raises serious questions about the role of foreign development domination of their country as they have witnessed minimal improvements in further marginalization for the poor in the past fifty years. The lack of progress also raises questions about the validity of international input into Nepal's development. They ask: should current dominant perspectives be maintained, or should the donor community redirect some or all of their aid to other countries which can make more effective use of it? And would Nepal really be worse off if international funding were withdrawn?

Additional discussion may be helpful in understanding the effects of NGO public promotion within the context of the Maoist campaign. Some NGOs publicly express the message that they work to empower community residents with the tools to “solve” their own economic problems. In this way, these agencies may accidentally be priming village communities for Maoist dogma by placing a high value on the notion of local autonomy. In fact, both the Maoists and the development agencies claim inherent political power because of their self-help mantras, and their ability to foster a sense of solidarity within communities.<sup>22</sup>

The historic and comprehensive state-led reforms in 1964 is now assessed in order to gain further insight about the prospects of policy changes emanating from these two opposing and antithetical perspectives ---market-assisted land reform proposed by the World Bank and the international community on the one hand, and radical land redistribution advocated by the majority of Nepali citizens throughout the countryside..

## **V. Earlier Land Reforms in Nepal**

The farming class has a long history of providing the bulk of the surplus on which the success of the government's military designs and the pomp and pageantry of the ruling aristocracy crucially depended. The success of the Rana regime also hinged upon the regular supply of income from land. The peasants were left with a bare minimum for subsistence and no efforts were made to ameliorate their conditions until the end of Ranacracy in 1951. Early attempts at land reform measures culminated in the historic Land Reforms of 1964, the first countrywide and comprehensive land reforms.

However, the central objective of a more equitable distribution of agricultural land in society has not been fulfilled for several reasons: first, land acquired for redistribution was not

substantial; second, the land which was acquired was not fully redistributed; and third, even the land which was distributed did not fall into proper hands. The reforms could hardly speak to the process of progressive 'proletarianization' of the peasantry, mainly due to the lack of a dynamically growing industrial sector, as hoped for by well-known "dual economy" models. In fact, the reforms drove tenancy underground as landlords became acutely fearful of tenants gaining security on the land they rent. For all practical purposes, the tenants have receded into their own oblivion where they are left to sink or swim.

The reforms have also been shown to aggravate employment possibilities. Historically, the Tarai was a frontier and has been peopled by immigrants from the hills and from bordering Indian states. Immigrants from the hills attracted by greater economic opportunities, education, and health facilities came with the capital which gave them access to land. Immigrants from India were also encouraged by the 1964 reforms as this major sociopolitical event created economic reasons for the local landowning class to invite Indians to immigrate. The instant land access for immigrants and evasion of tenancy regulations by the landowners benefited both parties. However, this practice, although mutually beneficial, has unintentionally exacerbated land conflicts by creating multiple claims to land and undermined existing institutions for conflict resolution as took place in Honduras (Jansen and Roquas, 1998).

Past reforms, both tenurial and redistributive, had the unintended negative consequence of creating a deep insecurity among landlords that continues today, which leads them to resume self-cultivation, evict and rotate tenants, and hire Indian labor who cannot legally claim tenancy rights. This has created a paradox in Nepal: laborers from Nepal's hills seasonally migrate to bordering Indian states to look for employment and Indians have settled in Nepal permanently, illegally gained access to a considerable amount of land. This together with the fact that large

amounts of land have been subdivided among heirs as a response to past ceilings has actually led to increasing landlessness, with the landless population concentrated in the Tarai. The emergence and growth of a class of agricultural laborers in the Tarai far exceeds employment demand, hence real wage rates in agriculture have continued to fall (ARTEP, 1994).

Thus, in the liberalized atmosphere since the early 1990's to 2015, a key question has emerged among policymakers in Nepal: should the ceilings be reduced<sup>23</sup> or lifted altogether? And should the tenancy law prohibiting leasing out of land (under the 'land to the tiller' philosophy) be changed to permit free leasing in and out of agricultural land? The motivation and logic behind such demands are clear: if industry has to invest large sums in cash crop production of oilseeds and many other biological inputs, they would like to have a sufficient degree of control of their raw materials which is not possible unless they own the land they cultivate with well-defined property rights. On the other hand, market forces in land markets suggest that widespread and illegal leasing of land is common.<sup>24</sup>

The institution of land reforms has also failed to stimulate agricultural production as expected. In fact, the reforms have most likely weakened peasants' income earning capacity as wages have decreased, not increased as land reform theory predicts (Shrestha 1991; Bhandari, 2001, 2006). The historical conditions for land reforms has changed considerably: severe capital market imperfections combined with the macroeconomic stabilization policies beginning in the 1990's have generated a process (including higher rural interest rates) that will, in any event, more than likely reverse any potential gains of currently proposed market-assisted land reforms.<sup>25</sup>

This is not to say that tenants are less efficient than owners of land in terms of productivity. However, with the significant injection of modern agricultural technology (mainly

irrigation and seeds), the productivity of tenant farmers will be mitigated as the productivity gap should narrow in favor of large farmers with increasing returns to scale. (Verma and Bromley, 1987; Bhandari, 2006, 2015). Productivity declines have been experienced in many developing countries with the diffusion of new technology for short periods during periods of transition.

The Marxian theory offers a plausible explanation for such counterintuitive results. As the Green Revolution spread in rural Nepal in the 1960s to the early 1980s, richer farmers were in a position to reap the benefits leading to a 'coercive treadmill cycle' for poorer farmers (Owen, 1814; Olson, 1964). When the new technology is transferred from agricultural research stations to farm production, big farmers benefited disproportionately. Institutions and services such as extension, credit, and marketing channels coupled with political power reflect a strong and well-known bias in favor of big farmers who adopt early can gain a windfall through high output prices and heavily subsidized input prices.

Clearly, richer farmers have better access to new technology (HYV seeds, chemical fertilizers), credit markets, and new institutions that supply and distribute various inputs. While these biochemical inputs may be scale neutral, adoption leads to greater demand for mechanization, resulting in economies of scale. In addition, as discussed earlier, the average farm size is already so pathetically small (although idealized in small farmer efficiency theory), that it falls well below any minimum size necessary to reap the gains of new technology, notwithstanding the severe credit constraints the majority of farmers face. In fact, even in the highly cited Griffin, Khan, Ickowitz (2004: 128) piece in favor of a more radical redistribution-oriented land reform, they argue, 'small farms generate higher land productivity and total social factor productivity except in the very smallest farms in some countries' (Bhandari, 2006).

Poor productivity may have more to do with lack of accessible and affordable credit for most farmers than with land inequality and farm size *per se*. On strictly economic grounds, redistribution of land that increases landholding size has little theoretical justification. However, this analysis does not necessarily argue against the need of a radical agrarian reform to target the landless or indigenous groups directly on either efficiency or equity criteria as proposed by the Maoists. But it does clearly point out that attempts to achieve tenure security will only create even more tenure insecurity by underestimating the responses of landlords' actions post-reform, both legal and extra-legal, as evidenced in the past land reform. And attempts to redistribute land without simultaneously tackling the declining terms of trade against agriculture and rapidly deteriorating natural resource base will also likely be met with failure.

## **VI. Current and Proposed Legislation**

Recent World Bank land policy centers on the push for market-assisted land reform, which calls for deregulation of land rental markets (Deininger, et. al., 2003). It is true that land rental markets are underused relative to their potential, although this argument is largely based on experience of Latin America where land markets are extremely thin unlike South Asia where rental markets are highly active and involve at least one-third of the rural population.

According to the cautious proponents of market-assisted land reform, however, this is not a result of over-regulation of land rental markets, but rather (1) the weakness of property rights for landlords who fear that tenants will claim possession rights and not return rented lands when contracts expire;<sup>26</sup> (2) lack of conflict resolution mechanisms in social agreements, particularly between landlords and tenants who belong to opposite ends of the social spectrum and have high levels of "social distance" (Bhandari, 2007); and (3) a view that past reforms failed largely due to their redistributive nature, not the rental regulations. These laws create a loss-loss situation for

tenants: they do not provide them with access to land now that classical land reform programs are exhausted; and they block access to land in rental as they create insecurity for landlords over land ownership.

Nor do land rental markets provide an adequate solution. Tenancy arrangements do allow the surplus land of the rich to be combined with the surplus labor of the poor, bypassing the drawbacks of hired labor discussed above. But at the same time, tenancy creates a new set of incentive problems that again depress labor use and land productivity. The most widespread form of tenancy in many parts of the world is sharecropping, in which the landlord takes a share of the harvest (often half) as rent and the sharecropper gets the rest. As far back as the time of Adam Smith, economists have pointed out that this reduces the tenant's incentive to put labor into the land, since the tenant bears the full cost of each unit of labor but receives only a fraction of the resulting output (Smith, 1904 [1776], 366-7).<sup>27</sup>

Fixed rents avoid this problem, but leave the tenant to bear all the risks of output and price fluctuations. Moreover, tenants have no incentive to make investments that enhance the long-term productivity of the land, unless they have 'occupancy rights' that protect them from eviction. Granting such rights to tenants is itself a land reform, since it redistributes one important stick in the property-rights bundle. The landowners' fear of losing property rights is one reason that long-term land rentals are uncommon.<sup>28</sup>

Therefore, proponents often incorrectly argue for regulation of land rental contracts, but regulated in the Western way of formal contracts based on individual private property rights, thereby making land rentals more attractive (in theory) to both landlords and tenants. These perspectives take the nature of social agreements for granted between landlords and their respective tenant. One of the major current hurdles to rentals and source of conflicts between

landlords and tenants is over tenants' investments in land improvements and the termination of contracts (dual tenancy). Improvements made without the authorization of the landlord become sources of claim over the land by tenants; they are being discouraged from investing in land improvements because rules for compensation of the residual value of these investments when contracts are terminated are not explicit.

As a result, and as previously discussed above, landlords only give land under tenancy, especially formal tenancy, to members with low 'social distance' (Bhandari, 2007) or within their narrow 'circles of confidence' (de Janvry, 2002), such as family and immediate neighbors. In fact, throughout the microeconomic oriented explanations for sharecropping efficiency, only a Marxian perspective can take into consideration the strange prior that permeates throughout land reform debates concerning neoclassical assumption of fully alienated relationships between landlord and tenant. In the world of both cost and output sharing, the widely discussed problem of enforcement over the labor effort of the tenant hinges on the 'social distance' between tenant and landlord. In Nepal, the closer the tenant is to his landlord 'socially,' the more likely the tenant will apply the efficient level of inputs. Simply, the less social distance a tenant has toward his landlord, the less *need* for supervision itself, which can, therefore, reduce excessive supervision costs. By the nature of the specific social arrangement between landlord and tenant, individual non-cooperative behavior can then potentially become identical to the cooperative choice.

Standard explanations rely on transactions costs (e.g. supervision costs), imperfect markets, and risk. As Herman Daly points out "intraspecies negotiations and transactions are exploratory, adaptive, often individualized, and the outcomes are not known to all members of the species (Daly, 2014). This more radical perspective has different consequences than the

perspective of neo-classical economics in which transactions costs (a catch-all category for a variety of intraspecies activities) are assumed to be either trivial or not worth exploring except as general constraint on the otherwise superior ‘efficiency’ of markets.” In spite of the plethora of empirical studies on sharecropping efficiency, the results are mixed. However, because all other perspectives conceive sharecropping as an undifferentiated category,<sup>29</sup> they cannot shed light as to why some sharecroppers are relatively more efficient than others in overcoming well-known Marshallian disincentives.

Beyond poverty itself being a powerful enough structural incentive to induce high levels of work effort without supervision and monitoring, another feature that induces efficient behavior lies in the tenants own preferences through internalizing the social optimum. The extent to which a tenant internalizes the social optimum is based on the degree of social distance in the particular social arrangement he has toward his landlord (Bhandari, 2007). As Arrow puts it, the most effective way to prevent the occurrence of moral hazards (the incentive to shirk or otherwise cheat by someone whose actions cannot be monitored) is to ‘develop the relations of trust and confidence between principal and agent...so that the agent will not cheat even though it may be “rational economic behavior” to do so’ (Arrow 1968, p. 537). Since parties with low social distance embedded in their social agreement are more efficient, agents can seek to build their ‘reputation capital’ (Bhandari, 2011) by showing their commitment through increased work effort. This is similar to a “bond” approach to social capital and reputation. Most importantly, in rural Nepal contracts are part of larger social arrangements that are flexible and continue to evolve and adapt to changing ecological environments over time.

Nepal has recently announced the abolishment of “dual tenancy” in its current tenth five-year plan of the National Planning Commission (2012-2017). Dual tenancy applies only to legal

and formal tenants, who comprise a negligible percentage of the total tenants, and refers to the apparent confusion arising from competing claims on the individualized private property right of the land by tenant and landlord. Formal tenants then have no useful function to perform on the land they own and are likely unable to shift their investments elsewhere. Tenants, who are natural buyers of such land, simply do not have enough resources while others have no interest to buy land rented out to formal yellow-certificate holding tenants. In reality, landowners become stuck with the land they own.

The Lands Act of 1964 authorized a registered tenant to lay claim to one-fourth of the area or equivalent market value of land from the owner. Since this resulting “dual ownership” is believed to discourage both the owner and the tenant from making land improvements and from adopting productivity enhancing technology, the government recently abolished dual ownership in favor of a single owner, thereby forcing the tenant and landlord to ‘strike’ an amicable settlement. Of course, this is based on the assumption that landlords are ‘willing sellers,’ and tenants are ‘willing buyers,’ and both will behave in rational ways given proper institutional incentives, i.e. more productive land will go to more productive farmers. Poor farmers clearly do not have any influence on pushing the price down, while landlords will simply ‘set’ prices and more than likely overprice their land transactions, regardless of the true value of land. Besides, the required 3:1 ratio of land supply to land demand for successful land reforms is a far cry from the reality of Nepal.<sup>30</sup>

Moreover, it is assumed in the dominant perspective that single ownership based on the Western experience will lead to increased-productivity led investments in land. The brief historical sketch of past land reforms shows the unforeseen responses of landlords to circumvent legislation, with a significant bargaining advantage in all rural markets, be they land, labor, or

credit (Gine, 2005). The asymmetry of political and economic power can hardly result in an efficient and harmonious outcome when there is significant conflict to begin with and inherent in any redistribution measure (Borras, 2003); on the contrary, conflicts between tenants and landlords will most likely increase in a post-market-assisted land reform environment.

The World Bank now acknowledges that the conventional view that titling promotes market-driven development by increasing security and the incentives to invest has been replaced by an “evolutionary theory” (Fortin, 2005) somewhat consistent with our Marxian approach where individual land rights actually emerge over time from customary systems. There is ample evidence that titling has had a seriously negative impact on socially embedded rights, which are only recognized by titling programs if customary tenure systems are as efficient (narrowly defined in the static sense and not including long-run ecological considerations) as owner-operated ones (Griffin, et al. 2002; Toulmin and Quan, 2000; Whitehead and Tsikata, 2003; Yngstrom, 2002; Place and Hazell, 1993). Although the World Bank (2004) has recently updated their land policy to respect customary rights, it still sees individual ownership rights of land as best end state which represents the most modern form of landholding. Communal systems are mainly judged on narrowly defined efficiency criteria that do not take into account its role, albeit limited, in reducing inequality and poverty and providing a safety-net for the extremely poor.

Given the historical record of past land reforms in Nepal and contrary to conventional land reform perspectives, land rights and land titling in Nepal is endogenous rather than exogenous as assumed in the property rights perspective. In reality, many tenants have good reason to believe that they will retain their plots over several years, due to an ongoing informal relationship with their landlord. In other words, farmers invest in land over which they have insecure title in order to solidify their claim (Brasselle, 2002). It should be pointed out that there

is no demonstrable link to date that a person who has a right of occupation through possession, and not genuine ownership, has a reduced incentive for investment (Feder and Feeny, 1991; Place and Hazell, 1993). What Jean-Philippe Platteau (2000) points out for Africa rings true in Nepal: “in customary land areas, basic use rights seem to be sufficient to induce landlords to invest, so that the adding of transfer rights...does not appear to improve investment significantly” and further “investment [itself actually] enhances security” (p. 57).

Most farmers would find it extremely difficult to make such investments given their lack of income, weakening their claim to a title. Moreover, as pointed out by Manji (2003), ---but invariably forgotten when discussing policies related to land reform--- any credit that is likely to be granted will be used for more important expenditures such as food or medical care rather than investing it in land. Even if titling programs may reduce some credit constraints, the effect at best would be highly *selective*. Farmers who are on the margin of access to credit within the existing structure of capital market imperfections may be helped by gaining title to their land, but the majority of tenants who are severely credit-constrained are entirely neglected making economic mobility that much more difficult. Thus *de jure* differences in tenure status may have little, if any, *de facto* significance.

Even the 2003 World Bank-Deininger report admits, mechanization and the ‘scope to collateral...to overcome imperfections inherent in the credit market...will favor farmers who own larger amounts of land.’ (Deininger, et. al., 2003a, p.30-31; Deininger 2012). The report even acknowledges a less than productive ruling elites, and the historical fact that changes from collective to individual forms of tenure is anything but automatic typically involving major historical transitions replete with conflicts, upheavals, and power struggles.

Also, the assumption in market-assisted land reform that decentralization guarantees both transparency and accountability (Borras, 2004), and has the potential for administrative efficiency and speedy policy implementation is questionable. Contrary to conventional wisdom, power at the local level is often even more concentrated, more urban biased and more ruthlessly against the interests of the poor than even that in Kathmandu, giving rise to a *more* unequal land distribution. This view negates the differentiation that is taking place within agriculture by treating all farmers as homogenous groups.

The World Bank's policy of promoting the removal of restrictions on land sales markets contradicts the idea that land markets are likely to be much less active than land rental markets. This notion is based on higher transactions costs and difficulties obtaining long-term loans. That general economic insecurity affects land prices is acknowledged by the World Bank. All the reasons that make it nearly impossible for the poor to purchase land through such markets also drive the speculative purchases by landlords (making the price out of reach) and cause the 'distress' sales of the poor.

While policy of promoting tenure security sounds good in theory, in a context of immense economic and political instability and insecurity over future economic development that would significantly affect land prices, coupled with very high and rising levels of poverty and inequality, and policy bias favoring large landlords over the idealized small farmer, legally registering titles and rights will hardly be sufficient for viable small farmer production or as a means to reduce poverty. Greater transferability of land rights cannot lead to greater security in any meaningful way as the World Bank perspective and various other perspectives would have us believe. In fact, in the present context, it can only reaffirm the deep structural imbalances in Nepalese agriculture and reinforce the power of large landowners and those connected with, and

thereby supported by, alliances that go up the ladder to Nepali elites and their partnerships with global capital.

In summary then, 1964 saw attempts several reforms: the creation of ceilings on ownership, redistribution, the issue of a small number of tenancy certifications, and regulation of tenancy arrangements such as rules about the percentage of a harvest that is sharecropped and the creation of the right of a certified certificate holding tenant to a quarter claim on the underlying land. Evaluations of these reforms years later found not just widespread lack of application of the reforms but corruption, evasion, and in those areas that did experience some reform, multiple unintended consequences, such as the substitution of wage labor for tenancy contracts. The outcome was increased landlessness, inequality, and the marginality of farming.

Most importantly, tenancy was once an institution with some built-in flexibility. Depending on who you were, it could be either a means to simply survive or a stepping stone to better oneself, if only incrementally. These possibilities (survival or manipulation of tenancy for marginal improvement in opportunity sets) for tenancy have been undermined by reforms that served in the end to reduce the opportunity set of marginal farmers. Worse, marginal farmers have not been faced with hoped-for-but-never-realized expanding urban or industrial opportunities. The outcome is that people starve, barely survive, or join the Maoists. Current proposals from the foreign aid community to tinker with the tenure system will do little to change the opportunity sets of any of the players. The proposal of the Maoists on the other hand, will do so, although how such a radical redistribution is to be accomplished is not at all clear, especially given the structural constraints of the political structure, limited farm size, poverty, landlessness, and ecological devastation.

Landowners found it easy to evade ceilings and redistribution. Given how long it took for your turn to come up, you could simply transfer ownership to close friends and relatives so when any officials arrived in your area, you were off the hook. Even if your land was not up for redistribution (and very little was) landlords could kick off their tenants and simply start hiring seasonal wage workers from India or as far as Bhutan and Burma as they have done in the past.

Moreover, economic models that take laws, culture, characteristics of the *physical and natural environment* as unimportant or unrelated, and characteristics of particular *social arrangements* as undifferentiated and exogenous, inevitably conceal important dynamic feedback mechanisms that shape the economic outcomes under investigation. For example, even though share tenancy in Nepal may be formally abolished in the hopes of being replaced by fixed-rental contracts and private ownership, the majority of tenants in the rural population are still informal and as efficient as owners in the second-best sense. Legalizing tenancy has had the adverse effects of pushing it underground while creating deep insecurity among landlords who already hold private claims to land. This insecurity has led landlords to resume self-cultivation, evict or rotate existing tenants, and increase hire non-Nepali labor who are not able to seek tenancy rights, resulting in increasing ethnic tensions between Indians and Nepalese in the Tarai and if it were to happen again, could only provide further fuel for the insurgency and prolong the crisis.

## **VII. Conclusions**

As this paper has argued, one entirely neglected yet powerful side effect of the ‘structural adjustment’ programs pursued by the World Bank and the IMF in Nepal throughout the 1990s has been to greatly destabilize the ownership of property in rural Nepal. Rather than expanding markets giving options to poor farmers, it trapped them ---or perhaps, it has given them options

that after the fact they are extremely angry that they have taken. Hence they take up arms. A Marxian theory provides much needed insight into how this seemingly anachronistic movement emerged to pose a threat---not just to Nepal but potentially to the whole of South Asia (in fact, over 25% of farmers in India are Maoist, especially in the northeast regions neighboring Nepal).

Past land reforms and further land reforms in Nepal have broken down communal social-insurance relationships more than they have improved efficiency by aligning incentives—especially since there is no evidence in Nepal that previous land-tenure arrangements were incentive-incompatible, and some evidence that previous arrangements captured at least some economies of scale. Previous land-reform efforts suffered from not having an appreciation of the Marxian of Nepal including the problem of large-scale social engineering: it is very difficult to get your interventions right from Kathmandu, let alone from Delhi or Washington. In the presence of a politically-powerful landlord class there on the ground, land reform can easily wind up not transferring property to the landless poor but rather relieving the landed rich of local tax-and-governance burdens and increasing their bargaining power vis-à-vis their tenants. Moreover, although landlords may have been and continue to be a parasitic class, they are also interested in agricultural improvement, and also played an important intermediary role in Nepal's “premodern” safety net.

The old institutions in Nepal had grown up over a long time and have their wisdom, with which World Bank and International Monetary Fund technocrats meddle at—well, not at their peril, but at the peril of the Nepalese. The coming of neoliberal reform programs to destabilize property relations in the countryside has reduced the institutions of the social agreements that used to provide implicit insurance and social solidarity, and so has increased both risk and the perception of risk in Nepal. Instead of always destroying traditional tenure regimes, sometimes it

is best to refine them, if only because their true functionality is not understood until they are gone or because the alternatives are no better and even much worse due to the multiple and complicated unintended consequences of tinkering with rural markets from policy set in Kathmandu.

With the full force of neoliberalism and globalization on an external level, and rising domestic economic crisis and conflict on an internal level, Nepal like many developing countries provides a salient example of how pressure from extreme horizontal inequality, poverty, and macroeconomic dysfunctionality can prove to be simply too powerful for the advocated legal mechanisms of suppression in land reform measures.<sup>31</sup> Moreover, such approaches reek of colonialism as it is the job for ‘development experts’ to impose a full Western-style set of property rights in all things, complete with land administration systems, titles, and deed registries. In the desperate drive to ‘Westernize’ or ‘proletarianize’ agricultural labor, market-assisted land reforms falsely assume liberalization, inequality, political instability, and insurgency are mere irritants, market distortions, or negative externalities.<sup>32</sup> Unlike all other perspectives, the Marxian system takes all these structural variables to be explicitly related rather than coexisting by chance.

With rising input prices, especially land, falling output prices, little if any infrastructure for the majority of poor farmers, full blown out incorporation into the world economy on increasingly unequal terms since the late 1980s, and a recently failed experiment with democracy, it is no wonder the World Bank’s new land reforms rely on decentralization and markets. From a Marxian perspective, the current push for market-assisted land reform in Nepal is based more on political arguments to pacify the current Maoist insurgency than on the alleged economic benefits of efficiency and equity in both the land sales and land rental markets. Also,

with market-led land reforms come the real danger of *increasing* inequality and landlessness, who will still need to harvest natural resources for their very survival. On the other hand, Maoists' calls for radical land reforms will also be met with similar results unless broader structural variables are explicitly taken into account in the overall Marxian of Nepal. Moreover, the uncertainty of the impact of a radical redistribution of land on deforestation, soil erosion, and sustainable land use only serve to make land market interventions in general and land reform measures in particular even less attractive as a policy lever.

While land reform can make a tremendous difference in the lives of the rural poor as it has in East Asian land reforms, it is clearly not a panacea for rural poverty. For Nepal and possibly many other developing countries, in the absence of broader macroeconomic policies that support agriculture in general, and small-scale producers in particular, land reform alone will not bring substantial income gains to the poor nor a reduction in poverty or inequality. Indeed, if the macroeconomic context is quite adverse to agriculture as is the case of Nepal— for example, if exchange rate overvaluation and trade policies make agricultural imports so cheap that local growers cannot compete – then to encourage the poor to seek to earn a living in farming is to lure them into debt and penury. For this reason, Acevedo (1996, 209) observed that in El Salvador in the 1990s, ‘a small farm (particularly one encumbered by debt for its acquisition) and access to agricultural credit is an economic curse to be wished only on one’s worst enemy.’

Good policy analysis and formulation of proposals about what is to be done then need to be thoroughly anchored in an understanding of the opportunity sets in front of various classes of people and how they use them to survive or better themselves and not in theoretical fantasies. In setting policy, some kind of fair internal process needs to happen. The relative weighting of

these economic and non-economic values should not be done by the foreign aid world and its one size fits all perspective, but by the society itself and its various constituencies.

Tenancy and associated legislation, landlessness, inequality, agricultural stagnation, tourism, and the overall political economy of the country have each experienced rapid change in their structure, extent, and interactions over the past 55 years in response to a variety of structural factors ---economic, cultural, political, institutional, and demographic processes. This paper suggests that policy design based on a broader Marxian approach will be far more effective in achieving the stated objectives of poverty alleviation, growth, and reduced inequality in agriculture.

Finally, this paper should be viewed as having provided the basis for a methodological approach, rather than a methodology per se. Such an approach towards land reform implies that people, their environment and society are not separable by rigid and separable boundaries. The boundaries between them are porous and flexible allowing interchange and influence, the unity here is not the uniformity of the fragmented individualism, rather it rests on the continuity of life in its interconnectedness. There are subtle and (unintended) complex connections between Nepal's process of uneven development and its internal microeconomic conditions, including land use, the decay of the ecosystem, breakdown of civil society, agricultural intensification, and private property rights just as there are connections in the search for a more sustainable Marxian at all these levels.

This paper also has far reaching implications on wider debates concerning globalization and US hegemony. There has been nothing less than an overflow of academic discussion on "globalization" over the past several decades even creating global studies and permeating the college curriculum with requirements of a global perspective. But the current crisis is not merely

one of “globalization,” i.e. too much or too little. It is not even a financial crisis or a sum of multiple crises but one of imperialist capitalism of transnational oligopolies whose exclusive and supreme power is being increasingly questioned by the vast majority of humankind. No doubt the crisis is also one of US hegemony which is directly linked to barbaric globalization, financialization, capitalism of oligopolies, political power of oligarchs, the militarization of the planet, the fall of democracy worldwide, the ongoing colonial-avatar-like economics to plunder the Third World’s natural resources, and the complete abandoning of development in the South in virtually all policy circles I am aware of. But it is the whole literature that begins “After hegemony...” that I think is reminiscent of the all the literature after 1989 that began “After the fall of the Berlin Wall....”

Many academic pundits, policymakers, and mainstream media (including even those who claim to be Marxist!) claim that our unipolar system (US-led imperialism and hegemony) is being replaced by or moving towards a multipolar system, albeit for different reasons, and hence a fall of US hegemony. But, first, to establish multipolarity, it would be necessary for the strongest powers ---US, Russia, China, France, Germany--- to share world power or, on the contrary, fight among themselves to attain it (hence, WWI and WWII). Nothing can be further from the truth.

The US is not capable of dominating the world at this time (no matter what it self-proclaims), and its allies, the European Union and Japan, are a long, long way from being able to take up the challenge. In fact, they need to be protected by the US in case of trouble with Russia or China. For their part, these two powers have replaced socialism with an autocratic sort of capitalism and are NOT competing with the TRIAD for world domination. China simply wants the US out of Taiwan and Tibet, and Russia naturally wants the US out of its former Soviet

republics, which it sees as its zone of influence. In fact, many argue US hegemony has deepened through the effective creation of sub-hegemonies (Peet, 2007).

So we are witnessing a new geopolitical era to accompany a new collective imperialism (post thirty-year crisis) of the TRIAD, where the US is simply unable to police the world, and no one can replace the US. The Great Powers are impotent to an increasingly violent and fragmented world, terrorism, increasing poverty and inequality, evil wars, genocides, and pervasive trafficking of drugs, arms, and people. In my view, we are moving into what can be called APOLARITY and the rapidly DECLINING significance of the nation state. The resulting, inevitable, and growing clash between the 1<sup>st</sup> and 3<sup>rd</sup> Worlds can be seen in the expansionist strategy of capitalism in the West and its increasing resistance in the 3<sup>rd</sup> World today, such as the socialist movement in Nepal that centers on radical land redistribution.

## Endnotes

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<sup>1</sup> Some estimates put the death toll over 12,000, while more than 200,000 have been internally displaced. Hundreds of thousands more have fled to neighboring India (Global IDP Database, 2004). Tens of thousands of school children have been abducted and taken to indoctrination camps (Human Rights Watch, 2003). School teachers, government officials, field staff of development organizations, as well as ordinary citizens have been targeted for extortion (Gersony, 2003; Global IDP Database, 2004; Human Rights Watch, 2003; Rajdhani, 2004). Dwindling government control in rural regions has interrupted or halted effective development efforts for many NGOs, international organizations, and donors.

<sup>2</sup> Second-generation land reforms are referred to in the literature as market-assisted (de Janvry, et. al, 2002), market-led (Borras, 2003), market-friendly (Carter, 2004), market-mediated (Ghimire, 2001), negotiated or community-based (Deininger and Biswanger, 1999), and neo-populist neoclassical (Byres, 2004).

<sup>3</sup> See the special issue in the *Journal of Agrarian Change*, Vol.4, 2004 for an alternative critique of redistributive land reform measures. Included in this special issue is the best mainstream response to these critiques by Keith Griffin, et. al. (2004).

<sup>4</sup> Bucking the publishing trend, this article is equally critical of both redistributive and tenurial reforms. Alternative theories critique redistributive measures (see the special issue in the *Journal of Agrarian Change*, Vol.4, 2004) while neoclassical economists generally critique tenurial reforms.

<sup>5</sup> In many countries such as Vietnam (Adelman, 1995), Jamaica (Atkins, 1988), Mexico (Bobrow-Strain, 2004), Brazil, Pakistan, and India (Dyer, 2004), South Africa (Sender, et. al., 2004), Zimbabwe (Bernstein, 2004), and Honduras and Nicaragua (Carter, 2004), Columbia (Borras, 2003), Nepal, including an econometric critique of the alleged inverse relationship between farm size and productivity (see Bhandari, 2006), Philippines (Ramachandran, et.al., 2002); Africa in general (see Place and Hazell, 1993); Sub-Saharan Africa (Fortin, 2005), Honduras (Jansen and Roquas, 1998), Nicaragua (Broegaard, 2005), and Laos (Ducourtieux, et. al., 2005), land reforms have not only failed but also reveal a contradiction that looms large in new land policy. If land reform is

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based on the capitalizing small farm in the context of a withdrawing state, its implementation requires strong and repressive state intervention as in the cases of East Asia where land reform which were successful and, in fact, paved the way for industrialization. Titles are generally found not to decrease insecurity of the marginal farmer, but merely formalize and modernize the sources which can be used to contest rights in land. Needless to say, the precise mechanisms for growth and equity are misspecified.

<sup>6</sup> Interestingly, the assumed historical inevitability of Western style capitalism permeates the entire history of economic thought from Adam Smith to Karl Marx (including updated versions of theories of 'peasants') fall victim to a form of teleological imperialism in which some implicit end state becomes the norm against which region-specific problems are diagnosed ---which diagnosis then provides the basis for a policy prescription. The multitude and diverse range of agrarian relations and institutions are only conceived in relation to Western capitalism, if only in opposition to it. It is not surprising, then, that these relations themselves are poorly understood. A country's 'economic takeoff' (Rostow, 1960) is understood as a successful transformation of 'feudal' relations into capitalist ones. However, for Nepal (and many poor countries as well), there is no sight of even reaching take-off speed, let alone making the runway. The implication is that poor countries like Nepal suffer from remnants of a 'feudal' past and are therefore described as being in 'prolonged transition.' Agrarian relations are generally understood as a barrier to the process of economic development, rooted in the non-economic world of culture and tradition, reminiscent of colonial development discourse and ideology.

<sup>7</sup> Bromley (2004) eloquently points out the Eurocentric fallacies in much of our current theorizing on land policy: 'We show little inclination to ponder the so-called mysteries of Swiss livestock management under common property between June and September when cattle graze in the high alps, but somehow feel compelled to lament the commons dilemma when we encounter it in Nepal or Botswana. Coherent policy about rangelands and forests awaits the day when we stop seeing many of them as somehow in need of explanation and instead seeing them as coherent *human* responses to a set of *ecological* circumstances that reward mobility, flexibility, and adaptability.'

<sup>8</sup> Sender and Johnston (2004) point out how the Jeffersonian vision of the family farm masks the prevailing conditions of poverty by excluding the landless and semi-landless, who must depend on wages to survive daily. They are also assumed to suffer less poverty and always find more opportunities for on- and off-farm wage employment than the small farmer. An important contradiction arises entirely unresolved by even successful land reforms that benefit small farmers---since if small farms are supposed to rely on their comparatively cheaper family labor input to be successful, then how will they simultaneously become the engine for growth and employment?

<sup>9</sup> Two main reasons exist why land sales go in the opposite direction to economic theory in Nepal. The first is the familiar chicken-and-egg problem: the poor need credit to buy land, but without land they lack the collateral to secure loans. The second is that in practice the distribution of land in Nepal is determined by political power rather than changes in relative prices, as predicted by standard economic theory. Historically, inequitable land ownership patterns did not originate in the free play of market forces; rather they emerged through processes involving conquest, fraud, and outright force. Today political power and land rights remain fused in rural societies, each reinforcing the other. For landed elites, the value of land lies therefore not only in its agricultural productivity, but also in the power, status, and economic advantages that land ownership confers. These economic advantages include access to subsidized credit, favorable tax treatment of agricultural incomes, and landholding as a hedge against inflation. For discussion, see Binswanger et al. (1995, 2710-11). Hence, speculation on land is expected and prices are far out of reach for the average farmer undermining the redistributive impact of land reform, i.e. only those who can afford to buy land will buy land as epitomized in the World Bank's "willing seller---willing buyer" market approach to land reform. Efforts to promote 'market-assisted land reform' by earmarking credit for land purchases for small farmers often founder on this fundamental and structural stumbling block.

<sup>10</sup> Kevane (1996) shows a positive relationship between wealth or size of farm and output even when the supervision constraint is controlled, which should favor small farms. Wealthier or bigger farms have less need to engage in off-farm labor, so the amount of labor available for production is higher. However, because of rental market imperfections, they are unable to match this labor with additional land, so that labor input per unit of land rises with farm size. This mechanism seems to be at work not only in Sudan, but also Nepal where a positive relationship between size and productivity seem to exist (see Bhandari, 2006).

<sup>11</sup> From its position advocating the abandonment of customary communal systems and the subdivision of the commons into plots over which freehold title would be granted (Deininger, et. al, 1999), today there is an official recognition that customary or communal systems often provide secure and long-term land rights, and in certain conditions supported. At the same time, though, the World Bank's recent formulation still sees individual property

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rights preferable; group rights can only be acceptable, under several conditions, at low levels of development. The new policy emphasizes the land rental market, whereas the older policy the land sales market, but the strange priors remain unchanged (World Bank, 2004).

<sup>12</sup> Donor narratives have largely created the mythology that pre-1951 Nepal was “an isolated medieval kingdom” without the most rudimentary infrastructure; this dominant discourse aims to reduce the often-subtle intricacies of the Nepalese Marxian processes of the past.

<sup>13</sup> In fact, according to recent statistics, around 43 percent of the government's budget is financed by aid (CBS, 2004). In addition, there are aid inflows to NGOs, many of whom then fund other NGOs within the economy. These flows may be relatively small in the total portfolio of donors, but they are huge in relation to Nepal's tiny economy, and dwarf the effects of other sources of foreign exchange, which are mainly through tourism and garment exports. Such aid is what explains how the capital Kathmandu is literally swarming with donors and experts of all varieties and many nationalities. As Easterly argues in “White Man's Burden” (2006), aid advocates measure success by how much money rich countries spend. Praising the G-8 industrialized nations for their increased aid to Nepal (to help King Gyanendra squash the People's War) is like reviewing Hollywood films based on their budgets.

<sup>14</sup> In several countries, disputes over land rights are at the core of what later appears as ethnic violence. In Kenya, the Kikuyu benefited from colonial policies increasing land rights and were also the main beneficiaries of educational improvements and business credit programs after independence. Kimenyi and Ndung'u (2002) explain that this caused a negative reaction against the Kikuyu, leading to their expulsion from Masai-land after independence. In Senegal, land rights disputes were also a key factor in the Casamance civil war; the conflict started with large-scale expropriation of indigenous land in 1979 (Humphreys and Mohamed 2002). Similarly, it is hard to find any account of the civil war in El Salvador that does not emphasize the highly unequal distribution of wealth and land (see, e.g., Johnstone, et. al. 1997).

<sup>15</sup> Stewart (2005) convincingly argues that horizontal inequalities, in addition to the well-known vertical inequality measures captures in the Gini that compares individual to individual, matter both from the perspective of the wellbeing of individuals within groups, who are concerned about how their group is faring relative to others, and instrumentally, through the impact of group inequalities in reducing growth potential and provoking violence. In the economic sphere, inequalities in ownership of land in Nepal are significant, as well as in employment and income. Where there is considerable intra-group inequality as well as inter-group, vertical inequality will be high. Group inequalities can have a direct impact on members' well-being is one of the most important aspects. People's well-being may be affected not only by their individual circumstances, but also by how well their group is doing relative to others. This is partly because membership of the group is part of a person's own identity, and partly because relative impoverishment of the group increases the perceptions of members that they are likely to be trapped permanently in a poor position, or, if they have managed to do better than many in the group, that they are likely to fall back into poverty. In a recent innovative piece, Akerlof and Kranton (2000) enter the relative position of the group into a person's welfare function.

<sup>16</sup> Besides Nepal, group inequalities have been found to be a factor in provoking conflict in: Côte d'Ivoire, Rwanda, Northern Ireland, Chiapas, and the Sudan to mention just a few (Gurr, 1993; Stewart, 2000; Gurr and Moore, 1997; Langer, 2005; Murshed and Gates, 2005).

<sup>17</sup> Murshed and Gates (2005) also find a significant correlation between landlessness and the number of fatalities in the conflict. However, other accounts such as Thapa (2004) attribute the conflict mostly to poverty and underdevelopment of the country. Gersony (2003) and Wagle (2006) both find that caste and ethnic divisions are not a major contributor to the conflict. There is also the possibility that government repression might have generated further grievances which led to greater support for the Maoist rebels. Nepal has a history of human rights abuses by the police forces, such as the crackdown against CPN political activists as part of a highly contentious police operation (Operation Romeo) in the districts of Rolpa and Rukum in 1994. As would be expected, where poverty is especially pervasive, as in Western Nepal, the Maoist insurgency is strongest. Unlike so many rebel movements elsewhere in the world (including in Iraq), however, the Maoists do not identify themselves as defenders of a particular ethnic or communal group. Therefore, one generalization that has been advanced is that the Maoist uprising in Nepal points to the dangers of focusing too narrowly on the ethnicity, important and neglected as it has been, to the exclusion of class interests (Fisher, 1999).

<sup>18</sup> This is largely because: (i) family background including nutrition and educational levels influence a child's chances in life; (ii) social networks and social agreements operate disproportionately within a group and less between groups – indeed economists and sociologists regard having more in-group than out-group interactions as a defining characteristic of a group.

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<sup>19</sup> Given the fact that social and economic stability are still very distant for Nepal, interference by outside powers such as the US and India is expected to only prolong the agony of the country.

<sup>20</sup> The development industry has greatly contributed to new luxury services that serve the elite. It is no wonder that the lifestyles and working conditions of foreign expatriates are well removed from those of the people they have supposedly come to assist. The influx of international development workers has resulted in a market for expensive commodities, and the shops which crowd these neighborhoods in Kathmandu (which are invariably owned by foreigners) take pride in exclusively catering to the super rich. Not only can resident foreigners have lavish lifestyles with all the consumption goods that are now international, but they live in a country where labor is cheap and highly obedient. Unlike in some other recipient countries, aid-givers and other foreign do-gooders in Nepal are treated with great respect, hospitality and generosity, and are easily allowed to persuade themselves of their usefulness and importance. It is little wonder that very few people leave this paradise even when repeatedly asked by the general population to do so. For example, the World Bank has its offices in Kathmandu's premier 5 star luxury hotel, the Yak and Yeti. Although it is public knowledge, it needs to be mentioned that there is a virtual absence of any international presence outside of Kathmandu even though the much discussed beneficiaries of aid are the rural poor.

<sup>21</sup> What is even more telling is that even though donors have expressed concern over the dismal performance rate in Nepal, they also refuse to leave. As an example, the World Bank, after gaining thirty years of knowledge from its experience in Nepal, described the country as underperforming. What did the World Bank do? It *increased* its lending program for the following year! (World Bank, 2003b). This creates a further moral hazard since Nepal's lack of development seems likely to extract more well-rehearsed assurances when facing other lending institutions in the future.

<sup>22</sup> A further irony is that there is ample evidence that although the Maoists and the Monarchy are ideologically poles apart, in present day Nepal they both seem to share a common stand at least in the short-term: they hate the entire multi-electoral democratic system (Adhikary, 2005). Indeed, senior Maoist leader Baburam Bhattarai has publicly claimed at a recent press conference in Delhi (January 12, 2007) that he had forged a working unity with King Birendra a few months before he was slain in a mysterious palace carnage in June 2001, which became an international incident.

<sup>23</sup> In 1995, the government formed the High Level Land Reform Commission to suggest corrective measures. Although the report is not available to the public, one can assume that it calls for a further reduction in land ceilings which has raised the question of 'optimal holding size' or 'economically viable minimum size of holding.' The issue is moot because in the Nepalese Tarai, intense demographic pressure functionally puts automatic ceilings on land. Freeing the land market is not likely to lead to large scale selling of land by large farmers to small farmers or the private sector because of the high premium on land due to its collateral value. Reducing ceilings in the interest of redistribution would face a similar problem in a population-induced competitively determined land market.

<sup>24</sup> See Goeschl, et.al. (2006) who convincingly argue that that the limitations of a static property rights structure narrowly focuses on the management of the natural resource base of the community is quite evident, particularly when communities operating a severely constrained production function are expected to somehow (with more defined rights) develop economically amidst brutal market competition with unconstrained monopolistic and powerful firms.

<sup>25</sup> See Jonakin (1997) who argue that the impact of structural adjustment and stabilization policies in Nicaragua in the 1980's increased credit market imperfections, undermining any potential gains from previous land reforms. Deteriorating terms of trade against agriculture have also been shown to wipe out any potential gains in land reform for Tanzania and Egypt in the 1970's (Powelson and Stock, 1987). Still others go even further showing how in the context of domestic and international instability, market-based approaches in agriculture will most likely *increase* poverty and inequality by reinforcing colonial legacies of dual economies and regulatory systems (Fortin, 2005) while others explicitly show how these new policies are tailored to larger privatization, deregulation, and liberalization policies (Patnaik, 2003).

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<sup>26</sup> Alain de Janvry (et. al, 2003) found an inverse relation between the weakness of property rights and land rental markets for Latin American countries, suggesting the importance of the informal economy, often strengthened by the same policies of neoliberalism that were designed to remove it.

<sup>27</sup> For discussion of the efficiency impacts of sharecropping and the critical role of culture and social agreements in shaping economic outcomes that is ignored in the vast literature on sharecropping, see Bhandari (2007) and Boyce (1987: 41-44, 213-220).

<sup>28</sup> It should be pointed out that neither hired labor nor tenancy arrangements completely resolve the inefficiencies that result from a dichotomy between the ownership of land and labor on it in a first-best sense. The strange prior of land reforms lies in the assumption that reform can mythically end this dichotomy by fiat and bring forth higher agricultural output as well as a more egalitarian distribution of that output. As IFAD argues, one of the leading proponents of land reforms in developing countries, if the poor get a bigger share of asset control or benefits, efficiency and economic growth also improves. By creating a bigger pie as well as a wider slice for the poor, land reform offers a potent strategy for reducing rural poverty. If land reform has positive spillover effects on the urban economy, too, as the East Asian experience suggests, then its contribution to poverty reduction can be even greater' (IFAD, 2004: 71).

<sup>29</sup> One notable exception is de Janvry (1997) who explains sharecropping efficiency by the important role of kinship relations between landlords and tenants.

<sup>30</sup> Even if redistribution leads to a higher average farm size, whether the farm is sustainable is taken for granted in almost all calculations. It has been estimated that the minimum feasible holding in Nepal, below which its output is too small to maintain the family at what is considered to be a reasonable standard, is between three and four hectares in the Tarai. Floors might also be established with regards to full employment, including full employment of farm draught animals. The inverse relation, though, suggests an optimal farm size of less than 2 hectares. Therefore, the concept of viability itself imposes severe limits to redistributive land reform if not making the case altogether moot to begin with.

<sup>31</sup> Nepal is an excellent example of a society with a relatively unchanging value of vertical inequality but an increasing level of horizontal inequality. A Marxian approach implies that policies aimed at reducing poverty or vertical inequality may not be effective unless a group approach is adopted when severe horizontal inequalities and deep social exclusion of various groups is significant.

<sup>32</sup> The political instability brought on by Gyanendra's coup demonstrates the fallacy in the market fundamentalist belief that democracy is inevitable. Two widely cited examples are the end-of-history thesis (Fukuyama 1993) and third-wave-of-democratization thesis (Huntington 1991).

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