Articles

Production and Distribution of Smallholder's Economic Surplus: Thailand's Rubber Sector

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A recently published study "Is Smallholder Cultivation Viable? A Question of Political Economy (Girling, 1986, p.189), posed the right question. Whether it provided the answers is less clear. But it did properly direct attention to the fact that the "viability" of small farmers depends on much more than their "efficiency." It also hinted that attempted analyses have overlooked the complexity of the economic systems of small farmers (e.g. in Thailand). Our study below investigates an instructive example in Thailand's internationally important smallholder rubber sector in the transition to capitalism.

This study is specific. But it does not deal with a rare situation. Unfortunately, both political economy and neo-classical economics have been so obsessed by large scale analyses that small scale farming has had its importance neglected in serious analysis until recently.

For example, the well-known Lenin-Kautsky proposition on the "self exploitation" of family farms may be acceptable and indeed useful for the circumstances they discussed.

> The existence of a small peasantry in every capitalist society is due not to the technical superiority of small production in agriculture but to the fact that the small peasants reduce their requirements below that of the wage workers and tax their energies more than the latter do (the agricultural wage labourer is better off than the small peasant, says Kautsky; the same thing is to be observed in Russia). (Lenin 1898 p. 167 as in Patnaik, 1983).

That this is a widespread phenomenon in Asia too is not in doubt. *But it is not the only one* and not necessarily the most common. Another explanation is necessary for the myriad of different circumstances to be found e.g. Where smallholders are better off than wage earners or sharecroppers. Moreover, effectiveness of "smallholders"

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cannot be static. The rent free frontier situation quickly yields to property in land. In this sense, landed property historically confronts capital.

Of course, the smaller holders don't and can't behave like landed proprietors or capitalists. One finds a spectrum of growers all subject to the forces of the market yet responding to the market somewhat differently. Some more capitalistically (investing for higher productivity) others less. One observed characteristic is that, at around or somewhat over family size holdings, the family aims at maximising *cash* income and minimising *cash* expenditure. Also, having to use (exploit) sharecroppers is regarded as an unfortunate if unavoidable, loss of money to the family! This last, of course, is a rather ideological form of accountancy rather than proper analysis.

Possibly more revealing and not unrelated is the significance of a widespread opinion of growers in Eastern Thailand. Namely, that 25 rai (4 hectares) of rubber land were necessary to support a family "comfortably." Now, we earlier noted that expert opinion (e.g. Lok, 1974, p. 1) considered 15 rai (2.4 hectares) the extent that could be worked without bringing in outside labour. It would seem then that for one rubber family to be "comfortable" it would need to exploit another family as its sharecroppers. This presumably would be the outcome not so much of capitalist aims or behaviour by the family holders as a response to the capitalist market. *To be "comfortable" they must depend on rent.*

Finally, we may recall the burden of taxation in relation to rent. A situation of considerable interest exists in which *the Thai government has been taxing landlords heavily and depriving them of most of their normal revenues from rent.* Equally curious has been the disproportionately heavy tax on the exports of the highest quality cured rubber that fell on the two biggest processing companies until recently. Whilst government policy aims were to develop rubber production, its practice has discriminated against family farmers landlords, capitalist farmers and processor-exporters. This outcome was probably unintentional. To an outsider at least it looks a very inefficient—or even counter-productive—way of promoting capitalist development.

Middlemen and the Trade Question

a) Middlemen

One established current of thought in the analysis of small farmer production and marketing in general emphasises the exploitation or cheating of the smallholders by middlemen and/or money lenders. This would not appear in the accounts that we have discussed. As this middleman issue is present in some other presentations of the situation of rubber smallholders for Thailand (e.g.CUSRI, 1984) it must be considered. If it can be shown that a large amount of surplus is removed from smallholders through unequal trade (whether passing to middlemen-traders, processor-exporters or even to importers in the consuming countries) then the significance of our earlier analysis would be modified as regards the size and distribution of the surplus.

Our own general position should be stated at the outset. First, profiteering by middlemen is not the only possible form of exploitation. Secondly, we believe that it does exist having observed in fieldwork selling situations where the measurement of the product and the calculation of the value was entirely in the hands of the dealer. These resulted in undervaluations of the sale price due to the smallholder. However, this does not appear to be a generalised situation nor need it be a significantly large part of the whole.

For Malaysia,

> It is more often asserted or assumed, rather than demonstrated, that commercial capital realises extraordinarily large profits from monopolistic/monopsonistic involvement in the peasant (rubber) economy....Wharton suggests, that, "certain power factors, singly or in combination, must be strong enough" (Wharton, 1962, p. 27); however, he is not concerned with demonstrating this assertion. (Jomo, 1988, p. 39).

Nor can we simply accept as revealed truth the common assumption that middlemen-traders do nothing productive— e.g. an otherwise informative piece about coconut marketing in the Philippines asserts (without evidence) "this trading class— engaged in no productive activity" (Tiglao p. 185)

Unfortunately, viewpoints on this issue seem to determined too often by apriori convictions rather than serious investigation. Maintaining or denying the significance of middleman exploitation often appears to be an item of faith in a more general theory of larger society. Populist ideologies merge with the stand points of government administration and dependency theorists. As Siamwallah puts it,

> ....middlemen are made into scapegoats used to explain all the ills that ail Thai agriculture. This scapegoat role of the middleman was useful for the political elite for the additional reason that they were predominantly Chinese and thus form a convenient target for the critics.... (Siamwallah, 1978, p. 38).

For Thailand this pattern in academic analysis appears to have been set by the country's first ever rural surveys. (Zimmerman, 1931, Andrews, 1935). These officially commissioned reports repeatedly blame middlemen for much of the distress of Thai farmers during the Depression.

However, Siamwallah's often persuasive piece would be more persuasive if he did not rely so heavily on abstractions of neo-classical economic theory to argue for a fairly competitive exchange situation. The same holds for Stifels' useful piece when he has to rely on arguments like,

> Although monopsony profits are suspected, the entry of new firms, as in the case of monopolistic competition, may squeeze them out (Stifel,1975 p. 639).

Two thorough studies of smallholder rubber marketing in West Malaysia (Khoo, 1978 and Lim, 1976) more reasonably conclude that there is an absence of *evidence* about significant exploitation by middlemen but do not conclude that the phenomenon is absent. In fact, it is rather disappointing to note that Woodcocks' lengthy survey and analysis has to conclude of Thai rubber marketing.

> So in the absence of sufficient evidence, all policy decision must include an implicit *assumption* (my emphasis) about the degree of competition in the network. (Woodcock, 1980, p. 2).

Most of the field studies date from the 1960's so it may be that the past monopsony position of middlemen has been undermined by spectacular improvement in land transport facilities over the past two decades. The extension of roads and the increased use of motor vehicles have improved access of farms to new dealers and enhanced ability of farmers to find alternative buyers in both Malaysia and Thailand.

In Malaysia, the middlemen's position has been further weakened by the setting up of numerous government owned rubber processing plants to offer alternative sales points to farmers. Jomo, however, suggests that this may substitute another level of monopsony power in the marketing hierarchy. (Jomo, 1988 p. 41)

Frankly, those who assert significant exploitation by middlemen have the responsibility to prove it. We find the issue unproven and tend to the opinion that it is not very important overall.

b) Processors-exporters

A further weakness of the "anti-middlemen" literature is that it often excludes considering the possibility that the profits of trade exploitation may be squeezed out of the middleman and flow elsewhere—to the processor-exporter.

For example, one report from the Thai Office of Agricultural Economics said ,of rubber processors-exporters, "Marketing margins are quite high," (Srisuraksa, 1979, p. 23). Or, "Both smoked and unsmoked sheet markets are ultimately under the control of a small number of the large exporters." (Chintayarangsun, 1983, p. 24). Unfortunately although, "excess profit at the exporting level has long been suspected—reliable evidence is extremely difficult to find" (Chintayarangsun, p. 28).

The evidence is inconclusive but it would seem that accumulation of monopoly trade profits here are more likely than at middlemen levels.

Nevertheless, a glance at Table 2 suggests that *compared to government taxation, exporters margins are quite small.*

c) Exploitation in international trade in rubber

We have excluded also from our calculations the possible existence of exploitation (transfer of surplus) through unequal exchange in international trade. This is because no acceptable analysis of this phenomenon in the rubber trade exists. Monopsony practice by the industrial importers *may* exist. *Proof* of its existence does not. Claims that they do, appear to derive more from fixed beliefs in unequal trade theory or in human wickedness than in analysis of events. One does not have to share the dream of the World Bank that the international rubber market is "free competition" to realise that it is pretty competitive. I would not necessarily dispute Clairmonte's statement, (1974,

p. 456) that 70-75% of natural rubber in international trade is marketed by only 15 transnationals.

However, I would wonder at its *meaning*. It does not imply that TNC importers normally can, do, or even wish to, collude to depress rubber prices on behalf of the industrialised consumers. The possibility of collusion exists, not its proof. In bilateral power relations, the strength of the rubber exporters should not be overlooked. A few firms dominate the exports of the three main producing nations. The trade literature actually emphasise rumours of *exporters*' price rings (c.f. Gordon 1961, 1962, or almost any issue of Asia Year Book). Besides, the interests of the worlds six largest users (outside Eastern Europe), the biggest tyre corporations, differ.Four of them are also amongst the largest *producers of synthetic rubber* the price of which is interrelated with natural rubber. They also rank amongst the worlds major producers of the petrochemical intermediates for synthetic rubber. Thus, Goodyear and Sumitomo for example appear to have no clear interest in lower prices of rubber and would have no incentive to collude with Michelin or Pirelli (whose ownership of synthetic rubber facilities is relatively slight) to lower prices. The latter two on their own could not control world prices. Besides the relations between the large rubber consuming corporations seem more to be characterised by rivalry than cooperation to judge by present behaviour. (e.g. the Japan Bridgestone V. Pirelli battle to take over Firestone; and Sumitomo's acquisition of Dunlop Tyres).

It is possible however that an individual rubber exporting country might be faced with monopsonistic importers. Indeed, in the case of Thailand, it is continually pointed out in the press that Japan accounts for about 80% of Thailand's dry rubber exports. Yet before leaping to conclusions we should be aware that only five Thai corporations account for 70% of sheet rubber exports (two account for 50%). A single one of those also owns over 60% of block rubber capacity in the country (Hataiseree 1983 Table 3.3, p. 32). Until the bargaining power of these organisations is assessed it appears unjustifiable to claim (e.g. Bangkok Bank, 1982, 1984) that Thai exporters are "weak."

Overall the "exploitation by monopoly trade" (whether domestic or international) theme is interesting, important and grossly under-researched. Definite "findings" do not yet appear to have been made. Until they do our calculation of the economic surplus of smallholders must stand.

Notes

1. In fact the writer has discovered one rubber plantation formerly owned by the Danish East Asiatic Company in Eastern Thailand. It proves the rule successfully: by being outside the main rubber area of Southern Thailand where foreign investment had been subject to British veto: by belonging to a minor western power: by being very small (only 25 hectares).
2. A Census of Agriculture said 267,000 rubber holdings. The official rubber organisations claim variously 500,000-800,000 holdings, whilst the Forestry Department and the Southern Army Command have favoured over 1,000,000. World Bank estimates change too capriciously to be any more reliable. Nevertheless, a reasoned figure subject to a small margin of error can be found after disinterested and