

Land Rights and Land Reform

“...communities of individuals have relied on institutions resembling neither the state or the market to govern resources with reasonable degrees of success for long periods of time.” Elinor Ostrom

Fall 2010

Dimensions of Land Rights

- Exclusivity — who can use it
- Transferability — whether and how it can be sold, and who to
- Inheritability — whether it can be inherited
- Alienability — ownership vs. tenancy
- Enforcement mechanisms — extent and process by which the legal system can enforce ownership

Broad categories:

- Open access — no property rights, formal or informal
- Communal property — anyone within a community has rights (informal)
- State property
- Private property

Forces generating a demand for land rights

- Population growth
- Agricultural intensification and commercialization
- Improved technology

Example: Indigenous Land Rights Systems in Sub-Saharan Africa

- Uses survey of 10 regions of Ghana, Kenya and Rwanda
- Rights measured by “% with full rights to sell without approval”

- The effect of population density in Ghana

Ejura.....9%	↓	Increasing population density
Wassa....15%		
Anloga....63%		

- Effect of commercialization in Rwanda

Butare.....35%	↓	Increasing commerial activity
Gitarama...67%		
Ruhengeri..78%		

Table 14-1. *Percentage of Operated Parcels of Land Acquired by Various Means*

Mode of acquisition	Ghana			Rwanda			Kenya			
	Anloga	Wassa	Ejura	Ruhengeri	Butare	Gitarama	Madzu	Luma- kanda	Kianjogu	Mweiga
Purchased	0.9	18.0	6.3	17.4	3.2	8.1	28.6	26.0	13.2	6.0
Inherited	57.5	6.3	22.1	46.6	43.4	49.5	68.3	31.3	82.1	35.0
Given	0.8	44.2	43.1	8.3	5.6	4.1	0.0	0.0	0.0	1.0
Appropriated	0.0	22.1	14.7	0.5	3.7	1.5	0.0	0.0	0.0	0.0
Allocated from government	0.0	0.0	0.0	4.0	4.9	15.6	0.0	33.6	1.9	58.0
Other permanent acquisitions	0.0	1.7	0.4	6.3	4.1	0.2	0.8	1.6	0.0	0.0
Rented	21.5	7.0	9.6	7.4	15.7	7.9	1.5	7.6	1.9	0.0
Pledged	19.3	0.6	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Borrowed	0.0	0.1	0.0	9.5	19.4	13.2	0.8	0.0	0.9	0.0
Squatter land	0.0	0.0	3.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Survey data.

Table 14-2. *The Prevalence of Land Rights across Study Regions*
(percent)

<i>Land right</i>	<i>Ghana</i>			<i>Rwanda</i>			<i>Kenya</i>			
	<i>Anloga</i>	<i>Wassa</i>	<i>Ejura</i>	<i>Ruhengeri</i>	<i>Butare</i>	<i>Gitarama</i>	<i>Madzu</i>	<i>Luma- kanda</i>	<i>Kianjogu</i>	<i>Mweiga</i>
<i>All parcels</i>										
Limited transfer	52.4	6.0	21.0	15.5	36.7	21.1	26.2	9.9	23.6	53.0
Preferential transfer	2.1	29.1	6.6	3.1	16.5	21.3	6.3	14.5	67.9	10.0
Complete transfer	45.4	64.9	72.4	81.5	46.7	57.6	67.5	75.6	8.5	37.0
<i>Permanently held parcels</i>										
No right to sell	23.3	29.7	17.5	2.4	28.2	22.4	30.9	18.2	91.3	63.0
Right to sell with approval	14.0	55.6	73.5	19.7	37.3	10.6	39.0	51.2	4.9	4.0
Right to sell without approval	62.7	14.7	9.0	77.8	34.5	67.0	30.1	30.6	3.9	33.0

Source: Survey data.

The Case for Privatizing Land Rights

- Overuse — the “tragedy of the commons”
- Low investment/effort incentives
- Land is a key form of collateral in (formal) credit transactions
- Clear land ownership should create functioning market for land
- Inefficient private enforcement of rights

The Tragedy of the Commons

- Assumptions

- ↳ farmers have (low) opportunity cost, w

- ↳ as more farmers use land, average output declines

- No private property rights \Rightarrow over use to point where $AP = MC$

- Theoretical **efficient** solution: **privatize** land ownership

- ↳ landowner hires labour only to point where $MP = MC$

- ↳ remaining workers receive w

- ↳ no party is worse off, some are better off

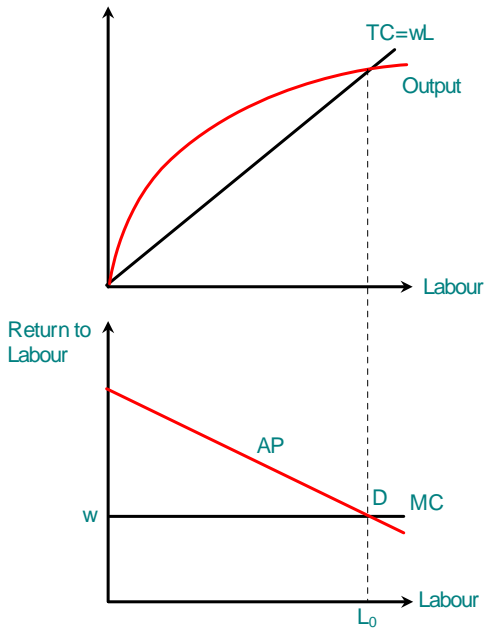


Figure: Tragedy of the Commons

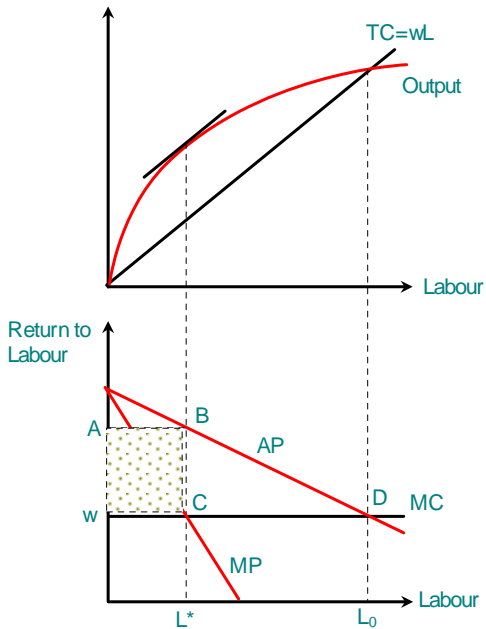


Figure: Tragedy of the Commons

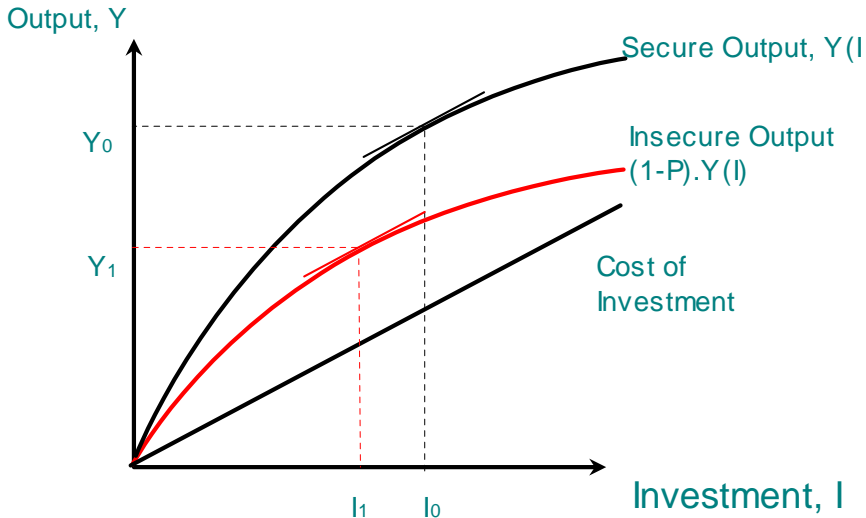


Figure: Investment Disincentives due to Lack of Security

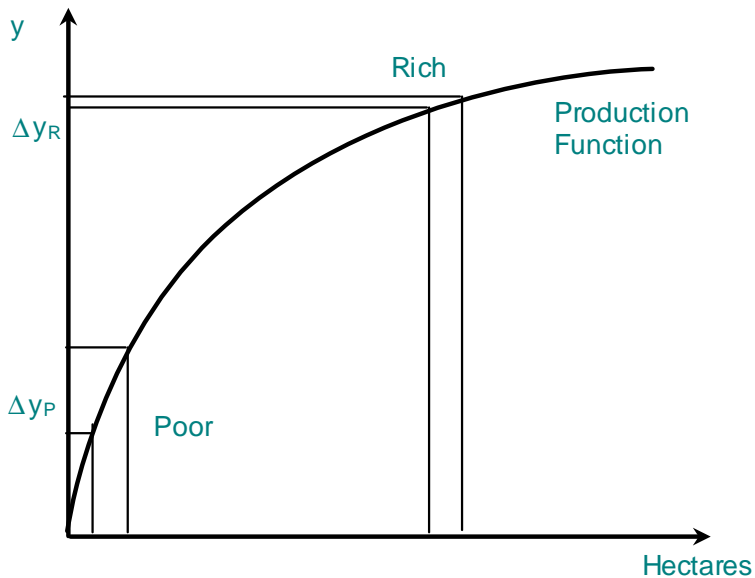


Figure: Gains from Trade in Land Markets

Case Study: The Economics of Land Titling in Thailand

- Comparison of performance on titled land vs. *neighbouring* untitled (squatter) land

Province	Titled/Untitled Price Ratio	Impact on Investment	Impact on Output
Nakho Ratchasima	2.96	105%	12%
Khon Kaen	2.08	253%	27%
Chaiyaphum	1.53	56%	—
Lop-Buri	1.22	4.4%	4.5%

- ↳ Lop-Buri has developed informal credit sector
- ↳ in other provinces: low access to formal credit for untitled farmers
- ↳ farmers perceived benefit of land titling is improved access to credit

- Conclusion: benefits of titling outweigh the costs

Case Against Full Land Privatization

- Formal titling programs are often very costly and uncertain
- Efficient land market transactions may still not occur
- Concentration of land ownership
- Benefits of tenure security may be achieved without full privatization
- Effective indigenous (informal) communal tenure systems may exist

Tenure security without full privatization

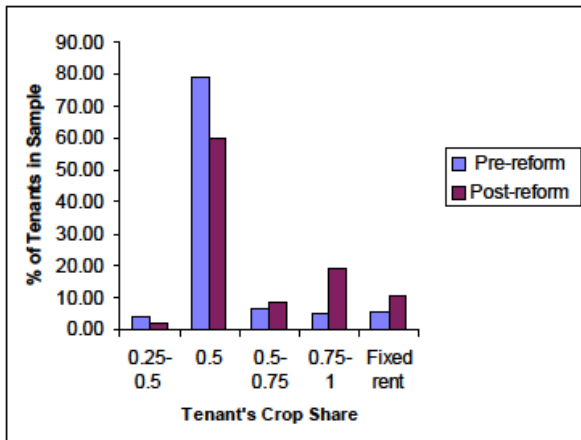
- **Example 1:** China

- ↳ shift from collectivized farming to “household responsibility system”
- ↳ gave 15-year lease rights and made individuals the residual claimants
- ↳ more recent move to 30-year leases increased investment further

- **Example 2:** “Operation Barga” in West Bengal, India

- ↳ gave tenants permanent/inheritable tenure on land they sharecropped
- ↳ significant improvement in tenants’ contracts and more secure tenure
- ↳ 1979–1993 rice yields rose by 69% compared to 44% in Bangladesh
- ⇒ controlling for other factors, policy change accounted for 29% of growth

Figure 3: Crop share of tenants before and after the reform



Example: Indigenous Land Rights Systems in Sub-Saharan Africa

Survey from Ghana, Kenya and Rwanda

- No relationship between land rights and use of formal credit.
- No relationship between land rights and land improvement
 - ↳ bequeathability more important
- No relationship between land rights and plot yields
- No relationship between land rights and land transactions
- Conclusion:
 - ↳ Large-scale titling programs are not worthwhile

Overall Conclusions

- “One size does not fit all”: right approach depends on context
- The benefits of land titling programs highest where
 - ↳ land markets are already active, but disputes are common
 - ↳ access to credit depends on having land
- Long term leases and restrictions on eviction most beneficial where
 - ↳ access to credit does not depend on ownership
 - ↳ land markets are likely to result in land concentration and landlessness
- If indigenous land rights are strong and population/commercial pressures are low, the benefits of formal rights may be small
 - ↳ enhance existing institutions
 - ↳ focus resources on other problems

Redistributive Land Reform

- Is land inequality compatible with productive efficiency?
- Empirical studies find an inverse relationship between farm size and productivity (yield per acre)

small family farms > large farms using labour intensive methods > share-cropped land

- Why?
 - ↳ not due to “total factor productivity” (small farms use more inputs/acre)
 - ↳ due to efficiency losses — family vs. hired labour

- Why doesn't the market clear to achieve Pareto efficient outcome?
 - ↳ limited access to credit for small farmer
 - ↳ lack of a rental market
 - ↳ no land tenure/security
 - ↳ lack of transferability rights.
 - ⇒ pressure for **redistributive land reform**

- BUT only a few attempts have been successful — why?

Case study: Land reform in South Korea (Ray, p. 458)

- 1949 Land Reform Act

- ↳ Japanese-owned land transferred to tenants for 20% of annual output for 15 years.
- ↳ Domestically-owned/rented land sold to tenants.
 - ▶ Landlords got $1.5 \times$ annual output.
 - ▶ Tenants paid 30% annual output over 5 years.
- ↳ Direct sales encouraged due to anticipated fall in land values

- Results

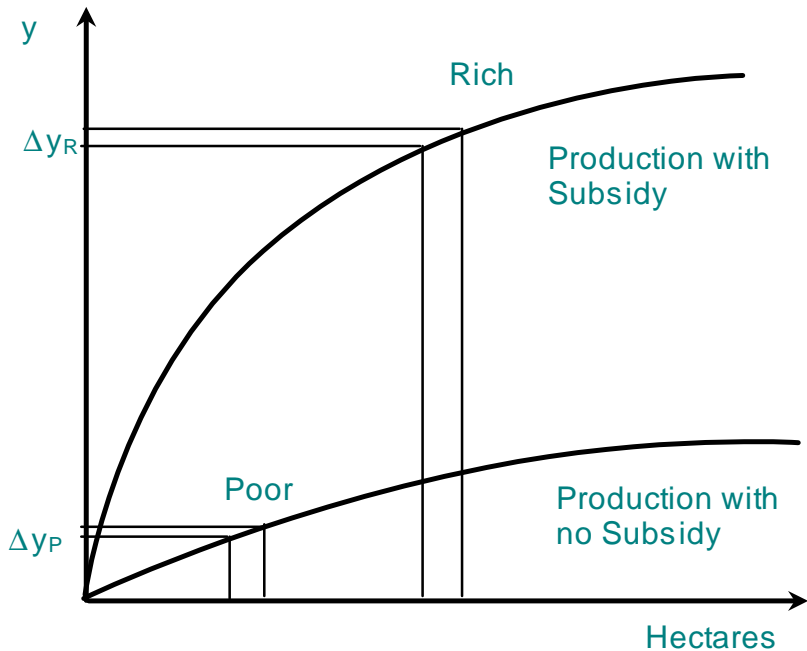
- ↳ 1945–1960: 1/2 the land transferred to 2/3 of the population
- ↳ value added in agriculture grew at 4% per year for next 8 years

- Success due to:

- ↳ reduced political clout of initial landowners
- ↳ operational size distribution remained intact.

Case study: Land reform in Columbia

- Law 200 (1936) — threatened to expropriate unless minimum productivity level achieved
 - ↳ raised productivity of larger farms a little
 - ↳ widespread eviction of tenants
 - ↳ increased land concentration
 - ↳ contributed to 1948–57 Civil War
- Law 135 (1958) — adopt subsidized modern techniques or have land expropriated with compensation
 - ↳ undermined by “rent seeking” — subsidies went to larger landowners
 - ↳ productivity of large farms increased making compensation non-viable
⇒ distortion
 - ↳ land concentration increased further



- Rural Development (since mid-1970s)
 - ↳ modernization of small farms through extension of research and credit.
 - ↳ supported by the larger landlords
 - ↳ some gains to smaller farmers.
 - ↳ BUT still a huge landless class

- Community-Based Land Reform (since mid-1990s)

Alternative Mechanisms to Land Reform

- Land Banks — provide loan financing at commercial rates for small farmers to buy land
 - ↳ widespread default due to lack of information about borrowers and lack of enforcement

- Frontier Settlement — transfer individuals from congested areas to remote areas where land is cheap
 - ↳ high admin costs
 - ↳ environmental problems
 - ↳ reinforced unequal land ownership patterns
 - ↳ e.g. Brazilian rainforest disaster in Rhondonia

- “Community-based” approaches of land reform
 - ↳ Brazil, Colombia, Guatemala, the Philippines and South Africa
 - ↳ limited grants to poor farmers to buy land, plus technical assistance
 - ↳ NGOs and local community develop, administer and finance projects

- Advantages:
 - ↳ upper limit on grants – incentive to seek and improve run-down farms
 - ↳ stimulates landmarkets
 - ↳ confrontation less likely than with land redistribution
 - ↳ partially overcomes informational asymmetries about riskiness of farmers faced by land banks