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# Are land reforms granting complete property rights politically risky? Electoral outcomes of Mexico's certification program<sup>☆</sup>

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## ABSTRACT

What is the impact on voting behavior of strengthening property rights over agricultural land? To answer this question, we use the 14-year nationwide rollout of Mexico's land certification program (Procede) and match affected communities (ejidos) before and after the change in property rights with voting outcomes in corresponding electoral sections across six federal election cycles. We find that, in accordance with the investor class theory, granting complete property rights induced a conservative shift toward the pro-market party equal to 6.8 percent of its average share of votes over the period. This shift was strongest where vested interests created larger expected benefits from market-oriented policies as opposed to public-transfer policies. We also find that beneficiaries failed to reciprocate through votes for the benefactor party. We conclude that, in the Mexican experience, engaging in a land reform that strengthened individual property rights over agricultural land was politically advantageous for the right-wing party.

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## 1. Introduction

It is well recognized in economics that complete property rights are the cornerstone of efficient land use (Demsetz, 1967; Goldstein and Udry, 2008; Platteau, 2000).<sup>1</sup> A large literature on land reform has shown the importance for agricultural growth and rural welfare of property rights that offer security of access to land and incentives to invest in agriculture (Deininger et al., 2004). In spite of this, it is surprising to observe that property rights over agricultural land remain so pervasively incomplete. Land reform programs that ambitiously redistributed land and altered property rights frequently granted incomplete property rights to beneficiaries (Albertus, 2010). And incomplete property rights, once assigned, are rarely subsequently transformed into complete rights (Albertus and Menaldo, 2010). This creates a major puzzle in the field of land reform. Why is land reform so vastly ill-used as a policy instrument

in spite of its well-recognized potential to generate efficiency and welfare gains (Lipton, 2009)?

The political economy literature addressing this puzzle has identified adverse political fallouts as the main reason why incomplete property rights remain (Acemoglu and Robinson, 2001; Montgomery, 1984; Warriner, 1969).<sup>2</sup> Yet, this proposition has not been submitted to rigorous hypothesis testing, and the channels through which this happens have not been empirically validated. Rarely do we have the possibility of identifying a causal relationship between property rights and electoral behavior. This is an opportunity offered by using as a natural experiment the 1992 Mexican land reform that provided certificates of ownership to individuals who previously had access to land but faced a variety of property right limitations. In the Mexican case, incomplete property rights granted by the first phase of land reform gave beneficiaries usufruct of a plot for individual use and access rights to lands held in common property. In both cases, land could not be sold, rented, or collateralized, and access could be arbitrarily revoked for individuals. Property rights were incomplete because they did not give beneficiaries full rights to extract,

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<sup>1</sup> In the context of international economic development, De Soto (2000) emphasized the role of formal property rights over assets in helping the poor gain access to credit with the limited wealth they control, although Galiani and Schargrodsky (2010) as well as Field and Torero (2006) do not find supporting evidence for this.

<sup>2</sup> Recently, Fergusson (2013) has provided an alternative explanation: Politically powerful landowners choose weak property rights for small landowners to impoverish them and force them to work for low wages. Although possible in other contexts, in Mexico this was not the case as the large rural landed elites were against the original land reform because of the expropriations it entailed for them.

manage, transfer, and alienate as would be expected under full property rights (Ostrom, 1990).

In Mexico, the autocratic government that emerged from the 1910 revolution implemented over the 1914–1992 period a sweeping land reform that assigned land under highly incomplete property rights to 3.5 million rural households over more than half of the country's territory. While successful in its land redistribution objective, this form of property rights increasingly led to agricultural stagnation and extensive rural poverty. In 1992, in the face of imminent economic competition with food imports due to NAFTA, the Constitution was amended to bring land redistribution to an end and initiate a transition to complete property rights for already awarded land. This was implemented under a certification program, *Procede* (Program for the Certification of Ejido Rights and Titling of Urban Plots), that was rolled out over a 14-year period between 1993 and 2006. The national rollout gives us a credible identification strategy to measure the changes in electoral behavior induced by the change in property rights, provided the timing of certification is uncorrelated with pre-program changes in voting patterns. Crucially, our estimates refer specifically to the effect of strengthening property rights and are not confounded with effects due to changes in access to land.

For the empirical analysis, we use the extensive administrative data from the certification program, matched with electoral outcomes over six successive elections for Federal Congress held every three years before and after the certification process.

Two bodies of theory have been proposed to explain changes in voting behavior derived from shifts in property rights regimes. The first is the investor class or vested interest theory which argues that acquiring ownership of productive assets induces a shift to the right because asset-owning individuals prefer politicians that are more pro-market, championing low taxes on capital and labor income and relying less on state intervention (Nadler, 2000; Richardson, 2010). A logical implication of this theory is that the shift to the right should be greater the larger the value of the asset acquired and the more its use value is determined by market forces as opposed to state interventions (Crano, 1997). Duca and Saving (2008) provide support for this theory by showing that stock ownership induced middle-income Americans to support pro-capital politicians. Earle et al. (1997) argue that privatizations that extensively distributed assets contributed to the election of a conservative prime minister and of a center-right pro-free market party in the Czech Republic. Biais and Perotti (2002) and Jones et al. (1999) note that politicians can underprice assets during privatizations to induce support for their policies. While reviewing this literature, Kaustia and Torstila (2008) note that well-identified causal analyses of this regularity are still largely missing. An exception is Di Tella et al. (2007), who analyzed a natural experiment in Argentina where some squatters received titles on invaded lands while others did not. They find that those with property rights acquired beliefs supportive of free markets, such as becoming more materialistic, individualistic, meritocratic, and trustful. In this paper, we expand on this body of work by providing evidence for agricultural land-owners instead of financial asset/urban land owners, and by analyzing actual voting behavior instead of beliefs.

The second body of work predicting changes in voting behavior after a property rights reform is known as distributive politics theory. It argues that political parties offer material incentives to individuals who reciprocate with their votes (Dixit and Londregan, 1996). Transfers can be awarded before the election (Stokes, 2009) or ex-post, when politicians allocate transfers to reward loyalty (Cox and McCubbins, 1986; Verdier and Snyder, 2002). In both cases, transfers are expected to induce voter reciprocity through electoral support. Recently, Finan and Schechter (2012) have highlighted the role that reciprocity plays in voters' decision making.

When compared to other directed benefits, distributive politics theory argues that voter support is easier to elicit under a recurring short-term private benefit with threat of non-renewal, for example jobs, fertilizer subsidies, or loans. This literature suggests that an irreversible benefit

such as a certificate of ownership is less likely to elicit voter response. In support of this difference, a study of voters' responses to benefits from development programs in West Bengal by Bardhan et al. (2008) finds that there was strong response to short-term benefit programs but not to infrastructure benefits nor to more substantial one-time benefits such as receiving a land title.

Our results show that granting certificates of land ownership occurred at considerable political cost for the ruling pro-state party, with beneficiaries swinging to the right in support of the competing pro-market party. Certification induced a shift in favor of the right wing party by 1.5 percentage points, or 6.8% of the average vote share of 21.4% over the whole period. We also show that the shift to the right was stronger in regions with more valuable land, consistent with the idea that the shift to the right is increasing in the value of the asset. Finally, we find no evidence of beneficiaries reciprocating with votes for the party that awarded the certificate.

Our results are consistent with the political science literature which argues that a carefully crafted political equilibrium that had kept the ruling party in power for over seventy years (Diaz-Cayeros et al., 2003) was based to a significant extent on electoral support from the large peasant population that was dependent on state support to link to the market and delivered votes in reciprocity. The closing down of parastatals and development banks servicing the ejido sector as a consequence of the fiscal adjustment of the late 1980s broke down that dosed support political equilibrium and was followed by the gradual implementation of the complete property rights reform we study.

We draw from the analysis the generic lesson that it is difficult for an incumbent party that is not to the right of the political spectrum to benefit politically from property rights reform. This result has ominous implications for left-leaning governments that may be tempted to engage in property rights reforms in search of efficiency gains but for whom the political consequences may be negative.

We interpret the result as identifying a clear shift to the right as individual property rights were strengthened. However, this should not be interpreted as the only reason why limited property rights may be consciously adopted. An alternative non-political hypothesis contributing to the choice of an incomplete property rights regime is that governments may seek to limit rural–urban migration by tying labor to the land. We explore this hypothesis in another paper (de Janvry et al., 2013), but note that although certification can have a migration response, for our current purposes we only require that changes in political preferences and migration be uncorrelated. We provide supporting evidence for this in the robustness checks section.

In what follows, we retrace in Section 2 the history of land reform in Mexico and describe the certification program. In Section 3, we explain how the data were constructed, and analyze the rollout of *Procede* in Section 4. We then present results in Section 5. Section 6 verifies that the shift in voting behavior was not due to selection associated with migration and presents tests supporting the validity of the identification strategy. Section 7 concludes.

## 2. Land reform in Mexico

Like most of Latin America, the Mexican land reform initially granted access to land under decidedly incomplete property rights. In a second phase, it transformed incomplete into complete property rights, permitting an analysis of the political response to the regime shift.

### 2.1. The first land reform (1914)

Access to land in Mexico was constructed over a turbulent and often violent series of events. Under the colonial regime, land was grabbed from the native indigenous communities by an elite that concentrated the land in large estates. While agriculture was booming at

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