

# Authoritarian Survival and Poverty Traps: Land Reform in Mexico

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**Summary.** — Why do governments in underdeveloped countries pursue policies that undercut long-term economic growth? Focusing on Mexico's massive but inefficient land reform, we argue that governments do so to underpin political survival. Using a panel dataset of Mexican states from 1917 to 1992, we find that land distribution was higher during election years and where the threat of rural unrest was greater. Furthermore, PRI support eroded more slowly in states receiving more reform. The program, which carried restrictive property rights, thus served the PRI regime's electoral interests. But while land distribution generated a loyal political clientele, it generated steep costs – lower long-term economic growth.

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## 1. INTRODUCTION

A general conundrum of government in underdeveloped countries is why political officials pursue policies that undermine long-term economic growth. Governing coalitions in these countries create monopolies and limit economic entry to create rents for favored constituents that distort prices and prevent competitive markets (North, Wallis, & Weingast, 2009); create overvalued currencies, allowing the government to allocate scarce foreign exchange to valued constituents or forcing utilities to provide electrical and water service at non-remunerative prices (Easterly, 2004); inflate pay for government employees, teachers, and the military in a way that causes budget deficits and reduces future revenue (Bueno de Mesquita, Smith, Siverson, & Morrow, 2003); and impose financial market regulations that prevent these markets from financing enterprise creation (Rajan & Zingales, 2003).

We address this puzzle in the context of a specific, historically prominent instance: land reform in Mexico. The puzzle is twofold. First, why did land reform in Mexico fail to spur long-term economic growth? Land redistribution in many countries – such as Japan, South Korea, and Taiwan – has catalyzed growth by creating greater equality of holdings (Alesina & Rodrik, 1994; Lipton, 2009). Second, why did Mexico's land reform have such peculiar properties? Mexico's land reform withheld property titles and created inefficient communal property rights subject to myriad restrictions, including the prohibition of renting, selling, and using land as collateral for loans (de Janvry, Gonzalez-Navarro, & Sadoulet, 2014). Exacerbated by the underprovision of credit and inputs, land reform ultimately trapped peasants into dependence on the state, rather than becoming a major factor underpinning long-term economic development.

Most of the literature emphasizes that Mexico's land redistribution implied a tension between economic growth (capitalist accumulation) and redistribution (social justice) in the countryside. The literature typically attributes the shortcomings of land reform to the failure to make equity and redistribution the overriding policy concern (e.g., Bartra, 1993; Ibarra Mendivil, 1989; Warman, 1972). More recent accounts by economists and policymakers stress the perversity of collective ownership within the *ejido*, or communal farm (e.g.,

Muñoz-Piña, de Janvry, & Sadoulet, 2003). The literature in political science, history, and sociology suggests that land reform was either employed as an instrument of peasant control or regime “legitimation” (e.g., Esteva, 1980; Warman, 1972).

We build on these works, focusing on why the governing Institutional Revolutionary Party (PRI) structured property rights in an inefficient manner. Mexico specialists have long argued that the PRI used its control of land to sustain its patronage networks (e.g., Eckstein, 1968; Sanderson, 1986; Silva Herzog, 1959; Simpson, 1937). Given that the PRI used many other policies to shore up election prospects rather than accomplish their ostensible rationales (Beer, 2003; Fox, 1994; Hiskey & Bowler, 2005), scholars agree that land tenure arrangements in Mexico were inefficient.

This article provides the most comprehensive examination to date of the interplay of land reform, development outcomes, and the perpetuation of the PRI in office. Building upon previous scholarship (e.g., Gates, 1993; Hansen, 1971), we leverage new data to help bring more specificity and nuance to the Mexican case while connecting it more broadly to the study of autocratic regime survival. To understand the structure and consequences of Mexico's land reform program, we model underdevelopment as a function of political survival (e.g., Acemoglu & Robinson, 2006; Ames, 1987; Migdal, 1988). Electoral imperatives and the mobilization of peasants as voters in local and national elections were foundational to the PRI's rule.<sup>1</sup> We argue, contrary to the substantial literature that emphasized the threats and dangers of commercial agriculture, that the lack of markets in the agrarian sector – in particular the absence of credit and land markets – was an essential element of political control used by the PRI to make peasants dependent on the regime by denying them access to independent sources of income.<sup>2</sup> Notwithstanding a programmatic vision grounded in social justice emerging from the Revolution, the PRI leveraged land distribution policies to generate political dependence rather than to empower peasants and enhance their ability to escape poverty via increased agricultural productivity.

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Given that the origins of the *ejido* pre-date the PRI, we do not contend that the PRI initially planned the *ejido* as an institution to create dependence on the state. The *ejido* itself stemmed from the model of indigenous rural communities prior to the *Ley Lerdo* and disentanglement with an eye toward self-government, local autonomy, egalitarianism, and inalienable access to land to protect against market or other forms of dispossession (Kouri, 2015) – with the major departure that the state rather than local communities would be vested with protecting these rights. Despite considerable struggles over the form it would take during and after the revolution, no alternatives were seriously pursued after the early 1920s. Nonetheless, the *ejido* underwent key changes, such as Cárdenas’ shift from distributing land as individual plots to each *ejido* member to collectively distributing land to *ejidos* as a whole (Otero, 1989, p. 283).<sup>3</sup> Throughout most of the PRI’s tenure and in particular since the end of Cárdenas’ rule in 1940, the PRI took advantage of the initial land reform design and the critical role of the state to starve the *ejido* sector of the complements it needed to thrive, thereby enabling it to capture rural voters more easily.

To be sure, land distribution aided beneficiaries in the short term and provided an opportunity to remain in the agricultural sector rather than migrating to cities due to land scarcity. These reasons pushed peasants to continue to petition for *ejido* land from the regime for over 70 years. Yet land reform also carried substantial long-term costs for beneficiaries and for Mexico more broadly. Land recipients came to rely on a flow of federal financial resources and subsidies to survive (i.e., credit, insurance, seeds, and fertilizers). Receiving these subsidies required that the new landholders support those in power, locking peasants into supporting the regime. Furthermore, land reform depressed overall economic growth in the long term by encouraging subsequent generations to stay in the less dynamic rural sector, creating a property rights system that discouraged long-term incentives to invest and produce, and directing resources toward maintaining inefficiencies rather than cultivating self-reinforcing productivity.

We provide systematic empirical evidence for our claims, measuring the magnitude of the effects of land reform on both political support for the PRI and economic performance and probing the robustness of the results to both model specification and potential endogeneity. First, we estimate the electoral benefits of land redistribution. Our data analysis allows us to estimate two critical values: (i) the number of votes that land reform afforded the PRI; and (ii) the relative pay-off of this policy vis-à-vis promoting economic growth. In the short run, both growth and land distribution had similar effects on PRI support. But land reform had crucial advantages over growth: economic growth and modernization eroded support for the PRI over the long term, whereas land reform generated a loyal political clientele. Second, we show that the economic consequences of the land reform strategy had conflicting effects over time. Land distribution increased state-level economic growth in the short term, whereas the long-term effects of cumulative reform were negative, substantially lowering growth and producing economic stagnation. Finally, we analyze the temporal patterns in land distribution. The PRI distributed land as a function of two political variables: the electoral cycle and the likelihood of rural unrest. This pattern is hard to reconcile with alternative accounts that do not countenance a political objective.

The article is organized as follows. The next section discusses land reform policies in Mexico, fleshing out our theoretical argument. The following section provides empirical tests of our claims that land reform bolstered the PRI but hindered

long-term economic growth, and also investigates land distribution timing. The last section prior to the conclusion discusses land reform from a comparative perspective.

## 2. THE ECONOMIC AND POLITICAL LOGICS OF LAND REFORM

Many countries around the world have pursued land reform, and many of these are regarded as highly successful (Albertus, 2015; Lipton, 2009). Although the definition of “success” in land reform varies widely, one common benchmark is that reform allows peasants to escape from poverty. If peasants escape poverty, overall agricultural productivity should increase due to greater investment and a more intensive use of labor. This improvement, in turn, increases overall economic performance. By this standard, Mexico’s land reform has been at best only partly successful. From an economic standpoint, land distribution proved quite inefficient. Scholars broadly agree that Mexican agriculture experienced a steady decline at least since the 1960s (e.g., Lamartine Yates, 1981; Sanderson, 1986). As we show below, while land reform in Mexico resulted in a modest short-term boost in economic growth, it ultimately undercut long-term growth in the regions where it was most vigorously pursued.

### (a) Short-term effects of land reform

In many countries such as Taiwan, South Korea, and Japan, land reform has furthered both equity and efficiency goals. Land reform often benefits relatively poor peasants (Lipton, 2009), and cross-sectional evidence suggests that a more equitable distribution of land is growth enhancing (Alesina & Rodrik, 1994). Why should land reform contribute to economic growth? Alesina and Rodrik (1994) suggest that a relatively egalitarian distribution of land is critical for the mobilization of savings and investment that makes economic growth possible. Furthermore, land reform can contribute to agricultural growth given that, all things equal, small farms are often more productive than large farms (e.g., Berry & Cline, 1979; Deininger, 2003).

The short-term consequences of land reform in Mexico track well with the notion of a welfare boost for peasants and can largely be viewed through the lens of the inverse farm size–productivity relationship.<sup>4</sup> The well-established findings for this inverse relationship indicate that for a particular plot of land at a particular time, productivity should increase as the plot of land is divided into smaller subunits that are exploited directly by more owners or renters. The logic is straightforward: for smallholders to succeed in the agricultural sector, they must squeeze as much as they can out of their land. Smallholders are also more likely to use part of their land for family consumption, giving them strong and immediate incentives to produce. The value of a marginal hectare of land to a large landowner, by contrast, is much smaller. These landowners can better afford to fallow their land as well as to under-produce when land provides them other benefits: a social return (e.g., higher social status), a hedge against inflation, or simply a country retreat.

This suggests that land reform in Mexico should have boosted short-term economic growth as landless peasants, sharecroppers, and rural wage-laborers came to own land and capture the full marginal product of their labor. It also should have yielded unambiguous support for the PRI among peasants. Upon Porfirio Díaz’s fall in 1911, some 11,000 haciendas held 57% of the national territory (Thiesenhusen,

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