



Long-run impacts of land regulation: Evidence from tenancy reform in India[☆]



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ABSTRACT

Agricultural tenancy reforms have been widely enacted, but evidence on their long-run impact remains limited. In this paper, we provide such evidence by exploiting the quasi-random assignment of linguistically similar areas to different South Indian states that subsequently varied in tenancy regulation policies. Given imperfect credit markets, the impact of tenancy reform should vary by household wealth status, allowing us to exploit historic caste-based variation in landownership. Thirty years after the reforms, land inequality is lower in areas that saw greater intensity of tenancy reform, but the impact differs across caste groups. Tenancy reforms increase own cultivation among middle-caste households, but render low-caste households more likely to work as daily agricultural laborers. At the same time, agricultural wages increase. These results are consistent with tenancy regulations increasing land sales to relatively richer and more productive middle-caste tenants, but reducing land access for poorer low-caste tenants.

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1. Introduction

The institutional arrangements that shape access to land are central to the functioning of an agricultural economy and have a first-order impact on aggregate poverty. In much of the rural developing world, colonial policies reshaped these relationships, increasing inequality in land ownership and rendering tenurial arrangements more insecure (Binswanger et al., 1995). In conjunction with imperfections in other key markets (e.g., the market for credit), historic inequalities in land ownership remain a significant constraint on long-run economic growth and the transfer of land towards higher return uses.¹ This fact, together with the political salience of the rural sector, has driven significant land reform in much of the developing world during the post-

colonial era — and a prominent goal has increased tenurial security for farmers who do not own land.

However, there is little solid empirical evidence of the long-run impact of tenancy reforms, and limited understanding of whether economic actors use land markets to reduce or amplify the intended impact of these regulations. Using a unique natural experiment in India, this paper provides this evidence in the context of tenancy reforms. India has a long history of state-level land reform (Appu, 1996), and we employ village- and household-level data collected in 2002 to trace the impact of land reforms that unfolded in four Southern Indian states (Andhra Pradesh, Karnataka, Kerala and Tamil Nadu) between roughly 1940 and 1970.

We have three key findings. First, in the long run, tenancy reform continues to reduce within-village land inequality, predominantly by enabling the transfer of land from upper-caste landowners to middle-caste tenants. Second, landlessness among the historically disadvantaged scheduled caste and scheduled tribe (SC/ST) households increases. Third, agricultural wages rise after tenancy reform.

These findings are consistent with a model in which large landlords rely on tenants for agricultural production but farmer effort is non-contractible. Tenancy reforms unambiguously lower landlord returns from land rental; thus it is logical to expect less use of tenancy and more land sales, particularly to those with access to the credit market. This will lead, in turn, to a change in the distribution of land ownership. Whether the agricultural wage rises or falls with tenancy reform depends on whether the marginal owner–cultivator is more or less productive than the marginal tenant which, in turn, depends on the

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¹ See for example Acemoglu, Johnson & Robinson 2001, Banerjee and Iyer (2005), and Pande and Udry (2006). Banerjee (2003) provides an overview of the importance of credit market imperfections in development.

technology which a landlord has for extracting surplus from tenants. Tracing through these equilibrium effects complicates the overall welfare impact. Cultivators who remain as tenants will gain, but marginal tenants will lose out as they become landless laborers. However, their opportunities in the labor market should improve. These are the predictions that we bring to the data.

Our empirical analysis exploits the 1956 reorganization of state boundaries, designed to transform the administrative units inherited from the British colonial government into linguistically coherent states. The reorganization generally allocated sub-district units called blocks to states on the basis of linguistic composition. However, the requirement that states possess a contiguous territory sometimes led to very similar blocks being assigned to different states. These blocks were analogous both in historical experience and caste structure – two factors which, as we describe in Section 2, were significant determinants of landownership patterns – but subsequently experienced significantly different programs of land reform. We seek to exploit this variation in land reform intensity within matched block-pairs.

To do so, we identified six pairs of adjacent border districts for the four states of interest. Within each pair we matched blocks across districts and, therefore, across state boundaries, using a linguistic index based on census data on the population proportion speaking each one of the 18 languages reported spoken in the region. In 2002, we conducted household surveys in a random sample of 259 villages in the 18 best matched blocks; these villages were also linked to data in the 1951 census prior to the state reorganization.

Our analysis, therefore, exploits variations in land reform across block-pairs matched on linguistic characteristics. We provide evidence consistent with the assumption that the assignment of different blocks to different states along the border is quasi-random conditional on observable characteristics. In addition, we interact variations in land reform with households' presumed land ownership prior to the reform, proxied by their caste status. This interaction both tests the key theoretical predictions about the differential impact of land reform on households with different baseline characteristics, and allows for the estimation of a causal effect of land reform under the weaker identification assumption of no systematic variation in between-caste group differences across state borders.

Our findings contribute to a large literature on institutional persistence (Acemoglu et al., 2001; Banerjee and Iyer, 2005). While the relationship between institutional patterns and economic outcomes has been widely analyzed, the focus on aggregate outcomes makes it challenging to explore specific mechanisms through which the two are linked. Detailed household survey data allows us to examine changes in household landholdings and labor market behavior that are generated by reforms.

Our paper also employs an innovative empirical strategy. While several recent papers have exploited the random assignment of borders for institutional variation (Michalopoulos and Papaioannou, 2011), sampling blocks that are linguistically similar but not immediately geographically adjacent allows us to use an innovative empirical strategy to address the concern raised by Bubb (2011) that there is little de facto variation in property rights across state borders, even if there is de jure variation.

This paper is organized as follows. Section 2 provides a background on tenancy reform, a brief review of the literature on the economic impact of land reform, and a description of the natural experiment. Section 3 presents a theoretical framework used to generate predictions about tenancy reform. Section 4 introduces the data and discusses the empirical strategy. Section 5 provides the empirical results, and Section 6 concludes.

2. Background

This section provides relevant historical background, including an overview of the history of land reform in India and existing evidence about its effectiveness. We also describe the language-based state reorganization policy exploited by our identification strategy.

2.1. Land relations in India

The social and economic structures of rural India are intrinsically tied to the caste system. Hindus, who make up over 80% of India's population, are born into castes, endogamous groups defined by closed marriage and kinship circles. Historically, the caste system also defined household occupation, with landownership restricted among lower castes. At Independence, India's large landowners were typically drawn from the upper castes, and there were two primary categories of tenants.

First, occupancy tenants enjoyed permanent heritable rights on land and relative security of tenure, and could claim compensation from landlords for any improvement on the land. These households were typically drawn from the middle and lower castes (often grouped as Other Backward Castes or OBCs). Second, tenants at will lacked security of tenure and could be evicted at the will of the landlord. They were largely drawn from the lowest castes and tribal households (grouped as Scheduled Castes and Tribes or SC/ST).

Quantitative and qualitative evidence from India's early post-independence period emphasized that lower castes were largely landless laborers, servants, or tenants for the upper castes: e.g., in Tamil Nadu, 59% of the members of one upper caste were reported to be either landlords or rich peasants, while only 4% of the untouchable caste were landlords (Sharma, 1984; Srinivas, 1966). This translated into widespread landlessness – by 1956, estimates suggest that roughly one in every three rural household was landless, with the prevalence much higher among lower castes (Kumar, 1962; Shah, 2004).

At independence, the Constitution declared land reform to be a state subject, and state-level legislation followed rapidly. This wave of legislative activity included several major initiatives: the abolition of intermediaries, the imposition of land ceilings, and tenancy reforms. The first class of reforms abolished the zamindari system under which landlords were responsible for tax payments on behalf of their tenants, instead moving tenants to a regime of direct taxation by the state. These reforms afforded relatively few immediate benefits, and even worse, often led to large-scale ejecting of “tenants-at-will, undertenants and sharecroppers” since the laws abolishing zamindari allowed for retention of land for personal cultivation (Appu, 1996).

Ceiling reforms, by contrast, sought to place a limit on legal landholdings but were weakened by provisions that set a high ceiling, established multiple exceptions to the stated limit on landholdings, and offered no clear process to identify and proceed against holders of surplus land (Radhakrishnan, 1990; Rajan, 1986).² Moreover, redistributed land was often in small plots and of poor quality, requiring substantial (and likely unaffordable) investments prior to cultivation (Herring, 1991).

The final set of reforms – tenancy reforms that regulated relationships between tenants and landlords or, in some cases, rendered tenancy illegal – is widely identified as the best implemented form of legislation, characterized by more limited manipulation and fewer administrative bottlenecks (Eashvariah, 1985; Herring, 1991). However, even in this case, several authors note that larger tenants were the primary beneficiaries of tenancy provisions and differential eviction of informal tenants was common (Appu, 1996).

The historical literature has elaborated extensively on the challenges encountered in implementing tenancy reform. Eashvariah (1985) in his analysis of Andhra Pradesh argues that the 1950 tenancy reform in effect created two classes of tenants, since those who were already evicted to avoid previous reforms were not reinstated and remained landless. Similarly, Pani (1983) argues that the implementation of land reform in Karnataka led to a large number of former tenants becoming agricultural laborers. Das (2000) contends that land reform

² Mearns (1999) also argues that ceiling reforms achieved little because of the prevalence of loopholes and the bribing of record keepers or falsification of land records; see also Bandyopadhyay (1986) and Herring (1970).

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