



# The ‘credibility thesis’ and its application to property rights: (In)Secure land tenure, conflict and social welfare in China<sup>☆</sup>



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## ABSTRACT

Debates over tenure insecurity have been divided between those favoring private, marketable, and formalized property rights versus champions of grassroots' customary and communal arrangements. By positing the “credibility thesis”, this article argues that it might be more insightful to move beyond concepts of formal and informal, private and common, or secure and insecure institutions, to leave the discussion about institutional form for a discussion about function. The notion of credibility does so by drawing attention to institutional function over time and space rather than to a desired form postulated by theory or political conviction. Apart from furthering the theoretical foundations on credibility and institutional functionalism, this article aims to develop its methodology and empirical study by taking China as a case study, with particular reference to its rural land-lease system, which is perceived to be highly insecure due to forced evictions and government intervention. Paradoxically, the study finds significant social support for the rural land-lease system and a low level of conflict. These findings might indicate that the form of the Chinese rural lease system (insecure tenure) is the outcome of its present function (provision of social welfare). Simultaneously, it was also found that when conflict does occur expropriation is a prime cause for it.

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## Introduction: the credibility thesis

According to those adhering to principles of the neo-liberal “property rights school” – or neo-classical position, for that matter – tenure insecurity and “fuzzy property rights” will only lead to market inefficiencies, rent dissipation, and economic instability (see e.g., Dorner, 1972; Johnson, 1973). China's emerging economy might be a case in point. Despite its double-digit economic growth over the past decades, it has become clear that Chinese capitalist development also comes at a price: the eviction of farmers from their land without adequate financial compensation, housing, and alternative employment (Guo, 2001; Ho, 2010; Yu et al., 2006). As the value of rural land is significantly lower than that of urban land, there is a strong incentive for local authorities to strike illicit deals with real estate developers. The forced evictions have led to the resurfacing of one of the central government's specters from the

revolutionary past – landless peasants (Li and Bruce, 2005). For this reason, the rise of forced evictions is regarded as an issue of serious concern (Guo, 2001; Cai, 2003; Deininger and Jin, 2009).<sup>1</sup> It has also led neo-liberal economists and development practitioners to argue that China has arrived at a crossroads. Providing more secure tenure through titling has become imperative if the nation wants to sustain economic growth (Palomar, 2002; Liu and Han, 2006; Zhang, 2002).

Yet a word of warning is appropriate as the picture is far more complicated than the axioms of neo-liberal economics maintain. For one, *insecure* property rights are not tantamount to socially contested or *non-credible* property rights. Tenure security and formal title might rally social support in some cases; yet exactly the same thing could be said for insecure and informal property rights. Against this backdrop, this article posits that what ultimately determines the performance of institutions is not their *form* in terms of formality, privatization, or security, but their spatially

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<sup>1</sup> In a remarkable speech (delivered at the Chinese Communist Party Central Rural Work Meeting on 29 December 2005), former Chinese premier Wen Jiabao issued a sharp warning that the land question urgently needs solving. He stated that the “reckless occupation” of farmland “creates large numbers of landless farmers and presents a grave problem for the sustainable development of the countryside and the whole economy and society” (Wen Jiabao cited in NRC, 2006).

and temporally defined *function*. In different wording, institutional *function presides over form*; the former can be expressed by its credibility, that is, the perceived social support at a given time and space. This postulate has here been dubbed the “credibility thesis”.

To substantiate the argument in an empirical sense, the article zooms in on the Chinese case, with particular reference to its rural land-lease system, or the Household Contract Responsibility System (*jiating chengbao zerenzhi*) as it is officially termed. The potential theoretical ramifications of its empirical reality should not be neglected as the rural land-lease system<sup>2</sup> is a crucial institution in China's development: (1) it provided a sustained source of livelihood for the rural populace<sup>3</sup>; (2) it allowed for the gradual transfer of the agricultural surplus labor to other sectors of the economy – over 1979–2011 steadily decreasing from approximately 80 to 49% (FAO, 2006; Shan, 2011); and last, (3) it served as a launching platform that enabled China's impressive industrialization<sup>4</sup> which was rooted – and throughout the 1990s continued to be rooted – in the rural sector.<sup>5</sup>

Detached from the popular awe and marvel that the emergence of the Chinese economy, rightly or wrongly, inspires among foreign observers, there might be several compelling scientific reasons why its study could be valuable for our understanding of property rights. For one, China's rural land-lease system is by neo-classical standards notoriously *insecure*, not only because of expropriations, but also due to land reallocations in response to demographic change. Paradoxically, as will be demonstrated with data from a nationwide survey among over 1100 farm households, the land reallocations have been, and still *are*, deemed credible by the majority of the Chinese rural populace. Apart from the introduction, this article is divided into four parts. It begins with a theoretical review of the concept of credibility. A brief explanation of the methodology of the survey used to study credibility, and the basic features of the survey sample, follow. The third section discusses the survey results and is followed by a concluding discussion of the survey's possible theoretical implications, while charting the various issues for future research on credibility.

## Rethinking form and function

### Why economically “perverse” institutions persist

In a purely neo-liberal, neo-classical economic view, institutional structure is seen as crucial for enabling new economic activities while minimizing transaction costs, that is, the costs for enforcement, contracting, and information. It is maintained that institutions ill-equipped to respond efficiently to shifting economic opportunities should or will evolve into new institutional arrangements due to the discipline of the market – for example,

the prospect of unexploited net gains will compel economic agents to push for new property rights structures that can accommodate changes in relative prices and technology.<sup>6</sup> For one thing, due to its informal feature, customary land tenure is generally regarded as irreconcilable with a modernized, industrialized economy that needs clearly titled assets with secure property rights to allow for efficient market transactions. Neo-liberal scholars will put forth the argument that the informality, communality, and fluidity of customary land-tenure arrangements are equal to tenure insecurity and will lead to market failure and inefficiencies (Dorner, 1972; Miceli et al., 2000). The principles of the neo-liberal school can be traced back to the writings of influential scholars (e.g., Coase, 1960; Alchian and Demsetz, 1973; Cheung, 1970; Gordon, 1954). Their writings legitimized privatized land ownership as the sole most efficient and secure institutional arrangement. Thus, in the restructuring of markets, secure private property should be among the ultimate objectives of development. Or, as Miceli et al. (2000, pp. 370 and 387) asserted: “One of the least controversial principles in the economics of land markets is the notion that the more clearly defined the property rights, the greater the land market efficiency. (...) Registration may be the preferred choice for developing countries that are in transition to market economies and private property systems.” The ambitions of national governments to establish private and secure property rights have justified numerous land titling projects undertaken by bilateral and multilateral aid agencies around the globe (e.g., World Bank, 1974; Johnson, 1973).

However, empirically speaking, the alleged relationship between institutional form (formal, secure, and private) vis-à-vis institutional performance (i.e., economic efficiency, stability, and growth) is less unequivocal, not in the least in a developing context.<sup>7</sup> Research in diverse developing environments has repeatedly shown that there are no straightforward relations between institutional form and performance (Sjaastad and Cousins, 2009). For instance, studies on African countries have demonstrated that formal title has had a negligible impact on investment and farm income (see, e.g., Atwood, 1990; Pinckney and Kimuyu, 1994). In another study on urban Ecuador, it was demonstrated that informal customary arrangements *can* function with significantly lower transaction costs than formal arrangements (Lanjouw and Levy, 1998), while recent research on Mexico has disproven a correlation between land value and formalization (Monkkonen, 2012).<sup>8</sup> Institutional formalization under conditions of high land dependency of the rural populace has frequently led to the creation of non-credible and “empty” rather than “credible” institutions.<sup>9</sup> In other words, the new institution remains a paper agreement or

<sup>2</sup> The rural land-lease system allows farmers to lease land (in Chinese this is euphemistically called “contracting land”) for a period of 30 years from the rural collective, which is divided into the natural village, the administrative village, and the township. However, the administrative village acts as lessor in the majority of the cases. The rural, agricultural land-lease system began in the late 1970s, and was, over time, extended to forest, grassland, fisheries, and wasteland. For more info see also Chapter 1 in Ho (2005). Lin (2009) also provides a very interesting and systematic discussion of the rural land-lease system (Chapter 6, pp. 148–165).

<sup>3</sup> As Peng writes: “Rural reforms since 1978 have allowed Chinese peasants to retain a larger share of agricultural surplus to be transferred into rural industries” (1995, p. 1). Lin (1999: p. 95) also noted that from 1978 to 1984, the rural land lease system was one of the main factors for the rapid agricultural development and the rise in farmers' income. He calculated that its highest contribution to the agricultural output value hit 46.89%.

<sup>4</sup> Svejnar and Woo maintain that the rapid development of the township and village enterprises is a direct consequence of the rural land-lease system (Svejnar and Woo, 1990).

<sup>5</sup> By the mid-1990s, the output value of the township and village enterprises alone accounted for approximately a quarter of China's GDP (Mukherjee and Zhang, 2007).

<sup>6</sup> Having said this, it needs to be noted that the crucial element in the neo-classical approach is competition and not property rights per se. Of course, because there is greater control over firm performance, neo-classical thought has a certain preference for private, decentralized property rights, but this is subordinate to the necessity for competition. For this reason, neo-classical thought has often neglected the debate on property rights and concentrated on the notion that, regardless of the allocation of property rights, they should at least be well defined (so responsibilities are clear and competition can be given full rein).

<sup>7</sup> As, for instance, Sjaastad and Bromley wrote in relation to informal, customary tenure: “the conventional propositions that indigenous tenure provides insufficient investment incentives, and at the same time leads to rent dissipation, are contradictory. Each may have some merit on its own, but both cannot hold at the same time. The very act of rent-dissipating capture is largely analogous to over-investment – in the extreme case, an investment which yields no direct returns but only more secure rights to land. (...) The key to understanding this is to see that many of the activities related to farming have a dual function – one that is productive and one that is tenurial” (Sjaastad and Bromley, 1997, pp. 549–562).

<sup>8</sup> As Monkkonen (2012, p. 271) wrote: “That more valuable land will have a higher rate of regularization – is rejected.”

<sup>9</sup> For a theoretical discussion of the terms “empty” versus “credible” institutions, see also Ho (2005).

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