



Property rights for the poor: Effects of land titling[☆]

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ABSTRACT

Secure property rights are considered a key determinant of economic development. The evaluation of the causal effects of property rights, however, is a difficult task as their allocation is typically endogenous. To overcome this identification problem, we exploit a natural experiment in the allocation of land titles. In 1981, squatters occupied a piece of land in a poor suburban area of Buenos Aires. In 1984, a law was passed expropriating the former owners' land to entitle the occupants. Some original owners accepted the government compensation, while others disputed the compensation payment in the slow Argentine courts. These different decisions by the former owners generated an exogenous allocation of property rights across squatters. Using data from two surveys performed in 2003 and 2007, we find that entitled families substantially increased housing investment, reduced household size, and enhanced the education of their children relative to the control group. These effects, however, did not take place through improvements in access to credit. Our results suggest that land titling can be an important tool for poverty reduction, albeit not through the shortcut of credit access, but through the slow channel of increased physical and human capital investment, which should help to reduce poverty in future generations.

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1. Introduction

The fragility of property rights is considered a crucial obstacle for economic development (North and Thomas, 1973; North, 1981; De Long and Shleifer, 1993; Acemoglu et al., 2001; Johnson et al., 2002; inter alia). The main argument is that individuals underinvest if others can seize the fruits of their investments (Demsetz, 1967; Alchian and Demsetz, 1973). In today's developing world, a pervasive manifestation of feeble property rights are the millions of people living in urban

dwellings without possessing formal titles of the plots of land they occupy (Deininger, 2003; and Banerjee and Duflo, 2006). The absence of formal property rights constitutes a severe limitation for the poor. In addition to its investment effects, the lack of formal titles impedes the use of land as collateral to access the credit markets (Feder et al., 1988). It also affects the transferability of the parcels (Besley, 1995), making investments in untitled parcels highly illiquid. Moreover, the absence of formal titles deprives poor families of the possibility of having a valuable insurance and savings tool that could provide protection during bad times and retirement, forcing them instead to rely on extended family members and offspring as insurance mechanisms.

Land titling programs have been recently advocated in policy circles as a powerful intervention to rapidly reduce poverty. De Soto (2000) emphasizes that the lack of property rights impedes the transformation of the wealth owned by the poor into capital. Proper titling could allow the poor to collateralize the land. In turn, this credit could be invested as capital in productive projects, promptly increasing labor productivity and income. Inspired by these ideas, and fostered by international development agencies, land titling programs have been launched throughout developing and transition economies as part of poverty alleviation efforts.

In this paper, we investigate the effects of issuing land titles to a very deprived population. The identification of land titling effects, however, is a difficult task because it typically faces the problem that formal property rights are endogenous. The allocation of property

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rights across households is usually not random but based on wealth, family characteristics, individual effort, previous investment levels, or other mechanisms built on differences between the groups that acquire those rights and the groups that do not. We address this selection problem exploiting a natural experiment that provides us with a source of variability in the allocation of property rights that is exogenous to the squatter and parcel characteristics.

In 1981, a group of squatters occupied an area of wasteland in the outskirts of Buenos Aires, Argentina. The area was composed of different tracts of land, each with a different legal owner. An expropriation law was subsequently passed, ordering the transfer of the land from the original owners to the state in exchange for a monetary compensation, with the purpose of entitling it to the squatters. However, only some of the original legal owners surrendered the land. The parcels located on the ceded tracts were transferred to the squatters with legal titles that secured the property of the parcels. Other original owners, instead, are still disputing the government compensation in the slow Argentine courts. As a result, a group of squatters obtained formal land rights, while others are currently living in the occupied parcels without paying rent, but without legal titles. Both groups share the same household pre-treatment characteristics. Moreover, they live next to each other, and the parcels they inhabit are identical. Since the decision of the original owners of accepting or disputing the expropriation payment was orthogonal to the squatter characteristics, the allocation of property rights is exogenous in equations describing the behavior of the occupants. Thus, this natural experiment provides a control group that estimates what would have happened to the treated group in the absence of the intervention, allowing us to identify the causal effects of land titling.

Exploiting this natural experiment, we find significant effects on housing investment, household size, and child education. The constructed surface increases by 12%, while an overall index of housing quality rises by 37%. Moreover, households in the titled parcels have a smaller size (an average of 5.11 members relative to 6.06 in the untitled group), both through a diminished presence of extended family members and a reduced fertility of the household heads. In addition, the children from the households that reduced fertility show significantly better educational achievement, with an average of 0.69 more years of schooling and twice the completion rate of secondary education (53% vs. 26%). However, we only find modest effects on access to credit markets as a result of entitlement, and no improvement in labor market performance of the household heads.

Several studies have documented the effects of land property rights and titling programs on different variables. A partial listing includes Jimenez (1984), Alston et al. (1996) and Lanjouw and Levy (2002) on real estate values; Besley (1995), Brasselle et al. (2002), Field (2005), and Do and Iyer (2008) on investment; Banerjee et al. (2002) and Libecap and Lueck (2008) on agricultural productivity, Field (2007) on labor supply; Feder et al. (1988), Place and Migot-Adholla (1998), Carter and Olinto (2003), Field and Torero (2003) on access to credit, and Di Tella et al. (2007) on the formation of beliefs. Our strong results on investment and our weak results on access to credit coincide with the findings of this preceding literature. To the best of our knowledge, the causal effects of land titling on household structure and educational achievement had not been previously analyzed.

Our results suggest that land titling can be an important tool for poverty reduction, albeit not through the shortcut of credit access and entrepreneurial income, but through the slow channel of increased physical and human capital investment.

The rest of the paper is organized as follows. In the next section we describe the natural experiment. Section 3 describes our data, and Section 4 discusses the identification methods. Section 5 presents our empirical results, while Section 6 concludes.

2. A natural experiment

The empirical evaluation of the effects of land titling poses a major methodological challenge. The allocation of property rights across families is typically not random but based on wealth, family characteristics, individual effort, previous investment levels, or other selective mechanisms. Thus, the individual characteristics that determine the likelihood of receiving land titles are probably correlated with the outcomes under study. Since some of these personal characteristics are unobservable, this correlation creates a selection problem that obstructs the proper evaluation of the effects of property right acquisition.

In this paper, we address this selection problem by exploiting a natural experiment in the allocation of property rights. In 1981, about 1800 families occupied a piece of wasteland in San Francisco Solano, County of Quilmes, in the Province of Buenos Aires, Argentina. The occupants were groups of landless citizens organized through a Catholic chapel. As they wanted to avoid creating a shantytown, they partitioned the occupied land into small urban-shaped parcels. At the beginning of the occupation the squatters believed that the land belonged to the state, but it was actually private property.¹ The occupants resisted several attempts of eviction during the military government. After Argentina's return to democracy, the Congress of the Province of Buenos Aires passed Law No. 10.239 in 1984 expropriating these lands from the former owners to allocate them to the squatters. Fig. 1 presents a timeline of the events in our study.

According to the expropriation law, the government would pay a monetary compensation to the former owners and it would then allocate the land to the squatters. In order to qualify for receiving the titles, the squatters should have arrived to the parcels at least one year before the sanctioning of the law, should not possess any other property, and should use the parcel as their family home. Within each household, the titles would be awarded to both the household head identified at that time and to her/his spouse (if married or cohabitating). The law also established that the squatters could not transfer the property of the parcels for the first ten years after titling.

The process of expropriation resulted to be asynchronous and incomplete. The occupied area turned out to be composed of thirteen tracts of land belonging to different owners. In 1986, the government offered each owner (or group of co-owners, as several tracts of land had more than one owner) a payment proportional to the official valuation of each tract of land, indexed by inflation. These official valuations, assessed by the tax authority to calculate property taxes, had been set before the land occupation. After the government made the compensation offers, the owner/s of each tract had to decide whether to surrender the land (accepting the expropriation compensation) or to start a legal dispute. Eight former owners accepted the compensation offered by the government. Five former owners,

¹ This is explained by the squatters in the documentary movie "Por una tierra nuestra" by Céspedes (1984). On the details of the land occupation process also see Briante (1982), CEUR (1984), Izaguirre and Aristizabal (1988), and Fara (1989). Information on the land expropriation process was obtained from the Land Secretary of the Province of Buenos Aires, the office of the General Attorney of the Province of Buenos Aires, the Quilmes County Government, the Land Registry, and the judicial cases. Additional information presented in this section was gathered through a series of interviews with key informants, including the Secretary of Land of the Province of Buenos Aires (María de la Paz Dessy), Undersecretary of Land of the Province of Buenos Aires (Alberto Farias), Directors of Land of Quilmes County (Daniel Galizzi and Alejandro Lastra), Secretary of Public Works and Land Registry of Quilmes County (Hector Lucas), General Attorney of the Province of Buenos Aires (Ricardo Szelagowski), attorney in expropriation offers' office (Claudio Alonso), lawyer on expropriation lawsuit (Horacio Castillo), former land owners (Hugo Spivak and Alejandro Bloise -heir-), squatters (Juan Carlos Sanchez and Jorge Valle, inter alia), and President of NGO Gestión Urbana (Estela Gutierrez).

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