

INSTITUTIONAL MECHANISMS GOVERNING CHANGES IN PROPERTY RIGHTS: A STUDY OF RURAL LAND TENURE

Loren Brandt, University Toronto



Background: Why do we care about land?

- For lower-income countries, land is:
 - Key source of income (and food)
 - Important source of collateral that facilitates borrowing
 - Secure form in which to hold wealth
 - Smooth incomes
 - Bequests
- Thus, system of property rights in land matter for:
 - Efficiency with which land is used
 - Incentives for investment in land
 - Critical to the process of structural transformation through its effects on productivity in agriculture
 - And, they will have huge distributive implications
 - Income distribution
 - Who realizes the rising value in land that accompanies successful development

Background: Property rights in land as a “Bundle”

- Freedom to decide how to use land
 - Crop selection
 - Agr vs Nonagr use
- Right to derive income from land
 - Use yourself
 - Rent to others
- Right to alienate
- Land as a form of collateral
- Bequest rights

Background: Land Reform in China

- Ownership rights reside in village/collective
- Land use rights devolved to households with HRS in late 1970s
 - Played an important role in growth in agriculture
 - Helped to ensure that benefits broadly distributed
- In late 1990s, through the Second Round of Land Contracting (SRLC), use rights extended for thirty more years; other rights were codified, e.g. rights to rent, transfer, compensation in event of expropriation; ownership rights however remain vested in the village

New Survey Work

- Pilot household and village survey in November, 2011 in Jiangsu and Shaanxi
- Revised survey rolled out in March, 2014
 - 5 provinces, 100 villages, and 2000 households
 - Links up with earlier household and village surveys in same villages in 2005, 2008, and 2011 that provides data back to 1998
- Key empirical observation from pilot: Significant heterogeneity in property rights and forms of exchange (which themselves are a reflection of underlying property rights)

Some definitions

- Takings: Expropriation of land use rights by the state or village, and thus loss of household (village) land endowments
- Reallocations: Non-market redistribution of use rights among villagers (and village)
- Village-intermediated transfers: Non-market allocation of property rights from households to 3rd party via village cadres for remainder of 30-year land contract
- Rental: Direct, voluntary exchange of use rights between households

Heterogeneity: Multiple Dimensions

- Amount of land lost through formal/informal land takings, and thus over which villagers now exercise effective claims
- Institutional mechanisms governing the exchange of these rights differs
 - Reallocation
 - Village-mediated transfers
 - Rentals
- Previous work has largely viewed these in isolation from each other

Motivating Questions

- What is determining the heterogeneity that we observe in the nature of property rights over time and across localities?
- What are the implications that differences in these alternative arrangements are having for efficiency in agriculture, growth in incomes, and distribution?
- Who is capturing the gains from rising land values?
- What is the link between property rights and governance structures relating to land and local disputes/protest?
- From a policy perspective, what needs to be done to achieve more socially desirable outcomes?

Argument at its simplest:

- Bundle of property rights in land is valuable to multiple actors: households, village cadre and village administrations, higher level cadres and governments, and an assortment of end users.
- The configuration of property rights we observe at any given time and place is a product of a contest among competing claims that cuts across multiple domains, i.e. economic, legal, social and political (Aoki, 2006)
- Actors will often pursue these claims through multiple domains
- Amongst these interactions, political rules usually prevail; local officials opt for those mechanisms grounded in their exercise of political authority
- Land still gets directed to higher valued uses, however this comes at high costs → Deeper set of reforms may be required for more socially desired outcomes

Wukang, 2011



Frequency of land changes at village level

		1996-2000	2001-2005	2006-2011
Shaanxi	Reallocations	8	5	5
	Transfers	1	2	6
	Takings	3	3	3
Jiangsu	Reallocations	12	3	2
	Transfers	2	2	13
	Takings	3	6	15

Land Changes at the Household Level

	1996-2000	2001-2005	2006-2011	Total
Shaanxi				
Rentals			40	40
Reallocations	40	23	23	86
Transfers	0	0	7	7
Takings	3	5	13	21
Jiangsu				
Rentals			8	8
Reallocations	63	2	1	66
Transfers	2	3	47	52
Takings	3	18	17	38

Frequency of disputes resulting from land changes (village-level data)

		1996-2000	2001-2005	2006-2011	Total	% Disputes
Shaanxi	Reallocations	8	5	5	18	
	Resulting disputes	0	1	0	1	6%
	Transfers	1	2	6	9	
	Resulting disputes	0	1	2	3	33%
	Takings	3	3	3	9	
	Resulting disputes	0	0	1	1	11%
	Total changes	12	10	14	36	
	% Disputes	0%	20%	21%	14%	
Jiangsu	Reallocations	12	3	2	17	
	Resulting disputes	8	0	0	8	47%
	Transfers	2	2	13	17	
	Resulting disputes	2	1	5	8	47%
	Takings	3	6	15	24	
	Resulting disputes	1	5	5	11	46%
	Total changes	17	11	30	58	
	% Disputes	65%	55%	33%	47%	

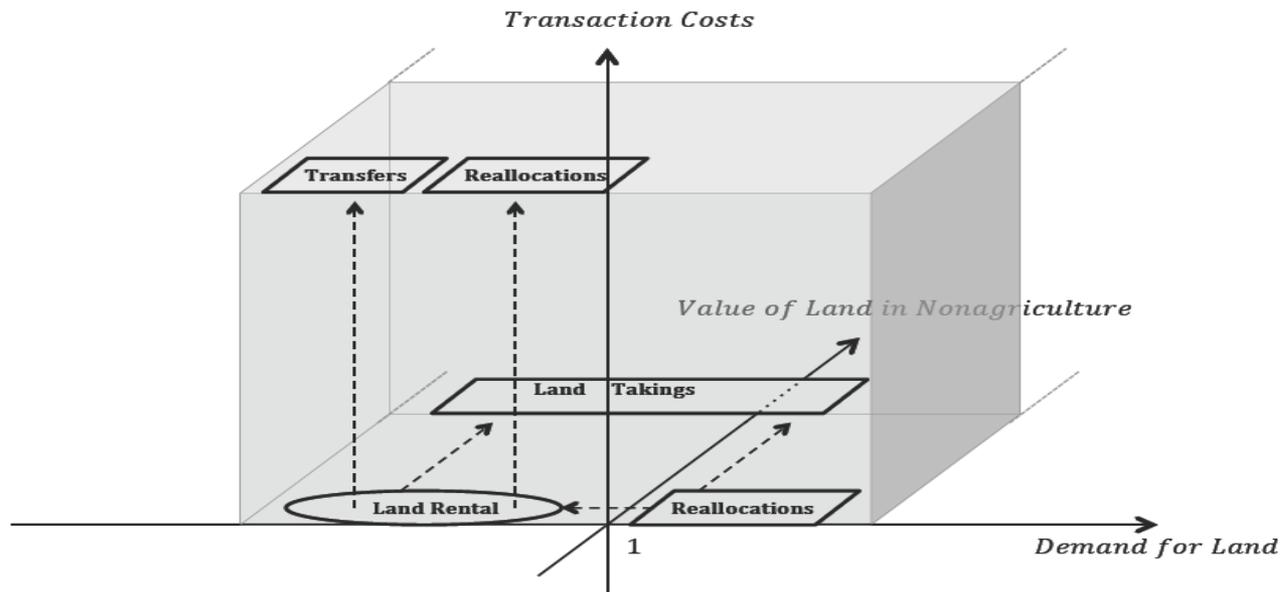
Dispute resolution mechanisms

- Main methods include direct negotiation, third party mediation, petitioning, protest and media contact
- Households often take multiple mechanisms, sometimes on their own, in other cases as part of collective action
- Notably, they do not use the local courts to assert their legal rights

Land changes may reflect interests of actors in multiple domains: examples

- **Economic**
 - Off-farm labor opportunities influence household net demand for land
 - Proximity to urban center influences cadre (and household) demand for land
 - Multiple mechanisms for improving balance between supply and demand
 - Reallocations
 - Rentals
 - Transfers (reduce transactions costs)
- **Legal**
 - RLCL prohibits reallocations
 - Shifts mechanisms for improving balance between supply and demand
 - Reduce—but not eliminate—reallocations
- **Political**
 - Fiscal revenue and rent-seeking by cadres
 - Multiple mechanisms for generating revenue/rents
 - Takings
 - Transfers
 - Reallocations (assign land to collective)

Driving Forces



$$\text{Demand for Land} = \frac{\% \text{ of households with net demand} > 0}{\% \text{ of households with net demand} < 0}$$

Larger Policy Implications?

- Critical to know what underlies the differences we observe: What factors help explain the predominance of the political domain vis-à-vis the economic or legal?
- Equally important, who are the winners and losers in the changes in property rights? What are the distributional consequences? The larger efficiency implications?
- Problem may not be policy/law, but rather its implementation
- Key question: Is there a fundamental incompatibility between policy and the incentives of local actors in the context of China's larger political economy?
- If so, what other kinds of reforms may be needed? And, are these in fact politically feasible?