

Land Inequality and Development: Some Thoughts from Field Studies in India

Pranab Bardhan

University of California at Berkeley

In explaining the divergent development paths in North and South America since the early colonial times, Engerman and Sokoloff (2002) have provided some evidence of how in societies with high inequality at the outset of colonization institutions evolved in ways that restricted to a narrow elite access to political power and opportunities for economic advancement.

Initial unequal conditions had long lingering effects, and through their influence on public policies tended to perpetuate those institutions and policies that atrophied development.

The classic example of inefficient institutions persisting as the lopsided outcome of distributive struggles relates to the historical evolution of land rights in developing countries.

- **In most of these countries the empirical evidence suggests that economies of scale in farm production are not large (except in some plantation crops) and the small family farm is often the most efficient unit of production. (Later, we'll qualify this a bit).**
- **Similarly, the sharecropping literature with its emphasis on the static mis-allocation effects (originally pointed out by Marshall) and dynamic disincentive effects of tenurial insecurity (pointed out by J. S. Mill) suggests that tenancy reform will improve productivity**

Yet the violent and tortuous history of land reform in many countries (Colombia certainly among them) suggests that there are numerous road blocks on the way to a more efficient reallocation of land rights put up by vested interests for generations.

In non-violent contexts credit market imperfections inhibit outright purchase by small farmers.

It has been said in the literature on land reform that there is a commitment problem in carrying through the promise of compensating landlords for their land over time.

One commitment device could be compensating landlords with long-term government bonds, but it sometimes does not work

- with the government's limited ability to tax the gainers, and**
- low credibility of promises not to inflate away the value of bonds**

Also, compensating at market prices of land may not fully capture the landlord's loss of social, political and economic power in non-land transactions or their bargaining power in other markets (labor or credit) which they are unwilling to give up.

Inefficient land institutions thus have a tendency to persist even in non-violent contexts.

I am now going to talk about rural West Bengal, a state in eastern India, where the land issue is substantially different from that in Colombia:

- Land inequality (measured, say, by Gini coefficient) is less, though not by a very large margin**
- An area of largely small peasants and landless laborers**
- More densely populated and average size of land holding very small**
- The rural elite less powerful and less criminalized**
- Fewer cases of underutilization or fallow land**
- Hardly any foreign ownership or agri-business**
- Large displacements and dispossessions of a continuing civil war have been less important**

Yet what I have to say may have some relevance to the future of small-holder agriculture, that one may consider even as the land reform process gets under way.

Major land reforms in West Bengal, carried out by a Left Front Govt. toward the end of 70's and early 80's. Land reforms were mainly in the form of:

- **Security of tenure for tenant farmers**
- **Rent regulation**
- **Distribution of some above-ceiling land to the landless**

Method of land reform was quite democratic: land department officials, elected politicians in local governments and villagers met in intensive village meetings ('land reform camps'), an important part of the process when land records are spotty.

Let me now report some results from our field studies on the basis of a survey of a random sample of 700 farms in the state of West Bengal

- **We find that tenancy reform significantly improved productivity not just of the tenant farmers (a partial-equilibrium effect) but of *all* farmers, because it lowered the price of an essential agricultural input, ground-water, for everybody (a general-equilibrium effect) -- the tenancy reform inducing water sellers to invest more in ground-water extraction capacity, which brought down the price of water for all farmers, a case of a 'pecuniary' external economy.**
- **The program of land titles distribution did not have a significant effect on average productivity (possibly because distributed plots were small and poor in quality).**

But, paradoxically, this significant land reform did not much alter the rising trend of land inequality in the area. This is because land inequality depends also on other, sometimes more powerful, factors, including:

- **Patterns of Inheritance (for example, primogeniture vs. equal division)**
- **Household division and exits**
- **Market transactions in land**

These factors may operate differently in different areas. We also carried out a household survey of land history for 2400 households over the period 1967-2004 and find that

- **In this area the household divisions (partly due to inheritance and partly other pressures) of the numerous small farmers dwarfed the effects of land reforms (both direct and indirect) and the household divisions and land sales by the few larger farmers.**
- **We find in the data that when the farm size falls below a threshold size, it is not worth cultivating the land (particularly as the inputs get costlier and as credit market imperfections limit agricultural borrowing). As a result landlessness increases, raising inequality.**

So demography trumps politics, at least in this area.

More research is needed on land history in general, and, in particular, on the other determinants of the high rates of division among small and marginal landowning households, which have a large effect on land inequality.

As agricultural land per household declines,

Need for collective action:

Not necessarily cooperative farming, but getting together to buy inputs, provide for storage and transport of produce, and arrange marketing (these activities have economies of scale).

Those who are concerned about land redistribution to small farmers, have to very soon grapple with this issue.

Finally, inheritance patterns also bring in the issue of **gender inequality in land distribution. In many countries land inheritance is biased against women (even as women are getting more involved in agriculture, with men often migrating to non-farm occupations).**

Even in Africa where women have some traditional rights to common property, they are effectively deprived of them as land titles get formalized and land market processes take hold.

Since land data are usually collected from household surveys, in many countries there is very little information on intra-household distribution of land.