

LAND OWNERSHIP AND PROPERTY RIGHTS

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Summary

The issues of land tenure and its relationship to poverty, inequality and economic growth has waxed and waned in public policy. The topic is back on the public policy agenda thanks to the evolving political situations of countries such as South Africa and the former Soviet Union, and persistently concentrated landholdings in much of Latin America. Recent research has explored the limits of market mechanisms to provide land access for the poor in the developing world and has found these mechanisms inadequate. Primary among these policies is land titling (or land registration), the formal registration of land that had previously been used without a formal title. Land titling is intended to lead to economic development by providing farmers access to credit, providing the incentive to invest in the land and stimulating land markets. Research has found these programs generally have mixed results. Farmers with greater market access or larger farms are more likely to benefit, hence these programs are not likely to benefit the poorest farmers or to lead to a broader, more equitable distribution of land.

1. Introduction: Definition and Importance of Land Tenure

The issue of land reform and the results of various land reform policies have been debated by agricultural development specialists and researchers for more than 40 years. The topic is back on the public policy agenda thanks to the evolving political situations of countries such as South Africa and the former Soviet Union, and persistently

concentrated landholdings in much of Latin America. It is still widely recognized that the system of landholding continues to be one of the most significant factors in determining social, economic and political power relations, especially in developing countries where much of the wealth is based in land and agriculture. In addition to shaping social, economic and political relationships, a countrys system of land tenure also influences its political system and path of development. Often in rural areas of the developing world, access to land is practically the only means of participation in the political and economic life of the country.

Recent research has explored the limits of market mechanisms to provide land access for the poor in the developing world and has found these mechanisms inadequate. The distribution of income in the agricultural sector and the standard of living of the rural population are affected by the degree of land concentration, as the system of land tenure affects both the relative and absolute well being of the rural population. The pattern of land ownership determines how land and labor are combined for production, which affects both the quantity produced and its distribution.

2. Historical Discussion of Land Tenure

"When the 'sacredness of property' is talked of, it should always be remembered, that any sacredness does not belong in the same degree to landed property. No man made the land. It is the original inheritance of the whole species. Its appropriation is wholly a question of general expediency. When private property in land is not expedient, it is unjust."

"The first man who, having enclosed a piece of ground, bethought himself of saying 'This is mine,' and found people simple enough to believe him, was the real founder of civil society."

As it has a basic role in production and the satisfaction of human needs, land has long been considered a gift from nature, God or the State. To appropriate land for private gain at the expense of others is then considered 'wrong' or 'unnatural'. Rousseau (1913:192) stated, "...the fruits of the earth belong to us all, and the earth itself to nobody." This has been advocated again recently by Liberation Theologians in Latin America. Even Winston Churchill considered land to be unique among forms of property.

"The immemorial custom practically of every moderate State, and the conclusions of the greatest thinkers of the world, have always placed the tenure and transfer of blocks of land on a wholly different category from other property. There has always been an obvious distinction between that class of property, which is a vital interest to every human being, and which is limited in extent, and other kinds of property."

The physiocrats of mid- to late-eighteenth century France believed that agriculture alone was capable of creating wealth. They emphasized the importance of private land ownership: without security of ownership, no one would have the security to cultivate or incentive to improve the land. The proprietor, rather than the tenant, received the net profit, but it was assumed that he earned it through such tasks as clearing and preparing

the land and building infrastructure. However, it was found to be difficult to calculate what this 'just' return should be. As only agriculture was thought to create surplus, physiocrats believed the taxation of rent should meet all a government's fiscal needs. The physiocrats envisioned large farms with hired workers, and they also influenced the ideas of Smith, Ricardo and Marx.

Classical economists saw three socio-economic groups composed of landowners, capitalist tenant farmers and landless laborers with the respective returns of rent, profit and wages. Unlike the physiocrats, they did not believe that agriculture was the only productive economic pursuit. Classical economists determined the nature of rent to be the surplus accruing to landlords after the deduction of wages, a return to capital and a 'normal profit' for farmers. Ricardo's theory of rent, developed in 1815, defined rent as "...the difference between the return made to the more productive portions, and that which is made to the least productive portion of capital employed upon the land." Under this definition, the price of agricultural commodities and inputs determines the rent and not vice versa. Current economists concur, noting that land has value because it can earn a rent, rather than the opposite assumption that rent must be charged because of the purchase price of land.

Ricardo and Smith had different attitudes toward landlords. Smith stated that landlords "reap where they never sowed" by charging rent for unimproved land or increasing rent on improvements financed by the tenants themselves. However, he was not hostile to landlords, as he saw their interests as intertwined with those of society. Ricardo believed that landowners benefit from economic growth, but that they also may have interests that conflict with those of general society, such as on the issue of free trade.

The classical economists generally agreed that large estates with serf or slave labor were detrimental to the progress of agriculture. As is still argued against owners of *haciendas* (large, extensive estates) in Latin America today, they stated that such owners had no inclination, ability or time to invest in their farms, while serfs or slaves had little personal incentive to increase production. Tenancy was an improvement, but was still not efficient because there was no incentive for tenants to invest or to improve their technology. Classical economists considered fixed-rent tenancies to be preferable to sharecropping, and primarily favored owner-operators and small proprietors.

Neoclassical economists treated land as just another input, and Marx did not distinguish between ownership of land and capital. Neoclassical economists generally shifted from concerns of growth and distribution to exchanges and allocations of resources. This change in focus was primarily brought about because land ownership in developed countries is of less significance.

3. Land Tenancy Policies of the Late Twentieth Century

'Land reform' or 'agrarian reform' has been defined to mean everything from colonization, to land confiscation and redistribution, to improvements in agricultural technology. However, it is most generally defined as a compulsory take-over of land, usually by the State, from the largest landowners with (partial) compensation, and reallocating the land more broadly than before. The fundamental purpose of what is traditionally defined as

land reform is to promote equity. While it may also induce growth, the primary motivation is to reduce poverty by reducing inequality. Under this definition, colonization schemes and reform of tenure, including land titling, do not qualify as reform because they do not challenge the rural power structure that is based in the unequal distribution of land. Sometimes, development planners attempt to reduce the significance of land by injecting capital into agriculture through technical assistance or credit programs. This is generally not included as reform either. Others advocate considering only 'integral reform' that includes supplies of other services such as credit, inputs and marketing, to be true reform. This, however, can be used as an excuse to postpone reform indefinitely as the necessary resources are never available. It is generally agreed that the goals of equity cannot be met without changes in the basic redistribution of resources and political power, which will not result without changes in the skewed landownership patterns found primarily in Latin America.

A high concentration of land ownership, increasing rural-urban migration, a high but unrealized productive capacity with an unfulfilled potential to provide employment for rural people, a highly-skewed income distribution and great differences between the masses of rural people and the upper class in income, education and culture are all characteristic of much of the developing world, especially Latin America, today. Without agrarian reform and a redistribution of economic and political power, it would be difficult to modify institutions and reach the goals of reducing mass poverty and creating a more equitable distribution of income-earning opportunities. Contrary to what has been commonly practised, increased agricultural production and a more equitable distribution of the fruits of that production must be viewed as parts of the same process. It is widely asserted that because redistribution is needed to increase production, dealing with them separately has not worked. When considering food availability, limits on production are related to the system of distribution and demand. The problem is rooted in the institutional structure and cannot be solved by simply trying to raise production.

The links between highly unequal land ownership, slowed agricultural development and rural poverty were recognized, at least in principle, by donor organizations and governments in Latin America in the 1960s. Encouraged by the Alliance for Progress, most countries in the region passed some sort of agrarian reform law in the 1960s or 1970s, although much of this reform was never carried out. Financing, as well as the political will and ability to enact far-reaching reform were limited, and starting in the late 1970s and through the 1990s, governments and international agencies turned to modifying market forces as a means to increase the access of the rural poor to land. Primary among these policies was land titling (or land registration), the formal registration of land that had previously been used without a formal title.

4. Advantages of Property Rights in Land

One does not own property, i.e., land, *per se*, but rather rights to and over that property. This bundle of rights usually includes (within the limits of the law) the right to its use, the right to exclude others from its use and the right to offer its use to others. Although these rights are exclusive, they are not absolute. When dealing with land, the bundle of rights is generally split between the public and private individuals and varies across

time and countries and between various systems of land tenure. Generally, owners have the right to use, sell, trade, lease, mortgage or subdivide their land, while the rights of taxation, regulation and eminent domain are reserved by the State. Tenure insecurity is likely to result when these rights are not clearly defined and supported by legal institutions. Government-issued land titles are meant to protect holders' rights to the land against competing claims. Titles also facilitate transfer as they show the possessor of the titled land is truly the owner and has the right to transfer this ownership to others.

Government-issued land titles are hypothesized to encourage rural development through three avenues. First, land titles are meant to facilitate access to credit (the 'collateral effect'). Banks value them as collateral, so it is hypothesized that titling increases access to formal credit. Second, by protecting landholders' rights to the land against competing claims, titles are intended to increase landholders' sense of tenure security and therefore make them more likely to be better stewards of the land and to make long-term investments in the land (the 'security' or 'investment effect'). Finally, titles also facilitate transfers as they show the possessor of the titled land is truly the owner and has the right to transfer this ownership to others. This means that with improved factor mobility, the land is more likely to find its way to the most productive producer (the 'transaction effect').

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Biographical Sketch

Janelle B. Montaner Larson, D.Phil. received her doctorate in Agricultural Economics from the University of Oxford in 1995. She is currently an Associate Professor of Agricultural Economics at the Pennsylvania State University, Berks Campus.

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