Title: The Role of Property Rights in Economic Development that Benefits the Poor

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Abstract:

Secure property rights are vital to economic development. Systems of property rights imposed by central governments, however, are often not beneficial to most low income people, sometimes increasing the number experiencing extreme poverty. To promote economic development that benefits the poor, formal property rights systems must be allowed to evolve in a way that is consistent with existing informal rights.

Recent research in the new institutional economics points to the vital role played by informal institutions in influencing the effectiveness of changes in formal institutions.[1] The conclusions reached by this article are based largely on a review of the relevant literature from institutional economics, and a review of the existing research on the consequences of changes in property rights imposed by central governments and on informal property rights and how they evolve in response to changes in the economic environment.

This paper begins with a discussion of arguments in favor of central governments' reforming property rights in order to help the poor. Both economic theory and the historical experiences of high income countries imply that private property rights played an important role in creating incentives for investment that has led to economic growth and widespread prosperity. In light of this, governments and economic development organizations have devised schemes that promote privatization of land and the issuing of individual titles to landowners in developing countries.

In addition to ownership of property, there is considerable evidence to suggest that a more equitable distribution of property is necessary so that the poor can invest enough to escape poverty traps and share in the benefits of economic development. Thus many development practitioners have advocated land redistribution to increase the amount of property owned by low income people.

Though the arguments in favor of privatization and land redistribution are persuasive, the impact of these programs on economic development and the wellbeing of the poor has been disappointing. Evidence from African countries points to the failure of government sponsored land privatization programs to affect local land markets and enhance credit availability for the poor. Similarly, the failure of government initiated land reform programs to contribute to a long term improvement in access to land and income for the poor is shown by the experience of Latin American countries and others. It is not that private ownership or land redistribution cannot benefit the poor, but that the poor are unlikely to benefit unless the changes are consistent with local economic conditions, attitudes and norms.

[1] See for example Jean Ensminger. "Changing Property Rights: Reconciling Formal and Informal Rights to Land in Africa" in *The Frontiers of the New Institutional Economics*, ed. John N. Drobak and John V.C. Nye, Academic Press, 1997.

Instead of changes in property rights imposed by central governments, the poor are likely to gain more in the long run from gradual changes in institutions that occur in response to a changing economic environment and changing attitudes. To be effective, these changes must be embraced by influential local groups such as community organizations, tribes, and extended families. Central governments could do more to help the poor if they sought to make formal institutions more consistent with informal institutions, while being flexible enough that those institutions can change to reflect changing economic conditions.