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## Economics focus

### The mystery of capital deepens

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#### Giving land titles to the poor is no silver bullet

IN 1981 about 1,800 families occupied a stretch of wasteland in the municipality of Quilmes on the outskirts of Buenos Aires. The squatters lacked legal title to their new place in the sun, but they did not lack for tenacity. They outlasted Argentina's military junta, which tried several times to evict them, and in 1984, after the return of democracy, the provincial government passed a law expropriating the land from its rightful owners so that the squatters could enjoy formal ownership of it.



This is a tale that would warm the heart of Hernando de Soto, a Peruvian economist, celebrated by this newspaper and many others for his book "The Mystery of Capital" (2000), and for his vigorous efforts to extend secure property rights to the poor. In his book, Mr de Soto argues that the poor have more assets—shacks, stalls, plots—than you might think. But because they lack title to these assets, they cannot pass them on, divide them up, or offer them as collateral for a loan to expand their makeshift businesses and fully express their entrepreneurial energies. Their assets remain embalmed as "dead capital".

But the victory of the Buenos Aires squatters was only partial. Eight of the former landowners accepted the government's compensation in 1986, one did not relent until 1998, and the remaining four are still contesting it in Argentina's Dickensian courts. As a result, several hundred families now own their land, but their neighbours still squat uneasily on theirs.

This is unfortunate for the squatters, but a rare opportunity for economists to test the power of property rights. Sebastian Galiani of San Andrés University and Ernesto Schargrotsky of Torcuato di Tella University believe the case provides a natural experiment\*. The families lucky enough to win title can be compared with a ready-made control group: the otherwise identical families that did not. This makes it possible for the study to distinguish cause and effect; to isolate the impact of title from all the other confounding factors.

The results of the experiment are mixed. Secure land rights do encourage the poor to build their nests. But even in a relatively advanced country such as Argentina, title is not enough in itself to animate the dead capital interred in land and property.

The landowning families invested more in their homes, which had noticeably better walls and roofs. They were also more likely to lay concrete pavements. But the titled households enjoyed no better access to bank loans, credit cards or bank accounts, and only 4% of them managed to acquire a mortgage.

Disappointing, but not surprising, Messrs Galiani and Schargrotsky argue. Argentine banks tend to lend

only to workers with high wages and a stable job. Titled or not, the former squatters still fell well below the official poverty line. The cost of making and enforcing a loan contract might exceed the modest sums they were able to borrow. Others say the experiment might be too recent to deliver a conclusive verdict. The government did not allow the newly entitled families to transfer their land for a decade, thus by the time they answered the economists' survey in 2003, they had enjoyed full rights to their property for seven years, not 17.

The credit market has also been slow to respond to a much bigger urban-titling movement in Peru, carried out by the government with the help of Mr de Soto's think-tank, the Institute for Liberty and Democracy (ILD). The campaign had awarded over 1.5m titles by July 2006. But it did not do them all at once. Erica Field of Harvard University and Maximo Torero, of the International Food Policy Research Institute, have compared 536 households served before March 2000 with another 1,180 households that had yet to be reached by that date, on the assumption that little else distinguished the two groups†.

The authors show that households with title were more likely to secure a loan from the government-backed Materials Bank, which buys bricks, mortar and other materials for building and improving homes. They also paid lower interest rates on loans from private sources, including commercial banks and microlenders like Mibanco. But their odds of getting a private loan in the first place did not improve. More than a third could not get a loan or would not take one, for fear of losing their property.

Paradoxically, this fear may not be sharp enough, the authors argue. There are, they point out, two sides to collateral: enforcing the bank's right to repossess an asset is as important as recognising the owner's right to possess it. But titling programmes, they write, "unavoidably signal to lenders that a government prioritises housing for the poor, and hence is more likely to side with borrowers in enforcing credit contracts."

## Clinical depression

The ILD has always pushed for broader changes in the legal system so that it can handle the kind of collateral the poor provide, at a cost that makes it worthwhile to do so. Credit also appears to have grown quite quickly in Peru after 2000, the year of the survey used by Ms Field and Mr Torero. The World Bank's own studies show that mortgages worth \$136m were approved in 2003, compared with \$66m three years earlier. Likewise, formal credit increased from \$249m to \$367m in the same period, although the bank notes the difficulty in showing why this happened.

Two cases, however neat, cannot settle the big questions Mr de Soto raises. Nonetheless, experiments of this kind, which aspire to the rigour of a clinical trial, are the height of fashion in scholarly circles. These papers subject one of the most appealing ideas in development to one of the most eye-catching investigative techniques in the field. It is only a shame that the second may dampen enthusiasm for the first.

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\*"Property Rights for the Poor". Available at [tinyurl.com/ndw69](http://tinyurl.com/ndw69)

†"Do Property Titles Increase Credit Access Among the Urban Poor?" Available at [tinyurl.com/mp3yx](http://tinyurl.com/mp3yx)