

Property Rights, Land Misallocation and Agricultural Efficiency in China

\* Author : A.V. Chari(University of Sussex), Elaine M. Liu(University of Houston and NBER), Shing-Yi Wang(University of Pennsylvania and NBER), and Yongxiang Wang (University of Southern California). Date : May 2018

1. What is the main question(s) raised in the paper (the issue)?

Does the reform which allowed farmers to lease out their land in rural China affect the distribution of land? Does the reform reduce frictions of the land market in rural China?

2. Why should we care about it (the significance)?

In economics field, the economists generally believe that reducing market frictions can improve the efficiency of the resource allocation. This paper provides a credible evidence on this belief or issue by exploiting a property rights reform in China. More concisely, the reform reduces the transaction cost in the agricultural land market, and that reflects on adjusting the misallocation of resource usage and promoting an increase in the aggregate productivity and output in the land market. The research, hence, requires to be taken seriously.

3. What is the author' s answer (the findings)?

It mainly contains three findings: First, authors found that land rental activity increases over time due to the reform implement; For instance, two years after the implementation of the reform, the probability of new leasing transactions had soared by 20%. Second, the authors indicated that the formalization of leasing right caused a reallocation of land from less productive farmers to more productive farmers. Also, they observed that a commensurate reallocation of labor where a number of hired labor increased for more productive farms but decreased for less productive farms. Therefore, the authors, through analysis, obtained that aggregate productivity and output soared by 7%. Third, the authors found that the reform facilitates the agriculture land allocation across crops through an increase of crop prices. Moreover, the authors found there is not a salient evidence to prove the inter-sectoral labor reallocation due to the reform, and also found their finding is the modest effect relative to the scale of loss due to factor misallocation mentioned in past literature.

4. How did the author get there (the strategy)?

In order to estimate the impact of the Rural Land Contracting Law (RLCL, the reform in rural China), the authors began their analysis with difference and difference method which exploits the staggered timing of implementation across provinces by using the National Fixed Point Survey (NFP) data. They, then, adopted a production function approach to estimate the reallocation effect of land from less to more productive farmers. Next, in order to check the estimations, they verified them, primarily, in two directions: One is to consider that the timing of the reform implementation may have endogenously changed the outcomes of the provincial agriculture; The other is to consider the elimination of agricultural tax implemented during the period under study. The authors checked those concerns by adjusting their regression models and then acquired the findings as previous section showed.