Land Inequality and the Provision of Public Works

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Abstract

Does inequality lead to less redistribution to the poor? This paper answers this question under a widely used redistributive policy in developing countries—public works. Using data on the distributions of land ownership and the implementations of the National Rural Employment Guarantee Scheme in India, I find that the concentration of land ownership causes the reduction of public works provision. This causal relation could be explained by the mechanism that public works schemes raise agricultural wages in the private labor market, thereby incentivizing big landlords to use their political power to oppose this program. To address endogeneity issues arising from omitted variables and persistent unobservables that shape both inequality and public work provision, I use a historical institution in India as the instrumental variable—the land revenue collection system established by British colonial rulers during 1750-1861. First-stage results suggest that the previously landlord-dominated areas in British India have lower land inequality today. Two-stage Least Square estimations suggest that a 1 percent increase of land Gini coefficient would lead to a 3-6 percent decrease in public job provisions. The negative effect still holds when relaxing the exclusion restriction of the instrumental variable by a certain degree. The results are also robust to using the alternative measurement of land inequality, and in the inclusion/exclusion of many different controls. This paper is the first study to directly explain the heterogeneity in the implementations of National Rural Employment Guarantee Scheme in terms of landlords’ political power. It is the first empirical evidence that shows the concentration of land ownership is a hurdle to providing public employment to the poor, suggesting power asymmetries could hinder policies aimed at promoting equity.

Key Words: Inequality; Redistribution; Public works; Economic Growth; Land ownership; National Rural Employment Guarantee Scheme

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