

## ECONOMIC SCENE

# A study looks at squatters and land titles in Peru.

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AN estimated 400 million to 600 million people worldwide are squatters, living on land they have no legal right to occupy, usually on the outskirts of cities. Urban squatting poses a growing economic problem in less-developed countries.

Hernando de Soto, a Peruvian economist, has long advocated reforming property rights for squatters as the path to economic development for poor countries. Now hard evidence suggests there may be something to Mr. de Soto's argument, although for reasons he did not anticipate.

The new research was done by Erica Field, a Ph.D. student in economics at Princeton University, and is available from [www.irs.princeton.edu](http://www.irs.princeton.edu). For the last three years, she has studied land title reform in Peru, which, at Mr. de Soto's prodding, began the world's largest program to provide property titles to urban squatters. From 1995 to 2001, more than 1.2 million households -- 6.3 million people -- received title to the properties they were inhabiting.

Before the reforms, it could take years for squatters to obtain a title. The reforms, started in different neighborhoods at different times, enabled squatters to get titles quickly, for a fee of \$20 to \$50. To be eligible, squatters needed only to establish that they had lived in their residences before 1996.

Without a title, Ms. Field hypothesizes, squatters devote extra time and effort to protecting their residence from intruders. This typically requires someone to stay home and defend the property, reducing the opportunity to work in the formal labor market. Cutting the opposite way, however, is that home ownership increases a squatter family's wealth; all else being equal, wealthier families work less.

Ms. Field exploits the natural experiment created by the staggered introduction of title reform in different areas of Peru to test whether granting land titles increased or decreased the amount of labor supplied by squatters.

She first looks at squatters eligible for a title at the start of the reform in 1995. For this sample, she compares the number of hours worked per family in 2000 depending on whether the family lived in a neighborhood that had already introduced title reform or in another neighborhood in the same city that had yet to introduce reform.

The neighborhoods where title reform was introduced early were quite similar to those where it was introduced late, as far as poverty, literacy and access to sewage and electricity were concerned. Still, as an additional layer of control, she subtracts the difference in hours worked by those in previously titled families between the two sets of neighborhoods.

She performs the analysis using a sample of 2,750 households surveyed in eight Peruvian cities in 2000. About a third of the households were in neighborhoods where title reform had already been introduced.

Her results strongly suggest that labor supply increased as a result of land titling. Two to three years after title reform came to a neighborhood, families that were in untitled houses before the reform worked 20 more hours a week, on average, than those from untitled houses in neighborhoods that had not yet had title reform. By contrast, among households titled before the reforms, family work hours were a statistically insignificant four hours greater in areas where reform was introduced early than in those where it was yet to be introduced.

These results suggest that introducing title reform caused hours of work to rise by a net 16 hours a week -- or 17 percent -- among those who initially lived in untitled residences. And this figure understates the effect among families that actually obtained a title, as only about 70 percent of squatters had obtained a title two to three years after reform

was begun in their neighborhood.

Despite the overall rise in work hours, the amount of labor supplied by children was an impressive 27 percent lower for families that were initially squatting in neighborhoods that introduced title reform early. Although school enrollment did not rise, this may be because many children in Peru already attended school while they worked. Still, the reduction in child labor should allow children to devote more time to school.

Ms. Field's results further suggest that too many squatter families try to run a small business out of their house so they can safeguard the homestead at the same time. Title reform enables them to run a business or work outside the home.

Lastly, she finds that those who were initially squatters and live in areas that underwent title reform are more likely to say they consider their dwelling very secure from eviction or invasion than are squatters in areas that have yet to undergo reform. This reinforces the notion that the shifts in work effort are indeed a result of the additional security provided by land titling.

Mr. de Soto has argued that giving title to squatters fosters growth by enabling entrepreneurs to leverage their capital; squatters can use their homes as collateral to obtain a loan to start a business or renovate a house, or sell a home and buy a new one.

The benefits that Ms. Field documents, however, relate to the improved allocation of work effort from not having to devote labor to protect the home and possessions. Although important, especially for the families involved, these benefits are unlikely to increase a country's long-run growth rate greatly because they represent a small proportion of nationwide work hours.

Preliminary studies by the Peruvian government have not found much evidence that access to credit has increased for families that gained titles. But Ms. Field notes that increased access to credit may come at a later stage, as has been the case for government loans for housing materials. The irony may be that although title reform has been touted as a boon for capital markets, at least in the short run its greatest benefit is in the labor market for poor workers.