

Can land inequality and land reforms affect agricultural credit access? Evidence from Mexico state-level data, 1940-1960

*¿Pueden la desigualdad de tierra y las reformas agrarias afectar al acceso al crédito agrario?
Evidencia a nivel estatal de México, 1940-1960*

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ANALYTICAL SUMMARY

Can inequality negatively affect credit access? This paper answers this question by investigating the role of land inequality on agricultural credit access. Access to credit is essential for any economic sector and several authors argue that land inequality negatively affects it. On the one hand, they hypothesise that land inequality causes a large part of the agrarian population not to have collateral to offer when they ask for a loan, which makes them seem less creditworthy for the banking sector. On the other hand, they defend that land inequality is associated with a powerful landed elite that, apart from owning the majority of this asset, exerts social and political influence to bias credit to maintain its economic position and to have guaranteed cheap labour.

This paper examines these issues by analysing the Mexican case. Mexico has been an agrarian country for most of its history, with a strong landed elite, high land inequality, and a shortage of rural credit. This situation was attempted to be solved in the early 20th century with a revolution and one of the most significant agrarian reforms in history. This reform aimed at reducing land inequality, limit the power of the landed class, and improve access to rural credit by granting this asset to landless peasants who could use it as collateral to obtain loans.

To test whether land inequality negatively affect access to agricultural credit, and whether Mexico's agrarian reform reduced land inequality and favoured access to credit, I analyse the impact of land inequality on rural credit using an extensive collection of data on land distribution and agrarian credit at the state level in Mexico for the period 1930-1970. A major contribution of this paper is the new and original database that I have obtained from the original censuses of the country. I then use this empirical contribution to examine the progress of the agrarian reform and the evolution of credit in each Mexican state during the first fifty years of the revolution.

By employing a number of quantitative techniques – panel ordinary least squares, fixed effects, random effects, and instrumental variable approach – I find that, although harmful, land inequality did not affect agricultural credit access in any Mexican state. Access to credit probably depended on political factors instead.

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