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“Property Rights, Investment, and Land Grabs: An Institutional Natural Experiment in Liberia”

ABSTRACT: We address a debate in the development literature over the effects of private versus customary property rights on investment. This debate has been reinvigorated by a dramatic increase in the demand for land in developing countries: despite political economists’ claims that investors favor private property rights, observers argue that customary systems have enabled large-scale “land grabs.” We develop a model of investment under different property rights systems and then use a natural experiment in Liberia—a major target of new investment—to evaluate the effects of these regimes on investment. Laws dating back to the 19th Century established two parallel property rights systems. We exploit this institutional discontinuity and difference-in-difference methods to compare changes in investment in private and customary property rights systems in the aftermath of the Global Food Crisis of 2007-8. We find that investment increased more rapidly where private property rights prevailed; moreover, this divergence is partially caused by larger and more active agribusiness concessions. A case study of a major palm oil concession supports and adds detail to our quantitative findings.