Towns and Rural Land Inequality in India
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Abstract
Using the universe of land records from a large Indian state we document three empirical facts on rural land holding inequality at the village level in India:
1. Rural landholding inequality is higher close to urban areas and decreases with distance from urban centers;
2. The increase in land inequality is due to fewer mid sized farmers relative to small and large farmers;
3. The distance gradient is a function of town size; larger towns are associated with steeper gradient

We present a simple model where a farmer faces U-shaped agricultural production as a function of land size and financial frictions that explain these patterns. Together, the empirical patterns and model shed light on questions related to the preponderance of small farms, poverty traps and structural transformation in developing countries.

Empirical Facts

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Assumptions
- Agricultural productivity follows a U-shape function with respect to land size.
- Financial frictions in land markets; land consolidation is a function of existing land size leading to incremental expansion
- Trade off between agricultural enterprise and net wage income from urban/non-agriculture sector.

Model

A farmer, with Land L, and current debt D, solves the following problem

\[ y = \delta (0.5L - D) + e \]

where \( y \) is either village-level gini or ratio of mid-small and mid-large farmers; \( D \) is 5 km distance bins from nearest town; \( m \) is the subdistrict

Distribution of Rural Land Gini

Selected References


