

Can beliefs about fundamental social institutions, such as the market system, change? If so, what can cause such changes?

Even if one replies “yes” to the first question, discerning an answer to the second has been an elusive goal for social scientists. Recent research

by Rafael Di Tella, Sebastian Galiani, and Ernesto Schargrotsky presents compelling evidence that the creation of secure property rights within a society actually changes people’s beliefs—to make them much more favorably disposed to the workings of a free market.

Di Tella *et al.* study the formation of beliefs in a squatter settlement on the outskirts of Buenos Aires. More than 20 years ago, hundreds of families occupied an area of wasteland that they thought was owned by the state. In fact, the area was composed of several tracts of land belonging to 13 private owners. Eventually, the state allowed the squatters to stay on the land, offering monetary compensation to the original owners. Many of the owners accepted the offer. The lucky squatters who happened to occupy these tracts received secure, legally defined, and protected property

Changing Beliefs About Markets: The Role of Property Rights

By Daniel K. Benjamin

Reference

Rafael Di Tella, Sebastian Galiani, and Ernesto Schargrotsky, “The Formation of Beliefs: Evidence from the Allocation of Land Titles to Squatters,” *Quarterly Journal of Economics*, Vol. 122, No. 1 (February 2007), pp. 209-241.

rights to the parcels on which they resided. But more than a third of the owners contested the terms of the monetary settlement, and even today the Argentine courts have not resolved this issue. The unlucky squatters on these parcels have never received secure rights to the land they occupy and, thus, have lived in legal limbo.



As the authors show, the age, education, sex, and other characteristics of the lucky squatters are the same as those of the unlucky squatters. Moreover, the size and physical properties of the lands occupied by each group of squatters are essentially the same. In effect, then, the authors have happened upon a natural experiment in which different property rights structures were imposed on two otherwise identical groups of individuals. In this study, Di Tella *et al.* have chosen to answer this question: Does the presence of secure property rights affect the beliefs that individuals hold about the world? The authors find that the answer is unequivocally “yes.” Lucky squatters who received secure property rights to their land report much more positive beliefs about the operation of the market system than do those unlucky squatters whose rights remain insecure.

To reach their conclusion, the authors randomly selected about 40 percent of the 1,100 squatter families and then evaluated their answers to several key survey questions. For example, squatters were asked whether they thought that individual (as opposed to group) action can yield success in life; whether material success is important in determining individual well-being; whether hard work is likely to be rewarded; and whether one can trust other people. Compared to the unlucky squatters, the lucky ones who received secure property rights concluded in the affirmative in each case; they believe individual actions can yield positive outcomes, that material success is important to personal well-being, that hard work is rewarded, and that other people can be trusted.

Di Tella *et al.* then aggregated the answers to these questions into an index of “market beliefs,” which enabled them to compare the overall attitudes of the two groups of squatters toward the market system. The squatters who received secure property rights are 20 percent

more positive toward the market system than are the unlucky squatters. Indeed, the attitudes of the squatters with secure property rights are just as positive toward the market system as the attitudes of much more affluent Argentinians who are much better educated and have much higher incomes.

There is considerable evidence from other research that secure property rights yield improved environmental quality, more efficient resource allocation, and higher wealth. Despite this, many people around the world remain suspicious of market systems and the private property rights essential to their functioning. Such attitudes arguably block the spread of markets, leaving millions of individuals mired in abject poverty. The present study implies that the beliefs held by market skeptics may in fact be subject to change—if the advantages of secure property rights and the operation of free markets can be demonstrated close enough to home.

The importance of this study is that it suggests that changes in attitudes are no accident, and that it may be possible, on a broader scale, to overcome the widespread hostility toward market systems. The aphorism that “seeing is believing” is rarely more applicable, for it appears that the creation of private property rights has the potential to change fundamentally how people perceive the world, and thus, perhaps, the institutions and policies they are willing to adopt. For those who believe that environmental quality, individual choice, and personal freedom are important, this is good news indeed.

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