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In 2003, economists Rafael Di Tella, Sebastian Galiani and Ernesto Schargrotsky wanted to examine capitalist beliefs in humans. Specifically, they sought to find out if beliefs about the free market could change, and the mechanisms through which this change occurs. To do this, Di Tella et al. studied the effects of property rights on squatters outside of Buenos Aires.

In 1981, a group of approximately 1, 800 families occupied abandoned land outside of Buenos Aires and divided it into parcels, giving one to each family. Although they believed the land to be government-owned, the land actually belonged to thirteen different private owners who attempted to have the squatters removed. In 1984, the Argentine government expropriated the land from the private owners in order to give legal land titles to these squatters. While most of the landowners agreed to the monetary compensation offer, five of them contested the amount in court. Thus, in 1989 419 families were given property rights (early treatment), while in 1998, a settlement allowed an additional 173 families to gain land ownership (late treatment). This leaves 410 families without property rights, which will be called the control group.

Although Di Tella et al. employed a field experiment, there were many natural controls that made the experiment more internally valid. First, the squatters arrived on the land at the same time and believed the land was public, so had no way of predicting the future dispute. This also gave them similar life experiences, as their living conditions were approximately the same. Further, the land was contiguous (the group of 757 parcels that were physically separated from the rest were not included in this study), and thus had similar land quality. This is reflected in the compensation offers to <https://assignbuster.com/the-capitalists-believe-in-human-and-now-buenos-airess-squatters-were-affected-by-property-rights/>

landowners, which were very similar in per-square-meter terms between those who accepted the offers and those who contested them. Later, the researchers also ran a significance test on parcel characteristics, such as distance to creek and distance to non-squatted area, and found these differences to be statistically insignificant. Most importantly, the squatters had no form of communication with the landowners before or during these negotiations. This addresses the endogeneity problem that occurs in the “real world”, in which motivated individuals are more likely to make efforts to gain property rights. Thus, the separation of squatter and landowner allows for the assignment of property rights to be random.

To measure capitalist beliefs, the experimenters surveyed the head of the household of 448 randomly selected parcels. Based on Adam Smith's theories, it was assumed that trust, individualism, materialism, and meritocratic belief were indicators of overall belief in capitalism and free markets. Thus, they chose simple questions from the World Values Survey and GSS to test people's beliefs, as follows. First, do you believe that it is possible to be successful on your own, or a large group that supports each other is necessary? Second, do you believe that having money is important to be happy? Third, in general, people who put effort working end up much better, better, worse, or much worse than those who do not put an effort? Finally, in our country, would you say that one can trust other people or that people cannot be trusted?

Using the data collected from this survey, Di Tella et al. were able to create a regression model with a vector of controls for other variables such as age,

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sex, ethnicity, years of education, and education level of parents. Using this regression model, the experimenters then ran a significance test and found striking differences in survey responses between squatters with property rights and those without property rights. Those with property rights were more individualistic, that is, they felt that they were more likely to succeed on their own. They were also more materialistic, meaning they placed a higher importance on money, and were more trusting of others. However, the difference in meritocratic beliefs (i. e. that effort makes a person better off) was not statistically significant. Despite this, the overall market beliefs index increased about 20% (statistically significant), meaning property rights can make a person more capitalist and increase their beliefs in the free market. Di Tella et al. believed these results could be extrapolated to the Buenos Aires population because surveys of a random sample of Buenos Aires residents revealed similar results to those of squatters with property rights.

This change in beliefs can be attributed to either experience or motivation. The theory of experience beliefs state that people's values may change as a result of their environment and interactions. Yet, due to the families' similar living conditions and the vector of controls in the regression model, this is unlikely. Alternatively, the motivated beliefs hypothesis states that individuals change their beliefs based on convenience. Lucky squatters, for example, have a high incentive to change their beliefs as they now live in a different reality than those who were unlucky. Yet, this explanation assumes that those who received property rights were viewed as fortunate while those who did not receive any acted as a baseline. Instead, it is possible that

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those without property rights were unfortunate and frustrated, while those with land titles were the baseline. So, while there is stronger evidence for the motivated beliefs hypothesis, Di Tella et al. could not reach a definitive conclusion as to the mechanism of belief changes.

While the study was run effectively, it is difficult to replicate these findings as it was a field experiment. Further, there is an external validity issue because the survey of Buenos Aires residents did not control for outside variables (it is possible that some of those surveyed were not themselves property owners). And, surveys often capture the subject's mindset at that moment, so may not truly indicate their overarching beliefs. Finally, the survey is based on Smith's theory that individualism, trust, meritocracy, and materialism are indicators in the belief in free markets. Nonetheless, Di Tella, Galiani, and Schargrotsky were successful at manipulating this field experiment through regression controls to conclude that property rights did positively change squatters' beliefs in free market capitalism, though the mechanism is still unclear.