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# Can Land Inequality Hamper Rural Credit Access? Can Land Reforms improve access to credit? Evidence from Mexican state-level data, 1940-1960

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Can inequality negatively affect credit access? This paper explores the association between inequality and credit access by investigating the role of land inequality on rural credit access. Access to credit is essential for any economic sector and even more so for agriculture. Several authors (Deininger and Squire (1998), Griffin, Khan and Ickowitz (2002), Rajan and Ramcharan (2009), etc.) argue that land inequality negatively affects to rural credit access. On the one hand, their hypothesis is that land inequality cause that a large part of agrarian population does not have collateral to offer when they ask for a loan, which makes them seem less creditworthy for banking sector. On the other hand, they defend that land inequality is associated with a powerful landed elite that apart from owning majority of land, also has social and political influence that they use to bias credit into its benefit to maintain its economic position and to ensure cheap labour.

This paper examines this question using the natural experiment offered by Mexico. Mexico has been an agrarian country for most of its history, with a strong landed elite, high land inequality, and with shortage of rural credit. This situation was attempted to solve in the early 20th century with the Mexican Revolution, and with one of the most important agrarian reforms in history, the Mexican agrarian reform. This reform aimed to reduce land inequality, limit the power of landed class, and improve access to rural credit by granting land to landless peasants who could use it as collateral to obtain loans.

To corroborate if land inequality can negatively affect credit, and if Mexico's agrarian reform reduced land inequality and favoured credit access; I analyse the impact of land inequality on rural credit using a large collection of unpublished state-level data on land distribution, and on rural credit in Mexico for the period 1940-1960. In fact, one of the contributions of this paper is to offer a new, original, and unique dataset of rural credit and land inequality state-by-state, that I have obtained from the original censuses of Mexico.

By employing panel Ordinary Least Square, Fixed and Random Effects approach, I have found that land inequality, although harmful, did not affect access to credit in any Mexican state. Actually, access to credit depended on political factors and not on high land inequality. Moreover, the results indicate that Mexican land reform did not decrease land inequality as much as it could have reduced in 40 years, nor did it improve access to rural credit.

To my best knowledge, no one has studied how land inequality can affect access to rural credit in the case of Mexico, least of all analysing the possible state-by-state effect. Neither has anyone used data from the original agricultural and population censuses; allowing me to contribute with an original and unique dataset on land inequality and rural credit.