Land and Its Taxation as Issues in Economic Theory:

What Is the Reason for Their Eclipse?

By ATHANASSIOS SKOURAS *

ABSTRACT. Despite the continuing practical importance of the subject, *land* and its *taxation* have lost their prominence in modern economic theory. This evolution in *economic thought* is traced briefly. An explanatory hypothesis is offered based on the theoretical bias of the two major traditions in *neo-classical theory:* the Marshallian tradition does not distinguish land from *capital* (treating land as only one among many forms of capital) while the Walrasian tradition cannot distinguish capital from land (treating capital as an "original" factor similar to land). Though both *Alfred Marshall* and *Léon Walras* had a considerable interest in questions of land taxation, their followers, on the whole, have been neither able to overcome nor have they even been aware of the confinement of their respective theoretical perspectives.

I

TAXATION OF LAND is one of the most ancient forms of taxation. Historically, a very large variety of land taxes has been devised and even today practically all countries in the world still retain some variant of a tax on land (1). A main distinction that can be drawn is between underdeveloped countries which tend, naturally, to rely on taxation of agricultural land and developed countries which tend to concentrate mostly on taxation of urban land. But the variety of taxes, even within each group, is so large that, not only is neat classification extremely difficult, but a precise definition of "land tax" can hardly prove fruitful (2).

If one takes a very long view, it is clear that the relative importance of land taxation for public finance has declined concurrently with the growth of income and other taxes. But the land tax nevertheless continues to be an important tax in many, especially underdeveloped, countries (3). In absolute terms, however, the situation is quite different. Though a strict comparison across the ages is not feasible, it would seem that the growth of the Nation State and the public sector

* [Athanassios Skouras, Ph.D., is head of the department of applied economic studies, North East London Polytechnic, Longbridge Road, Dagenham, Essex RM8 2AS, England.] I thank an anonymous referee of this *Journal* for his helpful comments though I alone, of course, remain responsible for any errors or omissions.

American Journal of Economics and Sociology, Vol. 39, No. 4 (October, 1980).
0002-9246/80/040373-10$00.75/0

as well as the general increase in wealth and population have resulted in receipts from land taxation whether for national, provincial (state) or local revenue, being greater than at any previous historical period.

The economic justification and effects of taxation on land is an issue that has been in dispute from the beginnings of economic science and was hotly debated in the 18th and 19th centuries. After the demise of the Physiocratic doctrine, according to which all taxes were in effect taxes on land since this was the only productive factor, it can be said that the most powerful and influential analysis was effected by David Ricardo and elaborated upon by John Stuart Mill. Ricardo clearly differentiated between a tax on rent and taxes on the gross produce of land ("Tithes" Ch. XI) or taxes on area under cultivation ("Land-tax, Ch. XII). "A tax on rent would affect rent only; it would fall wholly on landlords, and could not be shifted to any class of consumers" (4). But other taxes will raise the price of raw produce, will tend to discourage cultivation and will be mostly borne by the consumers. These latter taxes do not fall on landlords but "inasmuch, indeed as wages, and through wages, the rate of profits are affected, landlords, instead of contributing their full share to such a tax, are the class peculiarly exempted" (5). Ricardo in examining the causes of rent (which he defines as "that portion of the produce of earth which is paid to the landlord for the use of the original and indestructible powers of the soil"), comes to the conclusion that "the rise of rent is always the effect of the increasing wealth of the country, and of the difficulty of providing food for its augmented population" (6).

J. S. Mill draws from Ricardo's analysis the implications for tax policy and further argues, on equity grounds (7), that all increases in rent (or land value) should be appropriated by the State. This conclusion was widely accepted in the latter half of the 19th century and a number of proposals were made for a just and practicable application of this program. Apart from J. S. Mill's own proposal, foremost among these, from the intellectual point of view (8), were the plans advanced by H. H. Gossen (9) and Léon Walras (10).

II

UNTIL THE FIRST WORLD WAR practically all great economists were concerned with the theory of land rent and with the question of land taxation. Contributions and refinements to the basic Ricardian theory were made by the Austrians Carl Menger, Friedrich Von Wieser and

Eugen von Bohm-Bawerk, who started the process of integrating the theory of rent with the general theory of prices; Edgeworth and Alfred Marshall, who were actively interested in the problems of property and land taxation; and, finally Knut Wicksell, in whose theorizing the factor of production land figured as prominently as labor and capital.

But in the 20th century there seems to be a significant change in the attitude of economists towards the question of land. Land lost its distinct analytical status and ceased to be an important issue in economic theory. Not only the major journals carried virtually no articles on questions of land and its taxation but even most textbooks ignored such questions or disposed of them in a footnote or at most a couple of paragraphs (11).

The neglect of land problems in the mainstream of economic thinking in this century and the need for technical knowledge in this field has led to the formation of a somewhat separate discipline. This was characterized by the practical concern of its followers and its disengagement from formal economic theory. The new discipline was centered at the University of Wisconsin and in 1925 its promoters launched its own journal: *Journal of Land and Public Utility Economics* (later renamed *Land Economics*). The core of the subject was the study of urban land and city problems; the classical works, those of R. M. Hurd and R. M. Haig (12).

Recently, the public concern for urban problems and the consequent government funding of research, especially in the United States, revived the economists' interest and analytical techniques developed by economists were used in this area (13). At the same time its subject matter, the city, is becoming increasingly the concern not only of neoclassical theorists but also of specialists in regional science, economics of location and economics of housing (not to mention sociologists, anthropologists and political scientists).

From the policy point of view, the shift in focus from "land as a factor of production" to the problems of the city has made taxation a peripheral issue secondary to planning, zoning, etc. Apart from the development of resource economics, the only important work that has been carried out recently is in the U.S.A. and it appears in the context of an attempt to reform the property tax (14). This work is therefore practical in outlook and contains no theoretical innovation of any importance.

In contrast, taxation of land in underdeveloped countries continues to be a current policy issue and the development of a significant literature reflects this (15). Nevertheless, the concern is nearly always with local circumstances and practical, mainly administrative problems. In consequence, the theoretical content is minimal and if a loose theoretical framework is used it is either Ricardian or early neo-classical.

III

WHAT IS THE REASON for the neglect of land in mainstream economic theory? Two possible hypotheses can be advanced for this development (16). The first is sociological or political in nature and is based on the influence that socio-political power and environment have on intellectual activity (17). According to this view, land was of importance in Ricardo's analysis because it corresponded to a social and political force. The erosion of land's political power and the merging of landed interests with capital in general have produced the disappearance of land owners as a social class; this fact has been reflected in the economists' practice by the reduction of land to the status of a special, and not important, type of capital.

The second hypothesis is in terms of the analytical development of the economics discipline. Though this is the one we will concentrate upon, it should be noticed that this does not necessarily imply a rejection of the first. In other words, the two hypotheses explaining the neglect of land by economic theorists in this century are not necessarily exclusive of each other. Acceptance of the first one, for example, still requires an explanation of how such broad socio-political factors work themselves into the internal logic of a subject. This is because the evolution of any discipline has an internal logic that social factors can penetrate with great difficulty and only if they can be translated into a language that obeys the same rules. The two hypotheses, therefore, operate at two different levels: the first being more of a "macro"-level while the second is more of a "micro"-level approach. To fully reconcile or merge the two partakes of the same difficulties that an integration of such separate levels of analysis present not only in economics but also in physics and other natural sciences (18).

The development of economics in this century has been preponderantly within the neoclassical framework. Within this framework, two broad strands can be identified as having exercised the most influence. These have their origins in Marshall and Walras respectively. Most introductory courses and textbooks as well as most microeconomic theory are based on Marshall while more advanced work and mathematical general equilibrium theory are mostly based on Walras (19). Both traditions have tended to neglect land. This neglect is hardly, as we have seen, the result of a lack of practical policy concern with land questions. It is our hypothesis that such neglect is due to the inherent bias of both the Marshallian and Walrasian theoretical traditions; a bias, it should be noted, the strength of which both Marshall and especially Walras, given their interest in land questions, were probably not fully aware of.

IV

IN THE MARSHALLIAN TRADITION there is a tendency to minimize the differences between land and other factors of production. All produced means of production can earn rent (or rather, as Marshall called it, "quasi-rent") in the short-run. As a result, in any but the long-run, (in which, anyway, we are all dead, as Keynes noted) land cannot be distinguished from scarce produced means of production on the basis of its ability to earn rent. In addition, land is rarely found in its raw natural state and rent is usually paid, in practice, for qualities and characteristics that are man-made and produced like any other means of production. Thus, the conjunction of this empirical observation with the concept of "quasi-rent" has made the Marshallian tradition view land as similar to any type of capital.

Marshall's dictum that "rent is only the leading species of a large genus" is, in this way, taken to the extreme formulation that "rent is the conventional name for the returns of a type of capital that is in short supply." Since land is therefore seen as only one among many forms of capital, there is clearly no justification for a special theoretical treatment of taxation of land. This is the view that dominates microeconomics textbooks in which land is in most cases not mentioned at all, while, in the remaining ones, it is briefly mentioned only to be dismissed in the above fashion.

In the Walrasian tradition the negelect of land is again due to a lack of theoretical distinction between land and capital. But if in the Marshallian tradition land is seen as a form of capital, the followers of Walras commit a cruder conflation by treating capital (and indeed labor and any other factor of production) as being similar to land. The starting point of Walrasian analysis is the listing and enumeration of the given factors of production. The quantities of various types of machinery and physical equipment as well as labor (subdivided, if one wants, into different types and skills) are all fixed and given in the same way that the quantity of land (and its divisions into different qualities) is fixed and given. General equilibrium analysis needs, as exogenously given data, the physical quantities of the factors of production or "endowment" of the economy and the psychological preferences of individuals. Only when these data are provided is it possible to proceed to the finding of equilibrium prices for commodities and factors of production. The payments to the factors of production appear in fact as "rentals" since all means of production are "original" and fixed in the manner of land.

It is evident that in such a scheme the notion of capital as *produced* means of production is absent and capital is totally conflated with land. As a result, there is an understandable tendency to drop land from such models since its lack of a separate theoretical identity makes its inclusion redundant and of no consequence. In addition, the empirical "fact" of the progressively diminishing importance of land relative to capital in mature economies (20) serves as an additional argument for disregarding land.

Such a procedure seems, at first sight, reasonable given the need to simplify a model which, even without land, remains quite complex and is usually reserved for more "advanced" courses. Nevertheless, the effect of this is particularly unfortunate because it disguises the fact that what is called "capital" in this model has taken on the basic characteristic of land: its fixity or non-reproducibility. The inclusion of land in general equilibrium analysis would have underlined this and made obvious the conceptual weakness that characterizes this model's treatment of capital.

V

IT IS AN IRONY, not untypical of intellectual development, that Walras, who was an anticipator and an admirer of Henry George, who inherited from his father, Auguste Walras, an interest in land reform and who was personally so concerned with the question of land, should have provided the analytical framework that rendered this question uninteresting and unimportant. There is no paradox here though; Walras derived his interest in land from the implications of his theory of a "Progressive Economy" (21). It was his successors who generally ignored his little-developed theory of growth (22) and concentrated on refining and elucidating his undoubtedly more fundamental contribution of a static general-equilibrium model (23).

To SUM UP, it has been argued that the neglect of land is due to the theoretical bias of the two major traditions in neo-classical theory: the Marshallian tradition does not distinguish land from capital while the Walrasian tradition cannot distinguish capital from land. Though both Marshall and Walras had a considerable interest in questions of land taxation, their followers, on the whole, have been neither able to overcome nor have they even been aware of the confinement of their respective theoretical perspectives. As a consequence, not only has theoretical work on land been in virtual eclipse for the past half-century but, more importantly, practical policy-making relating to land has tended to be without sound foundations and, on the whole, rather poorly informed.

1. The following classification is found useful by H. P. Wald, *Taxation of Agricultural Land in Underdeveloped Countries* (Cambridge, Mass.: Harvard Univ. Press, 1959), p. 7. "Close examination of the different bases of land taxes in use in the underdeveloped countries suggests an initial grouping into three major categories, depending on whether the taxes are assessed according to 1) land area, 2) a rental value concept, or 3) an income concept. In addition, a fourth category, here designated as "special purpose taxes," is sufficiently important to be included in the survey. Various subclassifications are also indicated. When area is used, a separation between (a) uniform rate and (b) classified rate (or graded) taxes is meaningful. When a rental value concept is the base, a distinction can be made between (a) annual value and (b) capital value. Finally, when an income concept is used, at least four subdivisions are possible: (a) tithe, (b) gross yield or gross income, (c) net income, and (d) marketed produce." This classification was designed for agricultural land taxes in underdeveloped countries. The inclusion of urban land taxes in developed countries would probably require a further extension of this, already long, classificatory scheme. If in addition, we consider land in the sense of all natural resources, then water fees, oil leases and royalties, forest taxation, mineral rights etc. are all part of land taxation and the above classification becomes hardly adequate. It should be made clear that, given the often special considerations characterizing natural resource taxation, this paper is confined to the traditional types of land and its taxation, *i.e.*, agricultural and urban, considered by economists from the times of Adam Smith and David Ricardo.

2. "The classification, 'land tax,' though an old one in public finance literature, has never acquired a precise definition." (Wald, *op. cit.*, p. 7). It is nevertheless clear that land taxes can be defined, in the most general terms, as imposts levied on land on the basis of one or more of a variety of characteristics such as value, income, area, nature, location, etc., all of which can be, in turn, specified in a number of possible ways. See also the following references mentioned in Wald: K. Brauer, "Land Taxation," in *Encyclopaedia of the Social Sciences,* Vol. 5, pp. 70–73; H. S. Bloch and N. D. Ganjei, "Land Taxes," *Encyclopaedia Britannica* (1957 ed.), Vol. 13, pp. 675–77.

3. In China and the Republic of Korea receipts from land taxes (in the form of gross produce in kind) constitute one-fourth of total tax receipts. (Wald, *op. cit.*, p. 62). Even in the U.S.A. receipts from property taxes were in 1962

45.9 of total tax revenue of all state and local governments and 87.7 of local governments (Dick Netzer, *Economics of the Property Tax,* Washington, D.C.: The Brookings Institution, 1966), p. 9. According to Netzer, "it continues (in 1966) to finance more than one-fifth of the civilian general expenditures of federal, state and local governments" (*ibid.,* p. 1). The property tax can be considered a variant of land tax since by far the largest part of the tax base is buildings and land. The personal property (both tangible and intangible) component of the tax base is relatively small accounting for 16–17 percent of the total in recent years (*ibid.,* p. 139). For some recent international statistics on agricultural land taxes, see R. M. Bird, *Taxing Agricultural Land in Developing Countries* (Cambridge, Mass.: Harvard Univ. Press, 1974).

4. D. Ricardo, *Principles of Political Economy and Taxation* (Harmondsworth: Penguin Books, 1971), p. 188.

5. *Ibid.,* p. 198.

6. *Ibid.,* p. 100.

7. "Suppose that there is a kind of income which constantly tends to increase without any exertion or sacrifice on the part of the owners: those owners constituting a class in the community, whom the natural course of things progressively enriches, consistently with complete passiveness on their own part. In such a case it would be no violation of the principles on which private property is grounded, if the state should appropriate this increase of wealth, or part of it, as it arises. This would not properly be taking anything from anybody; it would merely be applying an accession of wealth, created by circumstances, to the benefit of society, instead of allowing it to become an unearned appendage to the riches of a particular class." J. S. Mill, *Principles of Political Economy* (Toronto: Longmans, 1965), p. 819.

8. Politically, the most influential doctrine and tax plan is that of Henry George, *Progress and Poverty* (1879) (New York: Robert Schalkenbach Foundation, 1980). George was a moralist who believed that he had identified in the land market the basic cause of most social evils. He proposed the confiscation of all or nearly all rent, dispensing in this way with all other taxes. It is interesting that his "Single Tax" proposal marks a return, albeit from a completely different route, to the Physiocratic *"Impot Unique."* For a recent assessment of his views and their contemporary relevance, see the articles by Stuart Bruchey (April, 1972) and Bernard Newton (April, 1971, July, 1971 and January, 1972) in the *American Journal of Economics and Sociology.* See also A. M. Woodruff, J. R. Brown and S. Lin (eds.), *International Seminar on Land Taxation, Land Tenure and Land Reform in Developing Countries* (West Hartford, Conn.: John C. Lincoln Institute, University of Hartford, 1967), and R. R. Hansen, "Henry George: Economics or Theology," in R. W. Lindholm (ed.), *Property Taxation USA* (Madison: Univ. of Wisconsin Press, 1967).

9. H. H. Gossen, *Entwicklung der Gesetze des menschlichen Verkehrs und der daraus fliessenden, Regeln fur menschliches Handeln,* 1854.

10. "Theorie mathematique du prix des terres," (Lausanne, 1880); also "Un economiste inconnu—H. H. Gossen" (1885), both contained in *Etudes d'economie sociale* (Lausanne: Rouge, 1896, 1st ed.; Paris: Píchon et Durand-Auzias, 1936, 2d ed.). Walras reviews and criticizes both J. S. Mill and Gossen and then offers a plan for the purchase of all land by the State which will compensate fully all owners and at the same time benefit the State. Walras argues that there is no contradiction in this claim as there are future increments in land value which have not been foreseen and capitalized by present owners who cannot visualise the radical change associated with the transformation of an agricultural economy into an industrial one. He also considers that a progressive State which plans for growth will 1) take into consideration the lower rate of interest associated with the growth of capital and wealth (in contrast to individuals who, due to myopia and a limited life-span, place a lower valuation on future returns from land); and 2) will take appropriate steps so as generally to encourage growth and, more particularly, increase the productivity and returns from land.

11. A typical (though possibly longer than usual) statement of the modern

position is the following one by Scitovsky: ". . . There is no logical reason for treating land as a separate factor because, from the economist's point of view, it is similar in all essentials to produced factors. . . . Land, in the sense of mines, quarries or oil fields, has a limited lifetime, just like a house or a piece of machinery; and even agricultural land is not an inexhaustible resource but needs maintenance and replacement of its minerals. As to the initial cost of production which we customarily associate with produced factors, we can, if we wish, regard the cost of opening up a mine or clearing a field for cultivation as its initial 'construction' cost, although we must allow, as a limiting case, for the existence of some land whose initial cost of construction was zero. From the point of view of an individual firm or person, all land has to be bought; and its purchase price may be regarded as its initial cost. As to society's point of view, we usually assume the existence of a large stock of capital goods inherited from the past; and none of our arguments or results hinges on whether these capital goods were produced at some distant past date or whether some of them have existed from time immemorial. From every point of view, therefore, land may be regarded as a capital good and the rent of land as similar in every respect to the gross earnings of a produced factor." Tibor Scitovsky, *Welfare and Competition* (London: Allen and Unwin, 1952), pp. 227–28.

12. R. M. Hurd, *Principles of City Land Values* (New York, 1903); R. M. Haig, *Major Economic Factors in Metropolitan Growth and Arrangement, Regional plan of New York and Environs,* Vol. 1, New York, 1927. The intellectual predecessors of "land economists" can be found among the neo-classical economists and especially Friederich von Wieser; see *The Theory of Urban Ground Rent,* (in L. Sommer, (ed.), *Essays in European Economic Thought* (New York: Van Nostrand, 1960). The best known initial members of the discipline are R. T. Ely, the founder of *Land Economics,* G. S. Wehrwein, B. H. Hibbard, H. C. Taylor, A. G. Hinmann, H. B. Doran, H. Hoyt and R. T. Bye. Among the more recent contributors, who can be found in *Land Economics,* two well known names are those of R. V. Ratcliff, *Urban Land Economics* (New York: McGraw-Hill, 1949) and *Real Estate Analysis, ibid.,* 1961; and P. F. Wendt, *Real Estate Appraisal, a Critical Analysis of Theory and Practice,* 1956; see also Wendt's "Theory of Urban Land Values" in *Land Economics,* August, 1957.

13. The first and best-known works are those of W. A. Alonso, *Location and Land-use: Towards a General Theory of Land Rent* (Cambridge, Mass.: Harvard Univ. Press, 1964), (the main argument of which is briefly summarized in "A Theory of the Urban Land Market," *Papers and Proceedings* of the Regional Science Association, Vol. 6 (1960); and L. Wingo Jr., *Transportation and Urban Land* (Washington, D.C.: Resources for the Future, 1961), (summarized in "An Economic Model of the Utilisation of Urban Land for Residential Purposes," *Papers and Proceedings* of the Regional Science Association, Vol. 7, 1961).

14. The discipline of resource economics has been produced by collaboration of agricultural and forestry economists with economists specializing in the mining and fisheries industries. On the subject of property tax reform, the most important works are by Netzer, *Economics of the Property Tax,* cited above; J. Heilbrun, *Real Estate Taxes and Urban Housing* (New York: Columbia Univ. Press, 1966); and the publications of the Committee on Taxation, Resources and Economic Development (TRED), especially Vol. 4, *Land and Building Taxes* (Madison: Univ. of Wisconsin Press, 1969) edited by A. P. Becker, and Vol. 5, *The Assessment of Land Value* (Madison: Univ. of Wisconsin Press, 1970), edited by D. M. Holland. The most theoretical of these is Heilbrun's work which examines the effects of seven different (but commonly used) types of local real estate taxes on maintenance of and investment in buildings.

15. The most general work is Wald, *op. cit.;* see also the review by G. E. Lent, "The Taxation of Land Value," *International Monetary Fund Staff Papers,* Vol. 14, No. 1 (March, 1967); and the book by R. M. Bird, cited above.

16. A third hypothesis can be that the subject has been exhausted as there remains nothing new or interesting to be said about land in economic theory. This view is nevertheless untenable because it can be shown that a number of

neoclassical models and other approaches in recent theoretical work can, first, incorporate land in ways that are interesting and not immediately obvious and, second, yield implications for land taxation that are not universally recognized and are of importance for policy formation; for such a demonstration, see A. Skouras, *Land and Its Taxation in Recent Economic Theory* (Athens: Papazissis Publishers, 1977; in English).

17. Gunnar Myrdal has tried to show that the foundations of economic science are shaped by political and ideological factors; see *The Political Element in the Development of Economic Theory* (London: Routledge, 1953). Thomas S. Kuhn's theory of the development of (natural) sciences, by emphasising the importance of sociological factors in the scientific environment, provides indirectly some basic support for Myrdal's position; see his *The Structure of Scientific Revolutions* (1962) (Chicago: Univ. of Chicago Press, 2d ed., rev., 1970).

18. It has been argued, at least for economics, that the existence of different levels of analysis, such as micro- and macro-, which cannot be fully integrated, is not necessarily a scientific defect; see M. Peston "A View of the Aggregation Problem," *Review of Economic Studies,* Vol. 27, 1959–60.

19. Keynes, whose work marked a radical departure from Marshall's, has paradoxically and, as it has progressively become apparent, uncomfortably been integrated within the Walrasian general equilibrium framework while some of his closest collaborators and their "post-Keynesian" followers have not generally made a significant impact on the majority of the economics profession.

20. It should be noted that the evidence on this is not very reliable and that, especially if mineral, forest and other natural resources are included in "land," this widely accepted statement is rather debatable.

21. See L. Walras, *Elements of Pure Economics* (London: Allen and Unwin, 1954), Lesson 36, "The Marginal Productivity Theorem, Expanding Output. The Law of General Price Movements in a Progressive Economy." His conclusion therein is the following: "The truth is that a progressive rise in the values of land and its services, which may take place without necessarily bringing about an increase in the value of its products, is, along with the expansion of capital and population [capital expanding proportionately more than population: *my note*], the essential characteristic of economic progress." *Op. cit.,* pp. 391–92.

22. An attempt to rediscover Walras's theory of growth and develop it formally has been made recently by W. D. Montgomery, "An Interpretation of Walras' Theory of Capital as a Model of Economic Growth" *History of Political Economy,* Vol. 3 (Fall, 1971), pp. 278–97.

23. The preoccupation of economists with the general-equilibrium model and the implications of this for land can be clearly shown by the work of Pareto, who succeeded Walras in the chair of political economy at the University of Lausanne. Pareto's only reference to land is the following: "Land capital does not enjoy any economic precedence over other capital; it is neither more nor less indispensable to production than other capital. On the other hand, it often is of greater importance than other capital from the political viewpoint. For a very long time, and among a large number of peoples, political power has belonged to the owners of the land." V. Pareto, *Manual of Political Economy* (New York: Macmillan, 1971; p. 321). It should also be noticed that since the 1930s, when the general equilibrium model and the modes of thinking associated with it were introduced to the Anglo-Saxon world through the work of J. R. Hicks and R. G. D. Allen, there has hardly been an article of any worth on the subject of land taxation or the theory of rent in any of the major journals.