Can Labor-Capital Models Predict the Responses of Agrarian Societies to Development? Part I: Problems with Development Economics

Author(s): David H. Smiley

Source: *The American Journal of Economics and Sociology*, Oct., 1995, Vol. 54, No. 4 (Oct., 1995), pp. 489-501

Published by: American Journal of Economics and Sociology, Inc.

Stable URL: https://www.jstor.org/stable/3486972

JSTOR is a not-for-profit service that helps scholars, researchers, and students discover, use, and build upon a wide range of content in a trusted digital archive. We use information technology and tools to increase productivity and facilitate new forms of scholarship. For more information about JSTOR, please contact support@jstor.org.

Your use of the JSTOR archive indicates your acceptance of the Terms & Conditions of Use, available at https://about.jstor.org/terms

is collaborating with JSTOR to digitize, preserve and extend access to *The American Journal of Economics and Sociology*

This content downloaded from 149.10.125.20 on Thu, 31 Mar 2022 15:54:53 UTC
All use subject to https://about.jstor.org/terms

Can Labor-capital Models Predict the Responses of Agrarian Societies to Development?

Part I: Problems With Development Economics

By DAVID H. SMILEY*

ABSTRACT. *Development* efforts and economics have relied upon two-factor, capital and labor neoclassical *economic models*. Failures have occcurred when they were applied to agrarian societies where the ownership of *land rent* dictates particular institutional forms that engender resistance to development. It is argued that there is a need for a new three-factor development theory which explicity models *land* and its *rent*. Ideas of *Smith, Ricardo, George* and *Samuelson* are assembled as a basis for a *computer simulation* model that explores landed institutions and the land value flows resulting from different development strategies. Part II, a subsequent article in this Journal, sets forth the models.

I

Introduction

ONE HUNDRED YEARS AGO George's *Progress and Poverty* was probably more widely read than any other work on economics, including Marx's Capital. Both men proposed radical solutions to the general problem of achieving economic growth with social equity. Marxism conquered half the world and left a heavy imprint upon the other half. Georgism exists today mainly in the history of economic thought and to a limited degree still affects local government revenue practices.

Economists such as Smith, Mill, Ricardo and George regarded land rent as ethically and economically quite different from profit and interest in that rent was socially, not privately created. George argued that land monopoly was the main cause of poverty, but his remedy, the collection of land rent by government as revenue, was unique in that it left private property rights intact. However, for the past 100 years both neoclassical and neo-Marxist practice have, to a large extent, departed from the classical political economy three-factor model of land, labor and capital, and used two-factor models which aggregate land with capital and rent with profit.

* [David H. Smiley, M.App.Sci., is research associate, Walsh Bequest, School of Economic and Financial Studies, Macquarie University, Sydney, Australia.]

American Journal of Economics and Sociology, Vol. 54, No. 4 (October, 1995).
© 1995 American Journal of Economics and Sociology, Inc.

This content downloaded from
149.10.125.20 on Thu, 31 Mar 2022 15:54:53 UTC
All use subject to https://about.jstor.org/terms

By the end of the second world war, neoclassical economics related economic progress principally to population, savings and capital efficiency. The Harrod-Domar model was its engine, and the Marshall plan its vindication. There was no radical analysis of poverty, and it was assumed that benefits from economic growth would trickle down to the poor. For the past 50 years these neoclassical development models have been appplied to the third world, but with far less success than that of Marshall plan. But there is a telling exception to this poor outcome in those economies which removed, or never had, the institutional constraints of concentrated land ownership. They prospered.

The appropriateness of neoclassical labor-capital models to those economies where land, not capital is dominant has not gone unchallenged, though not as yet, explicitly in terms of rent. Recently, there have been attempts to rebuild neoclassical economics to accommodate institutional behavior, and these initiatives are now travelling far back into the root systems of social science, but again without defining property rights in any way immediately useful to third world development.

Development literature suggests that in agrarian societies unearned land rents typically cluster around 50 percent of produce, and that development practice produce a stumbling kind of progress in the midst of increasing poverty. Thus, since development theory contains no radical analysis of rent, it is appropriate to revisit Henry George and to attempt to assess the applicability of his peculiar remedy to the problems of achieving third world growth with equity.

In development economics, progress is regarded as being synonymous with growth, with emphasis upon the accumulation of capital and the efficiency of its use. Poverty is defined absolutely (the International Poverty Line), and relatively (the Gini coefficient). In agrarian economies it is characterized by debt and subsistence living, urban shanty-towns, and migration to them. The prescription for slow growth is capital injection, and the remedies for poverty, arbitrary schemas for meeting basic needs upon which particular capital injections are designed. These often have conflicting objectives and, nearly always, unintended consequences.

This paper redefines growth and poverty as a basis for evaluating development theory and practice, then restates George's remedy in a third world context, and finally describes a computer simulation of responses of the actors involved in alternative development strategies.

II

Development Practice

DEVELOPMENT HAS BEEN defined as the process of improving the quality of all human lives (Todaro 1989:620). After World War II, Bretton Woods and the

This content downloaded from
149.10.125.20 on Thu, 31 Mar 2022 15:54:53 UTC
All use subject to https://about.jstor.org/terms

Marshall Plan removed extreme poverty from war-torn Europe and successfully drove its economic growth for the next 25 years.

These successes resulted in a Western, neoclassical plan, entirely conceived in industrialized, capital-intensive economies being transplanted into agrarian, labor-intensive economies as the West and East initiated massive development programs for the less developed countries (LDCs) later designated as "the third world."

For five decades third world development has consumed far larger resources with far less result than those of the Marshall Plan. Progress, that is to say, per capita economic growth has failed to meet the return on investment expected. Poverty has not been removed. Poverty is actually increasing instead of decreasing (World Bank Development Report, 1988, cited by Todaro 1989: Preface). Inequality has increased.

In the West, growth was doubly convergent—internal incomes became more equal and so did the wealth of nations. But in the third world, growth was doubly divergent. Gaps between rich and poor people widened, and gaps between rich and poor nations widened. Sen (1983: 747, 757) confirms divergence and introduces a convergent concept of "entitlements", but without saying much about how they are to be gathered from the rich or delivered to the poor. Ingham (1993: 1805), addressing the puzzle of divergent growth, sees that "One explanation, consistent with an institutional approach, . . . points to a contrast in the distribution of ownership of land."

The problem of migration has not been reduced. "One of the most perplexing dilemmas of the development process (is) the phenomenon of massive and historically unprecedented movements of people from the rural countryside to the burgeoning cities of Africa, Asia, and Latin America" (Todaro 1989: 263). "In Latin America the shanty-town population is estimated to grow at 15 percent per year as landless peasants, denied a chance of a viable existence in the countryside, flock in desperation towards the cities" (King 1977: 55).

Institutional structures in the third world differ from those of the West and appear unchanged by development. Dudley Seers (Seers 1969: IDR5), one of the earliest critics of growth-oriented development theory, identified the underlying problems of unemployment and poverty and linked them, via inequality, to property: "Inequality cannot really be reduced so long as property ownership is heavily concentrated." Regrettably, he does not define "property" then or later (Seers 1977). Bhattacharya (1989: 141) concludes "In pre-capitalist developing countries, land still represents the principal form of wealth and the main source of economic and political power and prestige." Throughout his analysis King (1977) claims that social injustice and economic stagnation are directly linked to patterns of landholding. According to Todaro (1989: 308)

This content downloaded from
149.10.125.20 on Thu, 31 Mar 2022 15:54:53 UTC
All use subject to https://about.jstor.org/terms

patterns of property ownership in many third world countries are such that landlords take 50–80% of the peasants' crop, while moneylenders, often the same person as the landlord (see Bhaduri 1973: 135), charge interest at 50–200%. Such figures help quantify the peculiar third world characteristics of poverty, inequality, and an apparently irreversible progression of peasants from small proprietor, to tenant, to sharecropper, landless laborer, jobless vagrant, and finally to migrant slum dweller.

Those who began to recognize the importance of land ownership often talked of land reform. But Myrdal, and Bauer too (Bauer 1972: 208, 209) repeat some common misconceptions concerning land reform. While Sen's critique of development theory, built on Hirschman's "obituary of development economics," attempted to offset criticisms of neoclassical economics by reference to the obvious successes of the "tigers" of Japan, South Korea and Taiwan, without mention of the land reform programs upon which these successes were based (1983: 747). However, Rock (1993: 1795) understands the connection and contrasts the development failures in Latin America with development success in East Asia. The latter, relatively resource poor and over-populated, has nevertheless achieved high growth, stability, and relatively egalitarian societies, apparently without debt. In Latin America, indigenous populations have been exploited by small politically powerful landed elites whereas, "Virtually everywhere in East Asia—in Japan during the Meiji restoration and in Taiwan, Korea and China in the late 1940s or early 1950s—the power of landed elites was broken . . ." And Scitovsky's (1985) analysis states quite categorically that income distributions in Taiwan and South Korea are much more equal than in any other developing country, due to "the thorough land reforms in both countries." According to Bhattacharya (1989: 156) "Those developing countries which have introduced reform policies such as China, South Korea and Taiwan have achieved genuine economic development." Barke and O'Hare (1984: 111) report that "The realization that land reform could actually increase agricultural productivity . . . meant that a strong economic objective was added to the original social and egalitarian motives behind land reform." However, "Many countries have passed land reform legislation, but few have implemented it" (Bhattacharya 1989: 141,155). And there is "Considerable confusion surrounding the role of land reform in economic development."

In conclusion, it seems that five decades of development practice have been largely unsuccessful. Returns on massive investments have been good only in those countries which have, inter alia, vigorously addressed the land problem (Japan, China, Taiwan, South Korea, Singapore, Hong Kong). Elsewhere poverty and migration continue. Development practice has been unable to modify the

This content downloaded from
149.10.125.20 on Thu, 31 Mar 2022 15:54:53 UTC
All use subject to https://about.jstor.org/terms

third world institutions which restrain progress and maintain poverty. These realities must be incorporated into development theory.

III

Development Theory

DEVELOPMENT THEORY has its roots in classical economics, out of which grew Rostow's Stages of Growth and the Harrod-Domar savings investment models, and some neoclassical assumptions, all of which have been challenged ever since by the neo-Marxists, two-sector structuralists such as Lewis and Chenery, terms-of-trade critics such as Prebisch and Singer, free market re-structuralists epitomized by the World Bank and the International Monetary Fund's Conditionality Loans, and now by the New Institutionalists.

Smith's division of labor and capital accumulation, Malthus's prediction of rising populations and starvation, and Ricardo's law of rising rent formed the basis of the classical three-factor land-labor-capital model of economic development. For similar economic reasons but quite different political ones, neoclassical and Marxist economics derived and perceived two-factor labor-capital models as adequate for development planning.

In the 1970s, with development failure being explained in terms of the need for structural change, solutions were sought in Lewis's two-sector model and from Chenery's empirical studies of actual change. The role of institutions in facilitating or blocking structural change was not extensively addressed at a theoretical level in neoclassical economics at that time. But in neo-Marxist economics it has always been central to concepts of neocolonial dependence, inappropriate aid, and chronic divergence.

In the 1980s, development failure was being explained in terms of irrational resource pricing and hence poor resource allocation, solutions being sought in the replacement of state intervention by free markets.

In the 1990s, explanations of failure may yet emerge from initiatives collectively known as "The New Institutional Economics", though Solow (1994: 45) sees this as generating "its own alternation of questions and answers." The components of this debate appear to concern capital, property rights and institutions. Is the engine of growth capital accumulation (the Harrod-Domar model) or technological change (Solow, 1994) or human capital (Lucas, 1993)? Are internal, endogenous factors more important than external, exogenous factors (Romer, 1994)? Do these factors close or open income gaps between classes and between nations (Romer, 1994; Grossman and Helpman, 1994; Oshima, 1994)? What are the stimuli causing institutions to evolve (North, 1989, 1992, 1994)? Are changes in property rights a stimulus to progress or a response?

This content downloaded from
149.10.125.20 on Thu, 31 Mar 2022 15:54:53 UTC
All use subject to https://about.jstor.org/terms

Development theory has not as yet explained the nature of third world capital inefficiency or its relationship to poverty and divergence. All the theories referred to have provided useful insights. Few has been developed outside of the property assumptions of two-factor economic models, none has led to legislation capable of permanently effective implementation, thus none has adequately addressed the problems of low growth, poverty and divergence. The suspicion that these may be connected with patterns of land ownership locally, and articulated with external modes of production such as foreign direct investment (FDI), may be incapable of resolution within theories based on two-factor models of production and distribution.

Astonishingly, failure has not, apparently, led to a critical analysis of these two-factor development models, particularly with respect to the classification of property. For example, private ownership of industrial "property" (capital) in the West appears to have improved both the efficient production and equitable distribution of wealth, whereas private ownership of agrarian "property" (land) in the third world appears to have inhibited both greatly. Marxist theory cannot explain the first, neoclassical theory cannot explain the second.

It is possible that the failure of development theory derives from the accumulated effect of 100 years of emphasis on capital, relatively inappropriate to the third world, the merging of capital and land into property and of interest and rent into profit. For example, in item one of the Communist Manifesto land is clearly differentiated from capital in a three-factor economic model and rent is earmarked for public use. Though the subsequent collapse of the remainder of the manifesto into a two-factor (capital and labor) model has been extensively analyzed, the exclusion of item one has not. Similarly, after J. B. Clark, neoclassical economic theory also adopted a two-factor model, merging land into capital and rent into profit, though not without criticism: "For approximately 100 years Western neoclassical economic thought has developed within the premise that economists could take the social framework, the institutional order, for granted, as something which it was the professional responsibility of someone else to understand" (Parsons 1984: 24).

In conclusion, it appears that no development theory has achieved consensus and none has been clearly vindicated in practice. The classical economists, or political economists, Adam Smith, J. S. Mill, David Ricardo, and Henry George in various ways subscribed to a three-factor development model with concepts and definitions some of which may have become unfamiliar to us. In their model land, labor and capital combine to produce goods and services called wealth and receive in return rent, wages and interest. For them, property in capital was different from property in land. For them, capital was man-made improvements, buildings, factories, inventory, but not land or money. For them, and for the

This content downloaded from
149.10.125.20 on Thu, 31 Mar 2022 15:54:53 UTC
All use subject to https://about.jstor.org/terms

third world now, property in land was important. Their definitions were simple, but appropriate to the third world. They will also serve as appropriate to the construction of rudimentary computer models.

Land was unimproved nature. Today's equivalent is the environment of natural resources, specifically measured as "sites", underlying any capital improvements. Ownership becomes an issue only when its rent can be privately appropriated.

Rent is the annual value of land, of unimproved sites. All theclassics argued, in their different ways, that rent arises from the presence and work of the whole community, and therefore should be returned to the whole community, not privately monopolized. Today, a tiny percentage of this rent is sometimes returned to the community by taxation, as a part of local property taxes. But since its economic behavior is unlike any other form of taxation (Samuelson 1964: 541), a more appropriate term for it might be "Site Revenue."

Labor, for simplicity, covered all areas of human endeavor, Wages being that left after distributing rent and interest.

Wealth (goods and services) and Capital (improvements) were the other forms of property. The ownership and taxation of wealth and of capital, and the taxation of wages and land represent areas of profound disagreement, arising from which has been a pre-occupation with compromises of increasingly complex redistributive legislation. This paper is concerned only with the collection of land rent.

What are now needed are three-factor versions of development economic theory which explain progress and poverty in a third world environment, and permit predictions of all three factor inputs and factor outputs arising from alternative development strategies.

IV

Progress and Poverty

In relating progress to resource injection via savings and in discussing capital efficiency in third world countries, three factor models must allow for leakages, bias and efficiency. Capital injections from private and government savings, from foreign loans and from foreign direct investment all have quite different implications. Landed class structures and tax laws may encourage private investment in domestic real estate and luxury consumption in good times, and capital flight to overseas bank accounts in bad times. Alternatively, government revenue and saving from porous and inefficient tax systems may be so far below that needed for economic takeoff that foreign loans appear essential.

A 1994 study of 96 countries revealed that, except in a few countries, where aid exceeded 15% of Gross Domestic Product (GDP), virtually all the aid went

This content downloaded from
149.10.125.20 on Thu, 31 Mar 2022 15:54:53 UTC
All use subject to https://about.jstor.org/terms

into consumption rather than into originally intended productive investment (Boone, 1994). The resultant debt crisis has been extensively documented. Less documented, for example, Susan George's "The Debt Boomerang," are the negative impacts of aid upon donor countries. It will be argued later that revenue from land rent could have made aid, and ensuing debt, unnecessary.

Different capital injections differently affect the returns to the factors of production. Capital intensive projects may be inappropriate where labor is plentiful, and such labor-saving investment may increase rents faster than wages. King (1977: 24,25) and Samuelson (1976: 735), claim that the green revolution, the most important practical outcome of development practice, can actually increase poverty through increases in rent and evictions of tenants.

Finally, measures of capital efficiency, such as ratios of capital to output and of incremental capital output, may obscure institutional distortions, systems of labor and entrepreneurial disincentives embedded in the institutional structures of landed property. Incentives may change sharply at times of transition, for example of agrarian reform. The concept of capital efficiency reflects these factors but does not delineate them.

The concept of poverty must be dealt with. It increases where capital investment and capital efficiency are inadequate to offset the encroaches of population upon fixed land, leading to falling wages and rising rents. As the point of subsistence is reached, rates of mortality, debt bondage to landlords, and rural to urban migration all increase. What are needed now are new theoretical models which incorporate population, rent, migration, informal economies, and divergence. Some components of these models already exist. Samuelson (1964: 727) has developed an intensive law of rent, after Ricardo, in which increased population crowds onto fixed land, but similarly raising rents and reducing wages. Samuelson's model can easily be inverted, holding population fixed but reducing land area. Wages fall as before, but rent now has two components: imputed rent from the area expropriated and developed, and tenant rent from fewer sites but of increasingly dense occupancy.[1]

All the above models reach equilibrium at subsistence at which point surplus population faces starvation, debt bondage or migration to the urban, informal economy. Todaro's (1989: 278–81) rational basis for rural-urban migration is assumed to follow an assessment of net present value of long-term higher, but uncertain, urban income streams, compared with rural lower, but known, income streams and a (possibly) non-recurring cost of migration. This modern version of "the streets of Bombay are paved with gold" illustrates the "pull" incentive. The basis of a more useful "push" coercion to migrate is to be found in Basu (1994), thus, a small-holder, tenant or laborer runs out of food before harvest. In the absence of rural credit banks, he must borrow food from a landlord or

This content downloaded from
149.10.125.20 on Thu, 31 Mar 2022 15:54:53 UTC
All use subject to https://about.jstor.org/terms

moneylender (usually the same person) at a high price and pay back at a lower, post-harvest price. The high nominal interest rate reflects both risk and monopoly power and the actual interest rate, taking into account the price drop, is very high. The loan is secured by collateral—land, capital, future wages—which upon default is confiscated. And, at the point of subsistence, debt bondage may be seen as less attractive than the escape route of rural-urban migration.

Though migrants may ultimately become absorbed in the urban formal economy, it seems likely that they pass through, and many remain permanently within, an informal, underclass economy. This sector, characterized by unemployment, economic dependence on begging, crime, ambulatory services, rent-free sidewalks, free water and street lighting, charity and social services, defies analysis.[2]

Measurement problems plague the concept of divergence, both between nations as well as within nations. For the former, neither Romer (1994: 5) nor Grossman and Helpman (1994: 27) find any sign of convergence between rich and poor countries, as measured by income per capita in both cases. For the latter, Todaro (1989: 81–82) equates divergence with the concept of dualism, the coexistence of rich and poor sectors, and cites the neo-Marxist claims that dualism is not only chronic but that development, far from "trickling down" to the poor, actually increases divergence. It should be possible to confirm or refute these claims by references to measurements such the Gini coefficient of inequality. Todaro's tabulations (1989: 157) appear to confirm these claims. Oshima's (1994) trends are less clear, focussed as they are on the effects of technological change on Gini coefficients, though he does conclude that institutional changes such as agrarian reform are likely to affect equity more than technology will. But Gini coefficients based on declared incomes must be suspect, particularly in the third world. And the difficulties of measuring imputed rent reported for a developed economy by Yates (1994), must be far greater, and relate to a larger proportion of GDP, in third world countries.

In conclusion, the theories of development economics are seriously deficient in explaining third world production and distribution, its progress and poverty. The landed institutions which negate all remedies for slow progress and increasing poverty are obscured in two-factor models.

V

Remedies for Slow Progress with Increasing Poverty

WHERE THE LAND PROBLEM HAS BEEN ADDRESSED, theory has been inadequate to explain failure. "The subject of land reform has remained an academic no-man's land" (King 1977: 5). But progress can perhaps be made by incorporating classical three-factor definitions into development economic thinking. Thus the

This content downloaded from
149.10.125.20 on Thu, 31 Mar 2022 15:54:53 UTC
All use subject to https://about.jstor.org/terms

reform typologies of Barke and O'Hare (1984: 91–95,108–111), Bhattacharya (1989: Chap. 6), Cohen (1978: 23–42), King (1977: 14–25), Lipton (1985: 5–8) and Warriner (1969: 17–51) can be reformulated using these definitions.

Private consolidation of land holdings may lead to economies of scale in competitive situations, but where the landowners are in a monopoly or non-competitive situation diseconomies of scale result as, for example, in many Latin American countries. In both cases rent is privately monopolized with all the economic and social disadvantages of monopoly. When private consolidation is finally seen as a problem rather than a solution, other land reform methods are sometimes tried.

Redistribution of land, on the other hand, redistributes rent. But even if the land redistribution is equitable now, it becomes inequitable in time as land values diverge. Also, unless population densities are low, fragmentation and attendant diseconomies of scale occur. Both sets of problems occurred after China's land reforms of 1949 and 1978.

When public consolidation, or collectivization occurs rent is arbitrarily socialized. Although this reduces income inequalities within any one collective, gains from economies of scale are offset by the loss of personal production incentives and the inefficient allocation of resources. Examples have been reported from many socialist economies.

Tenancy reform excludes the most important target group for land reform, the landless (Lipton 1985: 27) and rent remains privately monopolized. Examples include India.

Economic growth, though not explicitly a method of land reform, has often been included in agrarian reform, relying on a now discredited trickle-down theory. Here the inevitable land value increases benefit the landlord, not the rent-paying peasant. The green revolution is a good example of this failure, since where capital investment and new technology are labor-saving rather than land-saving, these benefit rent at the expense of wages (Samuelson 1976: 734).

There are sets of reform legislation such as ceilings on rent and farm sizes, floors on agricultural prices and wages, etc., proposed by reformers but usually drafted by the establishment in ways which make them easy to evade or block. Wherever they have been implemented, the poor have suffered unintended consequences which should have been predicted by standard supply and demand analysis. This failure have been reported, for example, in Latin America and in India.

Land tax reform leading to Site Revenue is quite another matter. According to King (1977: 18, 19), land reform, as well as the capital formation necessary for economic growth, could be brought about automatically by land value taxation while avoiding the high costs, inefficiencies and inevitable failures of conven-

This content downloaded from
149.10.125.20 on Thu, 31 Mar 2022 15:54:53 UTC
All use subject to https://about.jstor.org/terms

tional land redistribution programs. Here rent is collected socially and rationally; socially in the sense that advantage disappears and society becomes more egalitarian, and rationally in the sense that production incentives are increased and resource allocation dramatically improved.[3]

For Henry George (1979), taxation was inefficient and Site Revenue was adequate revenue, hence his single tax proposals. It is not impossible that such a tax would provide adequate revenue for many third world countries. Certainly, its massive redistributive effects would remove poverty, leaving its societies free to decide if they wanted "development." Site Revenue is amenable to economic analysis, but this appears not to have been done. Also, political analysis of its quite specific ethical basis appears to be absent from contemporary political theories of development. It was Hirschman who, expecting reformulations of development theory to arise from the clash of economic and political development critiques, had to report that: "No new synthesis appeared" (1981: 19,20). In agrarian economies land as a factor of production is of prime economic importance and the ownership of its rent is of prime political importance. But development programs deriving from the institutional assumptions of neoclassical and neo-Marxist economics both merge land into capital and rent into profit. Obscuring this structure are concepts of property rights which, while appropriate to the West, may be inappropriate to the third world. What is now needed is a model of landed property and a model for its reform uncluttered by the institutional assumptions of socialism and capitalism. Part II will deal with its creation.

Notes

1. This modification, apparently not reported in the literature, may be useful in the analysis of enclosures such as those associated with the industrial revolution, with 19th century colonial development and with its 20th century manifestation in apartheid.

2. "We think two million sleep on the streets. Birth and death rates are unknown but certainly high" (Calcutta street clinic doctor interviewed by the author). To these homeless must be added dwellers in "hutments," constructs of recycled plastic, carpet and iron waste. "If these hutments grow at the same speed, very soon more than 60 to 65 percent of the population will be slums. . ." (Mahrata Chamber of Commerce, Pune). Todaro (1989: 266,267) tabulates, for selected LDC cities, slums as percentages of urban populations, and the contributions of migration to urban growth rates. For example, Calcutta slums form 67 percent. For urban growth, for India as a whole, migration accounts for 45 percent. Estimates vary with the fuzziness of the terms used, but "representative numbers place almost half the urban workforce in developing countries in the informal sector" (Gibson and Kelly, 1994). Clearly, there are large definitional, and very large measurement problems here.

3. The history of Site Revenue can be traced from J. S. Mill, through Smith, Ricardo, item one of the Communist Manifesto, Henry George (1981), Sun Yat Sen, more recently to its applicability to third world development problems by King (1977), to Harrison (1983), and to several Nobel prize-winners in their restructuring proposals for the USSR (Solow, Modigliani, Tobin et al. 1991). The theoretical bases of Land Value Taxation (LVT), or Site Revenue (SR) as it is now

This content downloaded from
149.10.125.20 on Thu, 31 Mar 2022 15:54:53 UTC
All use subject to https://about.jstor.org/terms

sometimes referred to, lie in the notions that socially created values should be returned to society as revenue (J. S. Mill), that poverty derives from land monopoly (George 1979), and that land rent is in the nature of a surplus which can be taxed heavily without distorting production incentives (Samuelson, 1964: 541). The mechanics of a limited version have been well tested in local government property taxes for about 100 years. Its practical relevance to the third world appears economically substantial and socially unavoidable.

References

Barke, M. and G. O'Hare, *The Third World: Diversity, Change Interdependence,* Edinburgh: Oliver & Boyd, 1984.

Basu, S., "Rural Debt", Unpublished Notes, School of Economics and Financial Studies, Macquarie University, Australia, 1994.

Bauer, P., *Dissent on Development,* Weidenfeld & Nicolson,1972.

Bhaduri, A., "Agricultural Backwardness Under Semi-Feudalism," *The Economic Journal,* March 1973.

Bhattacharya, D., *Economic Development and Underdevelopment,* Australian Professional Publications, 1989.

Boone, P., "The Impact of Foreign Aid on Savings and Growth," *Working Paper 1265,* Centre for Economic performance, London School of Economics, 1994.

Cohen, S., *Agrarian Structures and Agrarian Reform,* Boston, Martinus Nijhoff, 1978.

George, H., *Progress and Poverty,* New York: Robert Shalkenbach Foundation, 1979.

Gibson, B. and Kelly B. "A Classical Theory of the Informal Sector," *The Manchester School,* LXII: 1 (Mar., 1994), 81–96.

Grossman, G. M. and Helpman, E., "Endogenous Innovation in the Theory of Growth," *Journal of Economic Perspectives,* 8: 1 (Winter 1994), 23–44.

Harrison, F., *The Power in the Land,* London: Shepheard-Walwyn, 1983.

Hirschman, A., "The Rise & Decline of Development Economics," in *Essays in trespassing: Economics to Politics & Beyond,* Cambridge: Cambridge University Press, 1981.

Ingham, "Meaning of Development," *World Development,* Nov. 1993.

King, R., *Land Reform: a World Survey,* Boulder: Westview Press, 1977.

Lipton, M., *Land Assets and Rural Poverty,* The World Bank, Washington DC, 1985.

Lucas, R. E., "Making a Miracle," *Econometrica,* 61: 2 (Mar., 1993), 251–72.

Mahratta Chamber of Commerce and Industry, Industrial and Commercial Directory of Pune, Fourth edition, 1990, 37.

North, D. C., "Institutions and Economic Growth: An Historical Introduction," *World Development,* 17: 9, 1319–32.

———, "Institutions and Economic Theory," *The American Economist,* 36: 1 (Spring 1992), 3–6.

———, "Economic Performance Through Time," *The American Economic Review,* 84: 3 (June 1994), 359–68.

Oshima, H. T., "The Impact of Technological Transformation on Historical Trends in Income Distribution of Asia and the West," *The Developing Economies,* XXXII-3 (Sept. 1994), 239–53.

Parsons, K., "The Place of Agrarian Reform in Rural Development Policies" in *Studies on Agrarian reform and Rural Poverty.* FAO Economic and Social Development Series No. 27, Rome: Food and Agricultural Organization of the United nations.

Rock, "Twenty-five Years of Economic Development Revisited," *World Development,* Nov. 1993.

This content downloaded from
149.10.125.20 on Thu, 31 Mar 2022 15:54:53 UTC
All use subject to https://about.jstor.org/terms

Romer, P. M., "The Origins of Economic Growth" *Journal of Economic Perspectives,* 8: 1 (Winter 1994), 3–22.

Samuelson, P., *Economics,* New York: McGraw Hill, 1964 and 1976.

Scitovsky, T., "Economic Development in Taiwan and South Korea," *Food research Institute Studies,* XIX, 4 (1985), 215–64.

Seers, D., "The Meaning of Development," *International Development Review,* Dec. 1969 and XIX, 3 (1977).

Sen, A. K., "Development: Which Way Now?," *The Economics Journal,* Vol. 93, No. 372, Dec. 1983, 745–62.

Solow, R., "Perspectives on Growth Theory," *Journal of Economic Perspectives,* 8: 1 (Winter 1994)

Solow, R., F. Modigliani, and J. Tobin, "Letter to Mikhail Gorbachev," in *Land and Liberty,* Jan/ Feb 1991, 12,13.

Todaro, M. P., *Economic Development in the Third World,* 1989, New York: Longman.

Warriner, D., *Land Reform in Principle and Practice,* Oxford: Clarendon Press, 1969.

Yates, J., "Imputed Rent and Income Distribution," Review of Income and Wealth, 40: 1 (Mar., 1994), 43–66.

Municipalities *(Continued from p. 480)*

than 50,000. Infrastructure needs led the list of concerns in medium and large cities with populations between 50,000 and 300,000.

The concern over infrastructure needs has been building up steadily over the past four years as cities struggled with severe fiscal pressures. While consistently a leading adverse factor, it did not lead the list until this year. It was second in 1994, mentioned by 38 percent of respondents, second in 1993 (33 percent), and third in 1992 (30 percent).

The specific conditions requiring attention were not identified in the survey, but several insights can be drawn from responses to other questions. Nearly one-third (31 percent) of the cities said they had reduced actual levels of capital spending during the past year in order to meet their budget constraints. While approved capital spending for 1995 totaled nearly $300, when calculated on a per capita basis, the realistic expectation offered by survey respondents was that less than $200 per capita will actually be spent.

This conservative course of action was echoed in another finding about general fund activity. During the past two years, the survey found that the annual per-capita growth rate of city expenditures, in constant dollars, was less than 1 percent.

"Thus, the improving overall financial situation, while encouraging, does not describe everything that's happening," said Banks. "Some cities are recovering from several years of drawing upon their general fund reserves. At the same time, fiscal stress remains a persistent problem in many cities and towns, and the outlook for local budgets this year reveals a lingering anxiety even in places where things have been getting better," Banks said.

This content downloaded from
149.10.125.20 on Thu, 31 Mar 2022 15:54:53 UTC
All use subject to https://about.jstor.org/terms