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The Land Question: The Theory Reexamined

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MY PURPOSE IS TO SURVEY the principal land-holding practices which men have used at various times in history, and to consider the effects of these practices on the material and cultural advancement of the people involved.

Social scientists who study land tenure systems and community development sometimes refer to *the land problem*. This term is used to cover a variety of land problems, the details of which vary with time and place, but which nevertheless have at the core a common difficulty. This difficulty is the central one with which we must deal, with the object of understanding its causes and effects, and evaluating the solutions to it which have been proposed or tried. The full meaning of the term, the land problem, will become clear as we proceed, but perhaps we should attempt to express it concisely at the outset as an operational definition. It is the problem of achieving a distribution of land equitable to the needs and satisfaction of the inhabitants, which will also promote the allocation of land, as a scarce resource, to its most productive use for the development of the community.

The land problem is at once a sociological or anthropological one, and a politico-economic problem which calls for a problem-oriented approach in its study. The land problem has been persistent throughout history and it is basic to economic development and the clash of political ideologies in the world today. I will review the highlights of this history, the theories and principles involved, and the possible contributions which the various systems of tenure may provide for the solution.

I
Some Definitions

LAND TENURE REGULATIONS generally apply to the ground and water areas of the earth and the mineral, power, and biological resources which occur

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naturally in them or on them. Since we are primarily seeking general principles rather than specific facts, generalizations about land tenure which we can draw from this study presumably will apply to all natural opportunities available in the future as well as those now available. So we will use the term *land* in its broad economic sense as applying to the entire physical universe—exclusive of man and his products.

The term *community,* likewise, will be used in its broad and general meaning applicable to any particular community or society of men, or the society of all men in general. The *development* of the community will mean not only the increase in population, but the increase of general prosperity and the advancement of knowledge and technology made possible through increase in general prosperity or wealth.

Labor means any and all human exertion—entrepreneurial, mental, physical, etc., devoted to the production of wealth.

Production means the making and exchanging of wealth involving all such activities as extracting by growing, mining, fishing, etc., manufacturing processes, transporting, storing, buying and selling, etc.

Man must have access to land or die. The atmosphere is his breath of life; water is likewise essential; and all food, clothing, shelter, etc., are produced from and on land. All material things produced by man which satisfy his wants and needs are produced directly or indirectly from land. Some economists call these valuable things made from land by human labor *wealth.* Land and labor then, in this view, are the two basic *factors* in the production of wealth. Wealth employed by labor in the production of more wealth is called *capital*—the third factor of production.[1] The *distribution* of wealth to the factors of production is as *rent* for use of land, *wages* for labor expended, and *interest* for the use of capital.[2] *Profit* is an accounting concept, sometimes confused with economic categories of distribution. It refers simply to an amount gained over an amount invested, arising out of conditions of favorable exchange—as

[1] Many American economists (and Marxist economists, of course) include land under the categories of wealth or capital, *e.g.,* see Tibor Scitovsky, *Welfare & Competition* (Chicago: Richard D. Irwin, Inc., 1951), "Note to Chapter IX: Land," p. 227. Since it is essential for this study of land tenure, the traditional production factors (land, labor, and capital) will be considered as discrete and mutually exclusive categories.

[2] Most economists today use the word *rent* (economic rent) as a relative term for any surplus distributed to any factor which exceeds the minimum return required to retain that factor in a given productive use. Under such definition part of wages and interest may be a rent and, conversely, part of the return to land may not be rent for a given use. For more complete explanation, see W. J. L. Ryan, *Price Theory* (London: Macmillan & Co., Ltd., 1958), "A Note on 'Economic Rent,' p. 222.

This modern application of the notion of rent (in some ways broader and in some ways narrower than classical usage) highlights distinctions in the distribution of wealth useful in many economic analyses. However, since it makes distinctions which are not important for this particular study, and blurs others which are, the earlier usage will be adhered to as applicable to all returns for use of land, and only those returns.

opposed to a *loss.* It can apply to wages, interest, or rent, singly or in any combination, depending upon the nature of the enterprise to which it refers. It is not a separate fourth category of distribution.

The terms whose definitions I have been careful to establish will be used throughout the several papers making up this study, always in the one sense as defined. As additional key terms come into use I will likewise define them and use them consistently with the definition.

Since all three factors of production are limited but needed in the production of wealth, a control of one or more of the factors is a control of the production of wealth. In examining land tenure practices I am concerned, in effect, with the various kinds and extent of control of one of these factors (land), and their effects upon the production and distribution of wealth, the society and culture of man—in short, the development of the community.

The association of advanced culture, or nonmaterial aspects of civilization, with high productivity and general distribution of wealth is well documented by history, but it may be appropriate at this point to summarize the general interreaction of the two.

The pursuit of learning, the development of the arts and sciences, the refinement of manners and philosophies is hardly possible for men who must devote their full time and energy to securing a meager sustenance from the earth. As man develops greater efficiency in production, larger and more advanced forms of capital, and with it leisure and the security a stock of wealth brings, he is freer to devote time and energy to the development of his culture, both individually and collectively. Advancements in knowledge and other aspects of culture in turn have application to production. The interaction and cooperation of men in society, the exchange of ideas in trade, characteristic of thriving economies, contributes to the diffusion and change of culture. Indeed, the pursuit of improvements in production stimulates inventiveness and science, as we are all well aware. The high correlation of learning with material well-being is strongly confirmed by modern research findings.[3]

II
Private Land Ownership

CONTROL OF LAND, as stated previously, is a control on production. The supply of land cannot be materially increased in response to a higher demand for it as can labor or capital.[4] Rent (the return on, or portion of wealth paid for the use of land) rises as the demand for land rises. Where

[3] An excellent study of this relationship may be found in Patricia Cayo Sexton, *Education and Income* (New York: Viking Press, 1961).

[4] Improving the productivity of land has the effect of increasing its supply, but such improved land is not land, to the extent of its improvement, as we have defined the term.

land is privately owned, as in most of Western society, rent accrues to the landowner, or landlord, for the use of land, in the same manner as interest on wealth.

Private ownership of land provides secure tenure, in itself an incentive to improvement or production, but such right of ownership rests on very tenuous grounds. Traced to their origin, all claims of private ownership of land are based merely on first occupany and use of land, conquest by force and violence, fraud, or arbitrary claims of ownership by some dominant political or ecclesiastical authority. In addition, the long-standing contention that property in land conflicts with the rights of producers to the full value of their efforts is a serious charge which we will need to examine carefully.

Land is not created by man; wealth is. In reasoning from cause to effect, the traditional claim to private ownership of wealth rests upon the logical claim of a maker to the produce of his own labor, or more fundamentally as posited by John Locke in the following often quoted lines:

> Though the earth and all inferior creatures be common to all men, yet every man has a "property" in his own "person." This nobody has any right to but himself. The "labour" of his body and the "work" of his hands, we may say, are properly his. Whatsoever, then, he removes out of the state that Nature hath provided and left it in, he hath mixed his labour with it, and joined to it something that is his own, and thereby makes it his property. It being by him removed from the common state Nature placed it in, it hath by this labour something annexed to it that excludes the common right of other men. For this "labour" being the unquestionable property of the labourer, no man but he can have a right to what is once joined to, at least where there is enough, and as good left in common for others.
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> As much as any one can make use, to any advantage, of life before it spoils, so much he may by his labour fix a property in. Whatever is beyond this is more than his share, and belongs to others.[5]

Whether acquired by initial production, by gift, exchange, or other honest transmission, the natural source of the claim to ownership of wealth traces ultimately to what the producer has earned from nature by his labor and capital.

Professor Geiger reports what seems to be a parallel to this reasoning among primitive people:

> There is . . . one type of generalization that the anthropologist permits himself to make in handling primitive property, and that is a distinction between property in land and property in movable chattels—a distinction that seems most impressive. This generalization tends to point out that

[5] John Locke, "Concerning Civil Government," *Great Books of the Western World*, ed. Robert M. Hutchins (Chicago: William Benton, 1955), v. "Of Property," pp. 30–31.

private property in movables is much more clearly defined than property in land. Whereas with land there is ordinarily the emphasis upon joint ownership, the personal titles to chattels, on the contrary, are rather strictly individualized, and a collective treatment of land may go hand in hand with the private ownership of goods and implements. A distinction, for example, may be made between livestock and land, or even between fruit trees and the land on which they stand—a distinction in terms of individual and collective control.

This does not mean that a decisive and single system of collective land tenure is set up as against the private control of movables; it is simply that there seems to be a *general* difference in emphasis in the disposition of these two forms of primitive property.[6]

If the basis for the ownership of wealth given by Locke is the most fundamental claim and the one most firmly rooted in nature, a less vital claim which is contravening to it, and which retards the development of the community, must, to the extent of its contravention, be inferior and unfounded. The theory that an unqualified private ownership of land operates to this effect will be developed in the remainder of this article.

The *law of marginal productivity,* which is merely an extension of the *law of rent,*[7] forms the basis of most modern economic theories of production and distribution.[8] The employment and return of each factor of production tends toward an equilibrium determined by its marginal productivity. Each of the factors is subject, at some point, to a diminishing rate in the contribution it can make toward output as more and more units of the factor are added in proportion to the others. The number of units of each factor employed will thus tend toward a quantity where one unit more, or one unit less, would detract from profit. This is the level where the unit cost of the factor equals the value of its marginal product.[9] Profit will not be maximized to the extent that the return to any factor employed is greater or less than the value of its marginal product. If the number of units of a factor employed was so large that its cost exceeded the value of its marginal product, profit would be increased if fewer units were employed. Likewise, if the number of units employed

[6] George Raymond Geiger, *The Theory of the Land Question* (New York: The Macmillan Co., 1936), pp. 115–16. I will consider the major theories of anthropologists and land historians on the origins and development of property in some detail in another article.

[7] The law of rent, sometimes called Ricardo's law of differential rent, merely expresses the normal movement of the price of land under the forces of supply and demand. Though often reexamined by economists, it stands today essentially unscathed. A formal expression of the law is that "the rent of land is determined by the excess of its produce over that which the same application [of labor and capital] can secure from the least productive land in use." Henry George, *Progress and Poverty* (New York: Robert Schalkenbach Foundation, 1960), p. 168.

[8] J. R. Hicks, *The Theory of Wages* (New York: Peter Smith, 1948), pp. 8–9, 112.

[9] A factor's marginal product is the difference in actual physical product obtainable by

was so few that the factor's cost was less than the value of its marginal product, it would be profitable to increase employment of it.

The *margin of production,* or extensive margin, is established by the extent to which land is privately owned and pays rent. The most productive land that can be obtained without payment of rent is at the margin of production. The margin is said to be high or low as the productivity of the free land is high or low or—conversely—as land prices are low or high. The price of land, like other prices, is a function of demand for the existing supply. The law of rent operates, according to marginal productivity theory, to hold wages and interest, *ceteris paribus,* within the production level permitted by the margin. The higher the margin of production the greater the employment and returns of labor and capital can become. The lower the margin, the higher the rent.[10] The distribution to any factor will thus vary with its capacity to increase production. Thus the supply of each of the factors for the others, the methods of production and, of course, the demands for the products (from which the other demands are derived), all have an important interrelated bearing on production and distribution.

The above in brief summary is the bare-bones theory which, presumably, operates on an "other things being equal" basis.[11] The work of expanding and modifying the marginal productivity theory to account for various political, social, psychological, and even religious influences upon production and distribution in any real economy is an ongoing study.[12] These influences, including such of their expressions as collective bargaining, credit and interest regulations, price controls, tariffs, taxes, *et al.,* which affect the allocation of production factors and wealth distribution, vary with time and place. Fortunately, it is not essential to try to account for them in gaining knowledge of basic economic theory necessary to an under-

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the addition or subtraction of one unit of the factor when combined with given fixed quantities of other factors.

[10] D. R. Robertson believes that for several reasons the relative share of rent declines as land plays a less important role in production. In highly industrialized economies the share of rent will be proportionately lower than it is in agricultural economies of simple technology. D. R. Robertson, *Economics of Wages* (London: Macmillan & Co., Ltd., 1961), pp. 186–87.

[11] There is no adequate statistical support for the theory. The copious statistics which do exist that might otherwise present some strong evidence are in accounting rather than economic categories and cannot be properly reorganized, *e.g.,* "wages" data usually exclude all or some salaries, "fringe benefits," bonuses and profit sharing, perquisites, consultants and directors' fees, *et al.,* so are substantially incomplete. Interest is usually combined with an undisclosed amount of imputed rent and possibly some managerial wages in a category called "profit." "Rent," if it is shown, is usually commercial rent—a combination of rent and interest in unknown proportions.

[12] Strictly speaking, until the effects of these "other influences" on the operation of the theory can be more fully understood, the theory is critically untestable.

standing of the land problem and its influence on production and community development. Some of the noneconomic influences are, of course, critical and must be dealt with in any real situation involving the land problem and reform proposals.

Rent is geologically and community created; yet, through the institution of private property in land, is collected by individual owners. As the community grows and demand for land rises, so does rent. Wages, interest, and production are reduced by rent, squeezed between the market prices of the products of labor and capital and rent paid out or imputed. As succinctly stated by Mrs. Robinson, "land exists whether anyone is paid for owning it or not, so that an increase in rent income is really a levy upon the rest of the economy which is not related to any increase in production; on the contrary, it arises from the limitations upon production set by the scarcity of land."[13] These adverse effects on production seem more pronounced in agriculture or relatively static economic conditions where production improvements are made slowly or are quite obvious as made. A plausible explanation is that under more dynamic industrial conditions with continued improvements in capital, technology, methods of production, etc., which increase the marginal productivity of labor and capital with little or no increase in land used, productivity may increase at a faster rate than the advance in rent. Under such dynamic conditions the problem will be less acute but, nevertheless, represents a continuously increasing drag on the economy.[14] In the United States, the most developed country, per capita land values (which reflect rent) in constant dollars have increased by over 83 per cent between 1945 and 1964, and such values are taxed at varying rates in the several states, from a low of 8 per cent to a high of 58 per cent in New York.[15]

In a non-competitive market, production cost increases due to rent may, in part at least, be passed on to consumers in the form of higher prices.[16] To whatever extent this occurs, real consumer buying power (the bulk of which is wages and interest) is reduced. The bulk net effect by income category is still a reduction of wages and interest by rent. The influence of rent on the economy is often overlooked by people who blame fluctuations of depression and inflation of the economy largely on wage increases or "profiteering" of capital owners. Strikes and "pattern setting" wage or

[13] Joan Robinson, *The Accumulation of Capital* (London: Macmillan & Co., Ltd., 1956), p. 327.

[14] Robertson, *loc. cit.*

[15] W. F. Swanton, "Land Value Trends in the United States," *American Journal of Economics and Sociology*, Vol. 24 (April, 1965), pp. 164–65.

[16] John F. Due, *Government Finance*, 3rd ed. (Homewood, Ill.: Richard D. Irwin, Inc., 1963), p. 366.

other price increases are often well publicized and accompanied by considerable moralizing, but the influence of rent on these changes, or the institution which enables holders of land to gain from what others have created, is seldom questioned.

Speculation in land is common where land is privately owned. Land purchased in advance of anticipated growth of the community, or withheld from production in anticipation of higher rent, retards and curtails community development. There are currently nearly thirteen million vacant lots (not counting parking lots) in United States cities.[17] High rent, together with taxes on improvements (wealth), is a principal cause of slums in dense communities and of the social problems arising from them. Where the demand for housing is high in relation to supply, and where improvements are taxed more heavily than land, the landlord secures his greatest net profit by not improving his property any more than necessary to assure continued occupancy. In crowded cities with chronic shortages of housing this improvement need be very little—hence, the growth of slums.

The influence of rent on production and, consequently, on community development has been identified by economists from the time of the physiocrats and has been a special object of study by many, such as David Ricardo, John Stuart Mill, Henry George, Harry Gunnison Brown, *et al.* Where land ownership is concentrated in the hands of a few, wealth, in the form of rent, and the power which goes with wealth, likewise becomes concentrated. It is frequently asserted—and frequently disputed—that one of the chief causes of the decline and fall of some of the great civilizations in the past has been the law of rent and the private ownership of land operating together to concentrate wealth and its power in the hands of a few at the expense of the many. Professor Sakolski, for example, noted:

> This evolution [of land ownership from a collective concept to a legal status of private ownership], almost universal in the history of mankind, may be regarded as one of the principal sources of political upheavals and agrarian discontent, accompanied by political corruption and economic ruin, which have marked the course of great nations and empires both past and present.[18]

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[17] H. G. Brown, "A Capital Incentive Reform Beneficial to Labor," *American Journal of Economics and Sociology*, Vol. 2 (January, 1965), p. 69. Also see Marion Clawson, "Urban Sprawl and Speculation in Suburban Land," *Land Economics*, Vol. 38, No. 2 (May, 1962), pp. 99–111.

[18] Aaron M. Sakolski, *Land Tenure and Land Taxation in America* (New York: Robert Schalkenbach Foundation, 1957), p. 10.