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# Cuadernos de Historia Económica - Smithian State Formation

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This paper examines how inequality in land ownership influences the state's capacity to collect taxes. Its main contribution to the literature is a new explanation for the origins of state capacity, whereby elites may be willing to finance the state if they perceive that public spending increases the value of their assets or if they face a high probability of being detected when evading taxes. The findings show that municipalities with a higher concentration of land ownership exhibited higher per capita tax revenues.

Publication Date: Tuesday, 18 of August 2026 **Approach**

This paper examines how inequality in land ownership influences the state's capacity to collect taxes. Unlike the existing literature, which mainly views taxation as a mechanism for redistribution, the paper focuses on its role in financing public goods that foster market development. To do so, it develops a simple public goods provision model based on two main ideas: (i) public spending increases land values by improving market functioning, and (ii) tax evasion is easier to detect when land ownership is concentrated among a smaller number of landholders. The model is empirically validated using historical data from Colombian municipalities between 1923 and 1960.

**Contribution**

The study offers a new explanation for the origins of state capacity. Rather than assuming that elites oppose taxation in unequal societies, it shows that they may be willing to finance the state when they perceive that public spending increases the value of their assets or when they face a high probability of being detected if they evade taxes. This perspective provides a different interpretation of the relationship between inequality and state building, with implications for understanding the evolution of fiscal institutions in developing economies.

**Results**

The findings show that municipalities with a higher concentration of land ownership exhibited higher per capita tax revenues. This relationship remains robust after controlling for differences in economic development, agrarian structure, historical institutions, and land-related conflicts. Moreover, the evidence is consistent with the two mechanisms proposed by the model. On the one hand, the relationship between land concentration and tax revenue is stronger in municipalities with greater market development potential, where landowners have stronger incentives to finance public goods that increase the value of their assets. On the other hand, municipalities with more concentrated land ownership face lower tax collection costs, suggesting that the state can monitor and enforce tax compliance more easily when dealing with a smaller number of large landholders. Taken together, these results support the idea that, in the historical context analyzed, land concentration strengthened the state's fiscal capacity by aligning the incentives of large landowners with the provision of public goods.