

Urban Land Policy Issues and Opportunities

Volume II

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Prepared by: Harold B. Dunkerley
Alan A. Walters
John M. Courtney
William A. Doebele (consultant)
Donald C. Shoup (consultant)
Malcolm D. Rivkin (consultant)
Urban Projects Department

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1818 H Street, N.W.
Washington, D.C. 20433, U.S.A.

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WORLD BANK

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URBAN LAND POLICY ISSUES AND OPPORTUNITIES - VOLUME 2

This paper brings together a general overview of urban land issues affecting developing countries and five supporting papers on individual aspects. They are the products of a program to review urban land issues directed by Harold B. Dunkerley, Senior Adviser of the Urban Projects Department.

There are three papers in each volume. In Volume 1, the introductory overview paper provides a general context for consideration of urban land issues, with particular attention to those which most directly impinge on the preparation and implementation of projects and programs in which the World Bank is involved. The first of the supporting papers deals with problems encountered in calculating the economic valuation of land on the basis of opportunity cost. The second supporting paper provides a thorough discussion of different types of urban land tenure in relation to objectives of equity and efficiency.

In Volume 2, the initial paper deals with measures to influence the allocation of surplus values created in the development of urban land, including various forms of land taxation and government acquisition and development of land. The other two supporting papers in this volume deal with other forms of regulation of land use, the general limitations to which they are subject, and the characteristics of individual regulatory tools.

Prepared by:

Harold B. Dunkerley
Alan A. Walters
John M. Courtney
William A. Doebele (consultant)
Donald C. Shoup (consultant)
Malcolm D. Rivkin (consultant)
Urban Projects Department

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PREFACE

This and a companion volume bring together a general overview of some of the most important urban land issues now affecting developing countries and a series of supporting papers on individual aspects. The introductory overview paper has been designed to provide a context, or perspective, for consideration of those urban land issues which most clearly impinge on the preparation and implementation of projects and programs in which the World Bank is involved. The analysis should, however, be of interest to a much wider audience than those directly involved in these urban projects and programs. At issue are a variety of aspects which, as the recent UN Habitat Conference showed, are of almost universal concern. These issues include the rapidity of rises in urban land prices, the potential and problems of capturing publicly created land values, and various developmental problems inherent in ownership and land use rights.

The first of the supporting papers deals with problems encountered in calculating the economic valuation of land based on the opportunity cost of using land for one purpose rather than another. The discussion in the overview paper of the underlying relationships behind shifts in the levels of urban land prices in response to growth in incomes, population and the provision of services is here given a more rigorous mathematical treatment. The second supporting paper provides perhaps the most thorough discussion available of different types of urban land tenure in relation to objectives of equity and efficiency. A third paper deals with measures to influence the allocation of surplus values created in the development of urban land, including various forms of land taxation and government acquisition and development of land. Finally, two papers deal with other forms of regulation of land use, the general limitations to which they are subject, and the characteristics of individual regulatory tools.

The program as a whole was directed by Harold B. Dunkerley, Senior Adviser of the Urban Projects Department, who also wrote the overview paper. He was assisted by Douglas H. Keare, Chief of the Urban and Regional Economics Division, Development Economics Department, and by Suzanne Henneman, who conducted a special survey of actual experience of land problems in urban project work. Alan A. Walters, William A. Doebele, Donald C. Shoup, Malcolm D. Rivkin and John M. Courtney contributed the supporting papers. Acknowledgment is also due to many colleagues in the Bank, particularly Orville F. Grimes, Johannes F. Linn, Callisto E. Madavo, Rakesh Mohan, Maurice Mould, Anthony J. Pellegrini and Bertrand M. Renaud, who helped review earlier drafts of these papers, and whose constructive suggestions have been largely incorporated in the present texts.



Warren C. Baum
Vice President
Central Projects Staff

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LAND TAXATION AND GOVERNMENT PARTICIPATION
IN URBAN LAND MARKETS: POLICY ALTERNATIVES
IN DEVELOPING COUNTRIES

Professor Donald C. Shoup
University of California
at Los Angeles

Abstract

The rapidly growing cities of developing countries exhibit in severest form the conflicts involved in attempts to achieve both efficient land use and fairness in the distribution of income or other benefits from land. In this paper several forms of taxation are evaluated as means of resolving this conflict. It is argued that in many countries increased taxation of land value is desirable, not only because land value can be taxed without decreasing--and perhaps even increasing--the incentives to allocate land efficiently, but also because it is a way to finance the costs of local public services that may benefit landowners. Because land value is an important fraction of total national wealth in developing countries, land taxation policy may also be one of the most effective means to implement general policies toward redistribution of income and wealth.

Increased participation of the government as an owner in the land market is another option for achieving the goals of land policy, although many local public authorities have a very limited capacity for effective management of land on a large scale, and some current forms of public intervention, such as slum clearance projects, may do more harm than good. One promising form of government intervention now used in some countries is land readjustment, whereby a public authority assembles land for conversion from rural to urban use, installs all public services, and finances the cost of the operation from the increase in land value caused by the new infrastructure; the government sells enough of the serviced land to pay all its costs, and the remaining sites are returned to the original rural land owners in proportion to their initial land contribution. This paper argues that the land readjustment process could be more widely applied in many cities experiencing rapid growth, and that a larger share of the resulting betterment could be retained by government agencies responsible for carrying out the readjustment. Other forms of government participation in the land market, as well as methods of improving the private land subdivision process, are also discussed.

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I. INTRODUCTION

1. It may seem obvious that the urban land market cannot operate well without a high degree of public intervention. But it is also apparent that many local public authorities have a very limited capacity for effective intervention, and that some forms of intervention, such as slum clearance, now do more harm than good. When both views are held simultaneously, the challenge is both to discover what sorts of public intervention in the land market are most (and least) effective, and also to understand how the private land market can itself be better used to achieve public objectives. The objectives and rationale for government intervention in the land market are the subjects of Chapters II and III of this paper.

2. The large variety of possible public interventions in the land market can be classified into four broad categories: (1) Land Tenure Institutions, (2) Land Use Regulation, (3) Land Taxation, and (4) Direct Public Participation in the Land Market. The third and fourth of these are the subject matter of this paper, but they cannot be treated in isolation from the first two.

3. A country's land tenure institutions are sometimes taken as part of the given framework within which land policy must operate, or can themselves be considered as susceptible to change to achieve policy objectives. The comparative advantages and disadvantages of a variety of possible land tenure arrangements (squatting or de facto tenure, private freehold, private leasehold, public freehold, public leasehold, communal ownership) have been fully described and evaluated by William Doebele (Selected Issues in Urban Land Tenure), and the subject is not covered here except to note below where the type of tenure system bears on other types of land policy. For instance, a policy of leasing publicly owned land for private housing can be a substitute for land taxation as a revenue source, and can also be a means of regulating land use. Conversely, if there is an effective system of land taxation and regulation, there may be few advantages to public leasing of land for development.

4. Land use regulation includes zoning, subdivision requirements, building codes, rent control, and other forms of administrative control involving government permission or prohibition of private land uses. The topic of regulation is treated in the companion papers by Malcolm Rivkin and John Courtney (Some Perspectives on Land Use Regulation and Control and Urban Land Use Regulation), and, as with land tenure, is not dealt with here except in its relation to other methods of intervention, especially taxation. For example, the process of granting permission for the use of land commonly involves gains in land value which may be a suitable tax base; conversely, where planning regulations are strict such gains associated with changes in permitted uses are not taxed, there is a stronger incentive for individual landowners to seek changes in public plans by legal or illegal means.

5. The third general category of public intervention in the land market is by taxation of land or improvements to land. The wide variety of possible taxes that involve explicit intervention in the land market includes general property taxation, site value taxation, betterment levies, land value increment taxes, public infrastructure charges, and the vacant land tax. In addition, other taxes may have important land market effects, most notably the almost universal exemption of imputed income of owner occupied homes from income taxation. Each of the varieties of land taxes, and the problems of introducing them, are evaluated in Chapter IV.

6. A clear distinction between taxation and other types of intervention is that because the revenue goal is so important, taxes are not always seen also as tools for influencing either land use or the distribution of the benefits from land among members of society. The chief exceptions to this neglect of non-revenue goals of tax instruments are the tax on vacant land to stimulate development in certain zones (as in Taiwan and Chile), the use of property tax rates that vary according to whether land is used in accordance to its zoning (as in Jakarta), and taxes on speculative gains in land value (as in Korea). However, even when unintended, the effects of taxes on land use can be significant. Thus, in the design of land related taxes even more care than usual should be directed to ensuring that they either be neutral in their effects on incentives to use land, or else intentionally alter incentives in a desired way. In practice, many forms of property taxation can be shown to have effects on land use which are directly contrary to the objectives of other land policies. The chief example is the general property tax, which in one view is a tax on (and disincentive to) the production of housing.

7. In addition to concern for the revenue productivity and incentive effects of land related taxes, another desirable feature of a tax system is that the burden of taxation be fair. Fairness of the distribution of tax burdens can be measured either by the degree to which individuals are taxed in proportion to public service benefits received (a major justification for betterment levies), or the degree to which individuals are taxed in proportion to their ability to pay.

8. Other desirable features of a land or property tax system are horizontal equity (e.g., equal tax burdens on properties of equal value, which for land related taxes requires the ability to assess land values with reasonable accuracy), low administrative and compliance costs, and political acceptability.

9. The fourth general category of public intervention in the land market is direct government participation in the land market, as a buyer, a seller, a landlord, or a user of land. This is the subject of Chapter V. Governments inevitably acquire land for their own direct use in providing public services, but the method of acquisition can be an important element of land policy. For instance, advance acquisition of the sites for key public facilities can represent public commitment to a particular land use plan, and thereby stimulate private investment related to the facility.

10. Although the government can exert considerable influence over land markets through acquisition for its own use, it can have an additional impact by preparing and servicing land for private use. Many cities in developing countries have more than doubled in area during the past decade. In this context it is crucial for the conversion of non-urban land to urban uses to be handled efficiently, for it is at that point that the physical and social characteristics of the new urban pattern are essentially determined, for better or for worse. The public role is particularly important here because public utility extensions to previously unserved land determine land use possibilities and land value. The government is thus a major participant in the process of converting raw land to urban uses. The issue of whether and how the government should increase its role in the conversion process to include purchase and later resale or leasing of land for subsequent private use is treated in Chapter V. Land banking and land readjustment are discussed, as well as the alternative policy of improving the process of private subdivision.

II. OBJECTIVES OF LAND POLICY

11. It seems clear that no statement of land policy objectives can suit all circumstances, especially since the economic, social, and political contexts vary tremendously among and even within developing countries. Overly general statements of goals usually result when everyone wants a set of objectives yet no one agrees what the specific objectives should be. Nevertheless, a discussion of possible objectives can serve to sharpen the issues (and conflicts) involved, and can help to provide a framework for decisions regarding the usefulness of specific kinds of public intervention. Also, as a method of organizing thinking about policies, the derivation of policies from objectives can be a useful procedure. At the least, it helps to uncover inconsistencies among policies, even if it does not reflect the ways in which conflicts and compromises among interest groups actually determine policies. In any case, it is necessary to specify some set of objectives of public land policy, because what is considered to be a land problem depends on what the objectives are.

12. Three general objectives of urban land policy are proposed here: efficiency, equity, and government revenue. These three are clearly not the articulated objectives of land policy in every country, but nevertheless serve as a useful organizing framework for a discussion of specific policy instruments. Each objective is discussed below.

Efficient Use of Land and Other Resources in Urban Areas

13. In a market economy, individuals' objectives with regard to the use of land are seen as many and varied. In this context, the objective of public policy is not to achieve some collectively determined land use pattern, but rather to create a framework so that an efficient pattern will result when all members of society make their own land use choices.

14. In a static sense, an efficient allocation of land is one where each parcel of land is assigned to its highest valued use, with value understood to include not only the private value in that use but also the social value of net external benefits or costs imposed by that use. In a dynamic sense, the objective is not only to encourage an efficient allocation of land at any one time, but also to encourage flexibility in the transition from one land use to another in response to changes in demand. Because of the durability of most improvements built on land, there will often be conflicts between the desire for full utilization of land at any one time and the desire for flexibility in changing land use over time; some land will usually be kept temporarily vacant to preserve its availability for a planned future use. This competition between current and future use can become especially severe when urban growth is rapid.

15. Another objective of land policy can be to promote efficient allocation of other resources as well as of urban land; thus land use regulations are commonly used in an attempt to reduce traffic congestion,

air and water pollution, and similar resource misallocations that occur in other markets. However, a risk here is that land policies may be employed to affect resource allocation indirectly where other more direct policies would be more appropriate, or that in pursuing too many other competing objectives, the objective of efficient land use itself may be unduly sacrificed. 1/

Equity in the Distribution of Benefits from Urban Land

16. Simply because land value is an important fraction of total wealth in developing countries, general policies toward redistribution of income and wealth will involve some redistribution of land rent, of land value increases, of land ownership, or of access to land (as by tolerance of squatter settlements).

17. In addition to using land policy to pursue the general goal of equity in the distribution of income, a more direct land policy objective is to identify and attempt to reduce any distributional inequities that are caused by the special characteristics of the urban land market itself. 2/ For instance, some or all of the benefits of many local public services can be shifted from renters to landowners by means of increased rents and land values at benefitted sites. Thus, a distributional objective of land policy can be that land value increases resulting from public service benefits are either targeted on intended beneficiary groups or are recouped by the government. The distribution of other land value changes, such as those caused by public regulatory decisions or by general community growth, may also seem inequitable because they are unearned, and an objective of policy may be that these too be captured for government use.

1/ The difficulty of employing land use policies to improve transportation resource allocation is suggested by the fact that some planners recommend off-street parking space requirements in all new buildings (in order to get parked cars off congested streets) while others recommend prohibition of off-street parking in new buildings (on the expectation that this would reduce congestion by encouraging use of mass transit). Either policy has defects in comparison to a policy that directly brings transportation prices into line with marginal social cost, as is now being tried in Singapore (Watson and Holland, 1976). This general issue is discussed by Edwin Mills (1974).

2/ The distributional intent of some government intervention may in reality be to favor politically influential individuals or groups in society. The continuing debate over whether local governments employ land use regulations, such as "exclusionary" zoning, to keep low income and minority populations from certain residential areas or even from whole jurisdictions is only one example of the difficulty of interpreting government actions in terms of the pursuit of equity.

18. In devising land policy to reduce distributional inequities, an important objective should be to avoid introducing significant new inequities that would be caused by the transition from the previous policy to a new one. Changes in land policy can generate significant windfall gains and losses of their own, and these should also be considered in evaluating the equity consequences of a proposed policy.

Government Revenue

19. A third objective of land policy is to provide resources to public authorities responsible for providing urban services, either as general revenue for providing area-wide services or as specific revenue to finance individual projects. This objective is linked to the first two by the considerations that (a) revenue should be raised without creating incentives for inefficient private land use, (b) the revenue instrument can be designed to raise revenue from landowners in proportion to public service benefits received by them, and (c) the progressivity of the revenue instrument is a means of redistributing income from land.

III. STATEMENT OF THE PROBLEM

20. A land problem is a divergence between the desired objectives and the actual performance of the land market. Thus, it is necessary not only to set objectives, but also to identify those characteristics of the urban land market which cause its performance to fall short of the objectives that have been set. It is a long list. However, in cataloging the sources of urban land market failure, there is a risk of creating unrealistic expectations about the improvements that will be wrought by government intervention to correct for these failures. Some "problems" may be created by unattainable or inconsistent objectives, and some forms of intervention may not only fail to contribute to ultimate land policy objectives, but may actually prevent accomplishment of the stated objectives or of other more important objectives. Thus a goal of the discussion is not only to identify where increased public intervention can improve market performance, but also to suggest how current forms of public intervention can be improved (which in some cases simply means terminated).

21. The first section outlines the theoretical bases for public intervention in the urban land market (without, however, assuming that intervention will in practice always bring society closer to its objectives). The second and third contain a more detailed discussion of selected problems that are particularly important in developing nations.

Bases for Public Intervention in the Land Market

22. The following five grounds are suggested for public intervention in the urban land market.

23. Public Sector Land Demand. The public sector is itself a major user of land in its provision of such public services as roads, schools, parks, etc. It must therefore have a policy for selecting and acquiring the sites it requires to satisfy its own land demand, which is constantly expanding as urban growth occurs. Elements of public land policy regarding acquisition of land for public use include:

- (a) how the government selects land for future use, and how this land is reserved from alternative private development until public use occurs;
- (b) how land is valued for purposes of project design;
- (c) how private owners are compensated for land taken for

24. A particularly difficult issue involving government land acquisition is whether the price paid for land should include any development value created by the expectation of the public project itself, or whether the price should reflect only the value the land would have in the absence

of the project. ^{1/} Another issue is that of when land should be acquired--long before actual use when more land is available in an undeveloped state and at a lower price, or closer to the time of development, when public site requirements are better known. If acquisition is delayed until the time when land is needed for use, the best sites may already have been developed for lower valued private uses.

25. Policies related to public acquisition of land during its conversion from rural to urban use are discussed in Section V below.

26. Land Market Imperfections. There are several important features of the urban land market that can impede goals of achieving efficiency and equity in the allocation of land. In many developing countries the land registration systems are defective. This deficiency in land registration systems may simply mirror the more fundamental uncertainties of who has precisely which rights to what land. Such ambiguities derive from historical patterns, in which one set of vaguely defined rights is layered on another. The resulting insecurity of tenure for many families is widely suspected to be a deterrent to investment in housing and other improvements to land. Other results are that the cost of transacting land can be very high, and it can be difficult to tax land value or secure payment for improvements when ownership and use rights are not clearly identified. The important and complex issues of government policy toward property rights, land registration, and tenure are analyzed by William Doebele (Selected Issues in Urban Land Tenure) and are not explicitly treated here, except to the extent that other land policies discussed below must often be adapted to circumstances where insecurity of tenure is a major problem.

27. As in any market, monopoly of land ownership can result in higher prices and a reduction in supply. Because of the spatial uniqueness of individual sites, there can be some monopoly power in land submarkets even where overall concentration of ownership is low. There is little information on the degree to which private monopoly in urban land ownership is a problem in developing countries.

28. Almost the opposite problem of monopoly is excessive fragmentation of land ownership so that the high costs of obtaining agreement among many different owners may preclude the benefits that coordinated action can

^{1/} To some extent, the same issue could be said to arise in the compensation of specialized labor or capital whose market price may rise as a result of increased public demand for these factors in the execution of public projects. Given sufficient factor mobility, such price rises are limited by the degree to which factors elsewhere in the economy are unemployed. The very nature of urban land--particularly its spatial uniqueness--severely constrains this mobility and confers on the landowner some monopoly power. However, the government's power of compulsory purchase of land does at least introduce the possibility of purchasing land at the price it would have in the absence of the project.

bring. Where there are advantages of large-scale development, the existence of many small contiguous but separately owned sites can create a hold-out problem, with each small owner having an incentive to hold out for a price higher than he would require if the sale were not to someone planning a land assembly. The generally favorable results of land readjustment as a public policy for dealing with fragmentation of ownership at the urban fringe are discussed in Chapter V.

29. A particularly difficult land market problem is that the highest valued use for any one site depends not only on the characteristics of that site, but also on the uses of many other sites. Given these externalities or interdependencies among land uses, it can be shown that it is impossible for a decentralized competitive land market to produce a stable equilibrium set of land uses (Koopmans and Beckmann, 1957).

30. Quite aside from problems of instability, inefficiencies and inequities result when land users ignore the external costs and benefits they impose on neighbors. The extent to which externalities among land uses are perceived to be a problem undoubtedly varies greatly with cultural traditions and income level. In developed countries, intervention to deal with externalities among land uses often takes the form of exclusive-use zoning of large areas. In developing countries, however, it may be more important to encourage propinquity rather than separation of different types of land use in order to increase employment opportunities within neighborhoods and to reduce transportation costs. The advantages of large-scale private development as an alternative to detailed government land use regulations in dealing with land use externalities are discussed in Chapter V.

31. There are certain indivisibilities associated with choice of an overall urban form. Even if each parcel of land has by marginal adjustments been allocated to its highest valued use, the aggregate result may not be a global optimum; for instance, each owner may individually choose a lower density land use adapted to an individual waste disposal system, while all acting together might have chosen higher densities and a collective waste disposal system. Such land use problems are often described in terms of the "prisoner's dilemma," (Davis and Whinston, 1961) and are an important theoretical justification for public intervention in the land market. However, given the great uncertainty as to what constitutes a desired urban form, it is not clear that concentrating land use decisions in the hands of government employees will necessarily lead to an improved urban form.

32. Externalities are not only imposed from one private land use to another, but some private land uses also impose uncompensated costs on the public sector in general. If taxes or charges for roads, sewers, water supply, etc., do not recover the full costs of extending those services to new locations, there can be both an inefficient pattern of land development and high net costs to the community at large. This problem is not

fundamentally a land market imperfection, because if all land developers or users were charged the full cost of providing public services at each location, no new development would impose any net costs for the public sector. With full cost recovery practices the higher costs of public services in difficult-to-serve locations would instead be borne by those who choose to develop or live on such sites. This would also provide a built-in tendency to guide development to locations where the public service costs (and therefore charges and taxes) are lowest. However, it is often theoretically difficult to calculate marginal cost, technically difficult to meter service use, and politically difficult to charge different prices at different locations for what appear to be the same service. Thus other methods may be needed to guide land development toward locations where the public cost of providing services is low. Land policies designed to relate taxes and charges more closely to public service costs are discussed in Chapter IV.

33. Distribution of Betterment. An important question is how the pattern of land ownership affects the distribution of the benefits of public services, and of the benefits of urban development in general. The benefits of public services can be shifted from initial low income beneficiaries (i.e., those who receive publicly supplied electricity, water, transportation, etc.) to higher income landowners if increases in land rents and land values occur at the sites where the services are provided. Therefore, in order to achieve objectives regarding the distribution of the benefits of public services, it may be necessary to intervene in the urban land market to affect the pattern of land ownership, to recoup the betterment caused by public sector activities, or to control land prices directly. (This problem is discussed in the next section.)

34. Going beyond the benefits of public services, a more general distributional question is the extent to which the benefits of urban growth and development are capitalized into higher land values, and whether public intervention in the land market should redistribute the land value increases. Even if it is agreed that increases in land rents do fulfill the important function of rationing land use, it may also be felt that as a result landowners receive increases in income they have not earned. This contrast between the two functions of land rent--to allocate land use and to distribute the income from land--is one of the recurring motivations of land policy. Methods by which some of the increases in land value can be redistributed to reduce inequities without dulling the incentives for efficient land use are discussed in Chapter IV.

35. Urban Planning and the Land Market. In one view, urban planning is simply land use planning. An alternative view is that urban planning is a far more comprehensive activity, concerned with meeting a diverse array of social and economic objectives, and that intervention in the land market is but one of the means of implementing urban planning. In either view, an important task in designing a package of land policies is to ensure that

they contribute to, rather, than conflict with, the implementation of urban planning measures.

36. A frequent problem in urban planning is that the public plan appears to prevent the most profitable private use of individual sites, in the sense that if the site were exempt from planning restrictions, the owner would receive a higher price for it. In some cases this is a valid market signal that the planned use is inappropriate, and that some other use would better satisfy demand. In other cases, holding the land to the planned lower value use is justified by the fact that permitting the higher value (as indicated by the market) use of the site would entail greater net external costs elsewhere in the system. Thus, a dilemma in policy coordination is to devise land policies (such as taxes on land value increases) that (a) will reduce the private market incentives to violate a public land use plan, but which (b) will not at the same time eliminate the private market demand signals that tell when planned uses are not what people want. This dilemma is particularly strong in developing countries, where rapid rural-to-urban migration has in many cases totally overwhelmed formal land use controls such as zoning, building codes, or subdivision regulations, with new residents obtaining dwellings only in defiance of, rather than in accordance with, legal requirements. Both squatting and illegal subdivisions are important sources of land for housing in the cities of developing countries, in many cases because the public authorities have not responded to demand quickly enough. Estimates of the number of residents living in "uncontrolled settlements" are rarely less than one quarter of a city's total population (IBRD, Urbanization, Sector Working Paper, June 1972, p. 82).

37. If urban planning standards for legal subdivision of land for housing are so high as to prohibit affordable housing for the rapidly growing low income urban population, it is arguably preferable not to coordinate all land policies in support of implementing an urban plan. Quite obviously, what is needed is both urban planning that recognizes the great variability of individual desires and circumstances, and also a better coordination of land policy tools to implement the planning. The general subject of urban planning is not treated here, but the effect of land policy, especially the varieties of land taxation, on the incentives to use land in conformance with urban land use plans is treated in Chapter IV.

Land as Wealth

38. Quite aside from the previously discussed special characteristics of the land market which justify government intervention, the important role of land as wealth is an independent source of public concern regarding land. General policies toward the taxation and distribution of income and wealth will inevitably have some impact on the pattern of land ownership, and one method of redistributing wealth is by intervention in the land market. Also where land value is a large share of total wealth, ownership of land may be a more reliable indication of ability to pay taxes than are other measures available to tax authorities.

39. There are almost no data on the share of land value in total wealth or on the distribution of land ownership among income groups. 1/ Research on this question would be very useful, because as discussed in Chapter IV, there are persuasive theoretical reasons to believe that land value may be taxed with little or no distortion of incentives to allocate land efficiently. Information on the magnitude of land value is important to indicate possible revenue yield; information on the distribution of ownership of land is necessary to indicate where the burden of tax would fall.

40. A particularly sensitive factor of importance in some multi-ethnic countries is the disproportionate ownership of land by some ethnic groups. Imbalances in the pattern of land ownership among ethnic groups may of itself create social conflict, and thus be a motive for public intervention. 2/ Public intervention can, however, also cause ethnic imbalances in ownership patterns. Laws permitting land ownership only to members of certain ethnic groups are found, for instance, in Fiji and Malaysia.

41. A related problem is the question of ownership by non-citizens. Each owner may individually want the option of selling his land to the highest bidder, but yet at the same time approve of laws prohibiting sale of land to foreigners. This is most likely to be an issue in nations in the early stages of development, but is of some concern in industrialized nations as well (as suggested by recent Canadian taxes on sales of land to foreigners).

1/ Allan Manvel (1968a, Table 1) estimated that in 1966 the market value of land in the United States represented approximately 41 percent of the total market value of all (rural and urban) taxable locally assessed real estate, while the comparable figure for all urban property was 31 percent. Raymond Goldsmith (1962) estimated that for the United States in 1956, land value was 29 percent of the total value of privately owned land and structures. Mason Gaffney (1970) estimated that land value in the United States is approximately half of total property value. Risdén (1976) gives an estimate for Jamaica that land value was J\$ 1.869 billion compared to a total capital value of all real estate of about J\$ 3 billion, or about 62 percent.

2/ For instance, Kimani (1972) found that in Nairobi, Africans, who comprise over 70% of the population, owned only 9% of the area, 16% of the parcels, and 7% of the assessed value of all individually owned land. In terms of man/land ratios, there was 1 acre of African-owned land for every 800 Africans, 1 acre of Asian-owned land for every 32 Asians, and 1 acre of European-owned land for every 7 Europeans. In a study of land ownership in central Georgetown, Penang, Lee (1975) found that of the total land owned by the major ethnic groups in Malaysia, the Chinese own about 88 percent, the Indians about 8 percent, and the Malays about 4 percent. Even among the urban Chinese, however, the majority were renters rather than owners of land.

