Land Conversion out of Control – How to Achieve better Governance

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1. Why land use planning?

Land markets are different ...

- "Free actions" of owners (market) do not always cause best possible outcome for society as a whole
- Game theory (prisoner's dilemma / Nash equilibrium): Individual rational strategy may effect suboptimal results!
- Ergo:
  - Planning as a means in order to protect the common good!
  - Magnitude of competing claims of stakeholders, which cannot be only assessed in monetary terms e.g. significance of open spaces in cities)
2. Problems of land use planning

A. Land use planning is not neutral!

- Theory: LUP should balance and weight the claims of diverse stakeholders („Abwägungsgebot“, § 1 VII BauGB)
- Fact (cf. Olson 1971):
  - Strong organized and powerful groups work in act collusion with (local) governments in order to reap land rents and incremental value!
  - Costs of land conversion (most important: opportunity costs of land use or land conversion) are shifted to poor organized groups or to society as a whole!
  - Ergo: Rent seeking, lobbying, capture of (local) governments
### Land rent and land value: A simplified version

**Land rent: Based on**
- to the location
- to the intensity of use
- quality of use

**Agric.:** Rent „R“, e.g. 0.1 $
- **Value V =**
- **Discount rate „i“, e.g. 5%**

**Urban:** Rent „R“, e.g. 100 $
- **Value V =**
- **Discount rate „i“, e.g. 5%**

### Examples

<table>
<thead>
<tr>
<th>Land conversion</th>
<th>Germany</th>
<th>P.R. China</th>
<th>Cambodia</th>
</tr>
</thead>
<tbody>
<tr>
<td>From:</td>
<td>Farmland</td>
<td>Farmland</td>
<td>State public land / protected land</td>
</tr>
<tr>
<td>Into:</td>
<td>Construction land</td>
<td>Construction land</td>
<td>State private land / economic exploitation</td>
</tr>
<tr>
<td>Rents / Incremental value, shared by</td>
<td>- farmers - developers - municipality</td>
<td>- (farmers??) - developers - municipalities</td>
<td>- developers - government - corrupt, benefits</td>
</tr>
<tr>
<td>Costs, shifted on</td>
<td>Land degradation, economic and social costs of urban sprawl etc.</td>
<td>Food security, land degradation, dislocations etc.</td>
<td>Landless and land-poor people, ecological degradation, evictions</td>
</tr>
<tr>
<td>Political target:</td>
<td>2020: reduction of daily consumption to 30 ha / day</td>
<td>120.0 million ha as „red line“</td>
<td>„rectangular strategy“ of RGC</td>
</tr>
</tbody>
</table>
3. Planning as an impact on property rights
### Regulations always dilute property rights!

<table>
<thead>
<tr>
<th>Exclusive rights, based on ...</th>
<th>... rent and value</th>
<th>... control and use</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset (stock)</td>
<td>Right to sell the asset and to participate in its value (disposal, Latin: &quot;ius abutendi&quot;)</td>
<td>Right to control and to change the asset according to one’s needs (Latin: “abusus”)</td>
</tr>
<tr>
<td>Utility (flow)</td>
<td>Right to appropriate any returns on the asset (Latin: &quot;usus fructus&quot;)</td>
<td>Right to use the asset (Latin: “usus”)</td>
</tr>
<tr>
<td>Public control about private behavior by ..</td>
<td>Financial incentives: Negative, such as tax or leasehold (BUT: not positive, e.g. subsidies)</td>
<td>„A great deal of red tape“</td>
</tr>
<tr>
<td>Tenure security</td>
<td>does not require strong rights, based on rent and value,</td>
<td>but needs strong user rights!</td>
</tr>
</tbody>
</table>

### Examples: Restrictions for private property by public law

Examples (Germany):
- Building orders (Baugebot, § 176 BauGB)
- Modernisation order (Modernisierungs- und Instandhaltungsgebot, § 177 BauGB)
- Development reduction order (Rückbau- und Entsiegelungsgebot, § 179 BauGB)
- Compulsory purchase, related to urban development plans (Enteignungen im Kontext mit städtebaulichen Sanierungsmaßnahmen)
- Elimination of revitalization blockades (Behebung von Revitalisierungsblockaden, BBodSchG)
- Etc. etc.

...... the success is limited ...
4. Towards a better coupling of benefits and costs of land use and land conversion

A „two-legs-approach“: Planning + financial incentives!

Two-legs-approach:

- „Good governance“ without supporting economic framework is „wish-wash“ !!!

Economic incentives in order

- to make good (neutral) plans
- to make the actors comply with the plans

Method:

- Internalization of external costs of land use change is difficult!
- Better: Not making privates or planning authorities direct beneficiaries!
  - Property tax on unimproved land
  - Development: Cost covering instead of value capture
  - Financial equalization scheme
### A better coupling of benefits and costs!

<table>
<thead>
<tr>
<th></th>
<th>Towards a decapitalization</th>
<th>Land markets today</th>
<th>Land markets, target state</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Social benefits</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- private</td>
<td>Land rent</td>
<td>Use, not value / rent</td>
<td></td>
</tr>
<tr>
<td>- external / public</td>
<td>Few</td>
<td>Land rent / value</td>
<td></td>
</tr>
<tr>
<td><strong>Social costs</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- private</td>
<td>Few</td>
<td>Few</td>
<td></td>
</tr>
<tr>
<td>- external / public</td>
<td>Indirect and opportunity costs of planning</td>
<td>Indirect and opportunity costs of planning</td>
<td></td>
</tr>
<tr>
<td><strong>Approach:</strong></td>
<td>Decoupling of benefits and costs</td>
<td>Coupling of benefits and costs</td>
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</tbody>
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### Site value tax

**Advantages:**
- Easy implementation, without big changes in property rights
- Positive experiences, made e.g. in Denmark, Australia and also Qingdao (青岛) in 1898 (!)
- Land value tax supports planning!
- Many land use experts and even liberal economists such as Milton Friedman support this kind of tax because of its efficiency

**Problems:**
- Only second-best solution, because land rent cannot be skimmed off completely
- Valuation system has to be set up!
<table>
<thead>
<tr>
<th>Developing: Cost covering instead of value capture</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Developing:</strong></td>
</tr>
<tr>
<td>- Infrastructure is basically a public good</td>
</tr>
<tr>
<td>- On the other hand: It is not the task of the state to drive trucks – private developing is ok!</td>
</tr>
</tbody>
</table>

<table>
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<tr>
<th>Financing:</th>
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<tr>
<td>- But: Public goods should be financed out of taxes!</td>
</tr>
<tr>
<td>- Value capture is a licence for rent seeking!</td>
</tr>
<tr>
<td>- Value capture causes lack of transparency of costs and benefits of development =&gt; bad governance</td>
</tr>
<tr>
<td>- Instead: Covering costs according to transparent rules!</td>
</tr>
</tbody>
</table>

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<thead>
<tr>
<th>Financial equalization scheme requirements</th>
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</thead>
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<tr>
<td><strong>Situation in China and Germany:</strong></td>
</tr>
<tr>
<td>- Besides lobbying and corruption (also in Germany), local governments depend on tax or lease revenues</td>
</tr>
<tr>
<td>- Hence, also local governments have an incentive to promote farmland conversion</td>
</tr>
</tbody>
</table>

**Ergo: Make the local government a neutral actor!!**
- Nobody, also not local governments should be direct beneficiary of farmland conversion!
- Redistribution arrangements
Redistribution arrangements

Conflicts of (local) governments
- As a planner: being neutral trustee of the common good
- In charge for communal revenues: Maximizing revenues

Fiscal equalization scheme
- Pooling the land revenues
- Redistribution to the municipalities
  (according to the number of people, if possible)

5. Conclusions
Against the countervailing forces of misleading incentives

- Despite of different institutions and governance, patterns of failure are similar in developed countries, threshold countries and underdeveloped countries
- No neutral planning due to externalization phenomena:
  - Beneficiaries (land rent, incremental value) are well organized and in close collusion with (local) governments
  - A big part of the costs of farmland conversion is shifted to poor organized groups or to society as a whole
- Lack of enforcement and compliance to the plans
- Planning should be escorted by financial scheme:
  - Coupling of benefits and costs is best done by skimming off parts of the land rent (site value tax or leasehold)
  - No direct participation of the (local) governments in incremental value in order to make them neutral actors

Guiding star!

Thank you!