

Reshaping Economic Geography

Key Messages on Land Policy

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LAND GOVERNANCE IN SUPPORT OF THE MDGS

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Outline

- **Main message of report**
- **A shift in the policy debate**
- **Best policies to support efficient urbanization**
- **Land as key pillar to sustain rural-urban transformation**



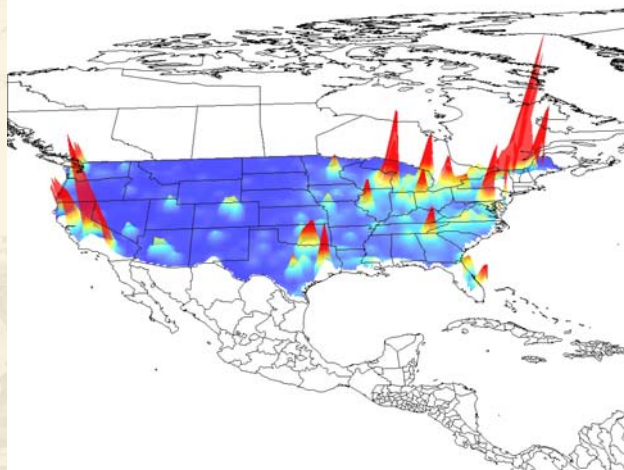
Main Messages

- **Concentration of economic mass** is inevitable and generally desirable
- But persistent **spatial disparities in living standards** are neither desirable nor inevitable
- The way to get both concentration and convergence is **integration.**
- The issue is how to harness the forces of the market to achieve **efficient urbanization with integration between areas.**



Why Americans put up with the pain of moving

Economic mass is concentrated in a few parts of a big country





Fast facts

- **Rising concentration of economic activity in urban settlements, then a leveling off**
 - Today's developing countries are not different from early developers
 - Transformation in two stages: first from agrarian to industrial (rural-urban), then post-industrial (urban-urban)
- **Wide, then narrowing, disparities in social welfare between settlements**
 - Today's developing countries are not different from early developers
 - Aggregate rural-urban gaps shrink slowly; within-urban gaps narrow even more slowly
- **Cities and towns are bigger today**
 - Today's developing countries are different from early developers
 - Urbanizing *after* medical and transport revolutions



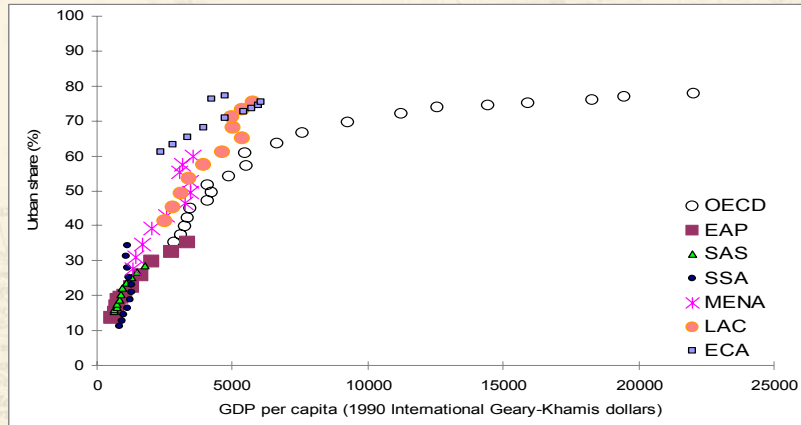
Sectoral and spatial transformations are linked

- **As economies grow from agrarian to industrial, the urban share climbs sharply**
 - Agriculture spreads out as it grows, industry clusters
 - Similarly rapid urbanization pace also took place during the 19th century in today's developed countries
- **As economies grow from industrial to post-industrial, the urban share rises more slowly**
 - Services are even more densely packed than industry
 - While urbanization intensifies within urban areas, urbanization pace nationwide slows down
- **As highly urbanized areas mature, economic activity starts to de-concentrate**
 - And only to places nearby, e.g., suburbs
 - But primarily in high-income countries, e.g., the US, Korea



Rising density

Time series: Developing countries experience a similar spatial transformation as early developers



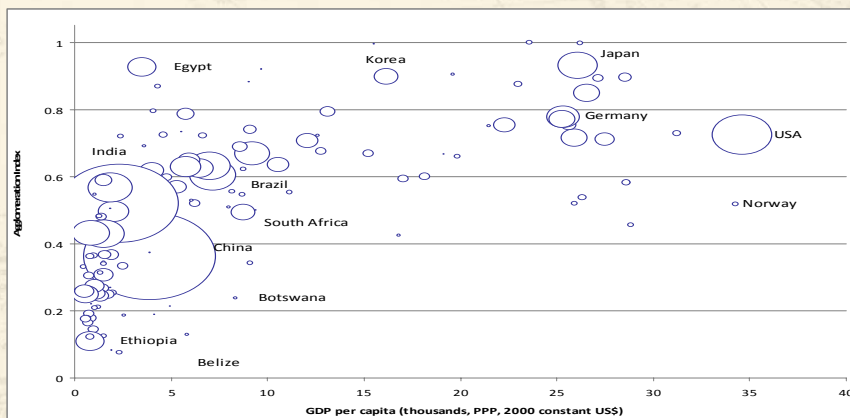
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Rising density

Cross-section: Shares of population living in urban agglomerations rise with of develop



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Revisiting the Urbanization Debate

- **Urbanization debate has been about**
 - the speed of urbanization
 - the magnitude of rural-urban migration,
 - the size of primary cities
- **WDR 2009 focuses on**
 - efficient rural-urban transformation
 - optimizing difference between agglomeration benefits and congestion costs
 - policy priorities vary with context and sequence
 - for areas at different phases of urbanization



Different policies for different areas

- **Towards the objective to increase economic density, policy issues vary:**
 - For areas at early stages of urbanization, spatially blind institutions (land markets and services) should have the priority
 - For areas at intermediate level of urbanization, not only institutions but investment in connectivity are key to spread prosperity and avoid congestion costs
 - For advanced urbanization, in addition to institutions and investment, particular questions such slums may require special targeted interventions



A framework for urbanization policies

	Area		
	Incipient urbanization	Intermediate urbanization	Advanced urbanization
Urban shares	Less than 25 percent	About 50 percent	More than 75 percent
Examples	Kampong Speu, Cambodia; Lindi, Tanzania	Chengdu, China; Hyderabad, India	Greater Cairo, the Arab Republic of Egypt; Rio de Janeiro, Brazil
Dimensions of policy challenge	1-D: Build density	2-D: Build density, reduce distance	3-D: Build density, reduce distance, eliminate division
Instruments for integration			
Institutions	Land rights; basic education, health and water and sanitation	Land use regulations; universal provision of basic and social services	Land use regulation and land taxation; universal provision of basic services
Infrastructure		Transport infrastructure	Transport infrastructure; demand management
Interventions			Slum area development; targeted programs to reduce crime and environmental degradation
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Source: UNDP, 2009, 2010



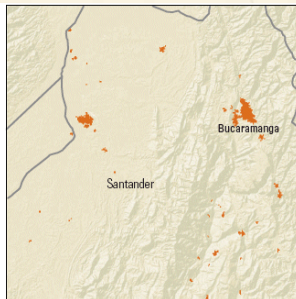
Different parts of a country urbanize at different pace

Incipient, intermediate and advanced urbanization present different policy challenges. The challenges multiply with the level of urbanization.

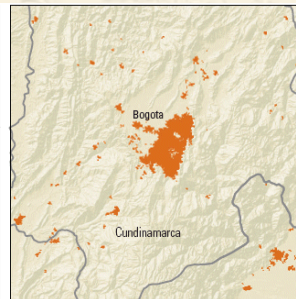
Incipient stage urbanization
Popayan, Colombia



Intermediate stage urbanization
Bucaramanga, Colombia



Advanced stage urbanization
Bogota, Colombia



Orange areas denote urban settlements—Popayan, Bucaramanga, and Bogota

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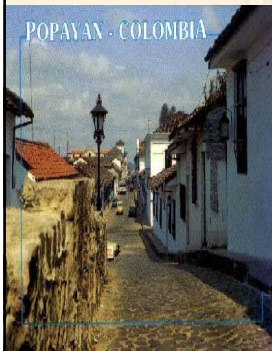
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As urbanization advances, the functions of cities change

... and they deliver different types of scale economies

Popayan, Colombia



Bucaramanga, Colombia



Bogota, Colombia



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Functions differ by areas

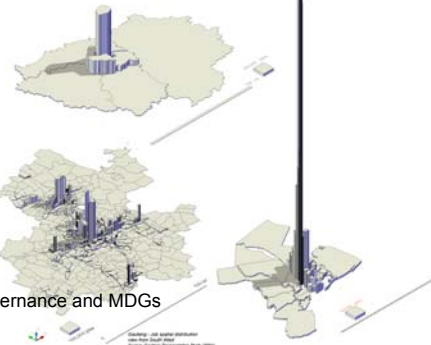
- **Areas at incipient stage** --- Towns facilitate internal scale economies (e.g., mill, factory) which come from large plant size
- **Areas at intermediate stage** --- Medium cities facilitate localization economies, that arise from input-sharing and close competition among firms within the industry
- **Areas at advanced stage** --- Large cities facilitate urbanization economies which come from industrial diversity that fosters innovation



Increasing economic density remains the objective for all areas at different stages of urbanization

Land markets are the most critical

- usage of the same piece of land has to change to accommodate greater value-added activity



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The importance of land policies at different stages of urbanization:

Land tenure security, private property rights:

- **England 16th century:** enclosure movement in 1500; Enclosure Act 1604
- **Denmark 18th century:** Abolition of "villenage": 1760 communal to private land holding
- **USA 19th century:** 1862 Homestead Act – the foundation of strong property rights
- **Cambodia 20th century:** land tenure security; land registry; land administration, conflict resolution;

Ease of land use conversion; versatile zoning law:

- **London: 18th --19th century:** Land Enquiry Commission; 1832 Reform Acts; Land valuation decrees; The Housing of the Working Classes Act 1890 and Cheap Trains for London Workers Bill 1890
- **NYC: 19th - 20th century:** 1916 zoning resolution; 1938 City Planning Commission; 1961 zoning law.
- **Hong Kong 20th century:** 1935 Housing Commission and Town Planning Ordinance (amended overtime); 1963 first land-use strategy "Zoning Plan;"
- **USA, 1930s-40s:** Wagner-Steagall Housing Act of 1937, good intra-urban public transport systems
- **Sweden, 1960s-70s:** Royal Housing Commission in 1945; Million Homes Programme
- **Korea, 1980s-90s:** universal provision of basic amenities; property rights; and subsidized credit for slum dwellers to become home owners
- **Costa Rica, 1990s:** housing subsidies

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Areas at incipient urbanization stage:
Priority: increase density
Instrument: invest in spatially blind institutions



Incipient stage of urbanization:

Establish basic institutions to ensure land tenure security, private property rights:

- **Denmark 18th century:** Abolition of “villenage”: 1760 communal to private land holding
- **England 16th century:** enclosure movement
- **USA:** 1862 Homestead Act
- **Cambodia:** land tenure security; land registry; land administration, conflict resolution;
- **Tanzania and Ethiopia:** impediments against mobility




**Areas at intermediate urbanization stage:
Priority is to strengthen institutions and
invest in infrastructure**








Intermediate stage of urbanization:

Ease of land use conversion; versatile zoning law:

- **London: 18th --19th century:** Land valuation decrees;
- **NYC: 19th - 20th century:** 1916 zoning resolution; 1938 City Planning Commission; 1961 zoning law.
- **Hong Kong 1930s-80s:** 1935 Housing Commission and Town Planning Ordinance (amended overtime); 1963 first land-use strategy "Zoning Plan;"
- **Bangkok 2000s:** zoning and parking spaces




**...Areas at advanced urbanization stage:
...strengthen *Institutions*, provide *Infrastructure*, target *Interventions***

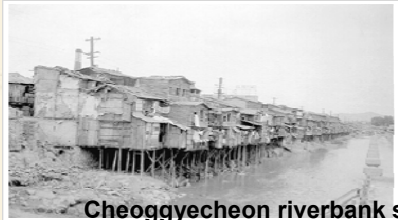

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A successful integration story

***When Institutions and Infrastructure are adequate, only then
Interventions will succeed***

Cheogyechon riverbank slums in Seoul: 1955 vs. 2007

Nangok Slums in Seoul: 1995 vs. 2007

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world development report 2009



advanced stage of urbanization:

Land market institutions have to evolve, strengthen, and respond to market needs

- **Hong Kong and Singapore 20th century:** responsive zoning laws, floor-area ratios keep increasing
- **Sweden, 1960s-70s:** *Royal Housing Commission* in 1945; *Million Homes Programme*
- **USA, 1930s-40s:** *Wagner-Steagall Housing Act* of 1937, good intra-urban public transport systems
- **London, 19th century:** *The Housing of the Working Classes Act 1890* and *Cheap Trains for London Workers Bill 1890*
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The facets of land policy:

- **Land Ownership**
 - Clear rights to own and transfer land/ property are core for facilitating economic density
 - Property rights via land titling converts assets into usable wealth
 - Empirical research shows that security of property rights encourages private investment



The facets of land policy:

- **Land use regulation**
 - Using land efficiently increases economic density
 - Governments regulate land use to protect environment, avoid negative externalities, control urban expansion and protect land for public use (roads and infrastructure)
 - Overzealous regulations often lead to artificial increases in serviced land that hurt both firms and households



Economic costs of excessive land use regulations

Instrument	What it does	Where	Impact	Motivation
Urban Growth Boundaries	Prevents conversion of rural land	Korea, USA (Portland), UK	Increase prices, lowers consumption of housing Korea: housing prices between 1974 and 1989 went up 10 times; UGB results in net losses of about 7 percent of income	Environmental protection? Rent seeking – by developers and land owners Net impact probably socially negative
Floor Area Ratio – building height restrictions	Imposes minimum density or building height limits	In most countries Indian cities	Artificial low density; high land prices; impact on business	The consumer welfare loss associated with longer commuting time estimated at more than 2 percent of income in the US, 1.5 to 4.5 percent in Mumbai and Bangalore
Cost increasing regulations –	Excessive requirements for road with, street set-backs, community facilities	Everywhere; e.g., Malaysia; Brazil, Argentina; In Sao Paulo, 37 steps for a construction permit	Higher prices as costs are passed to consumers	US additional regulation increases housing prices by 4 to 10 percent (Quigley, Ihlandeldt, Glaser).



Land-based Revenues

Property tax often the best way to raise local revenues to finance local services

- Problems in land valuation and political resistance

Land sales have been recently used successfully by local governments to finance urban infrastructure. This method is efficient – used to finance infrastructure which will benefit the city; and fair.

- It benefits from the higher values of land associated with urbanization
- It captures the increase in value associated with urbanization and uses it to promote higher welfare.
- Examples – China, Cairo

Using Land value capture as part of PPP in urban settings



- Is it easy? Urban operations in the Bank have shown how difficult is to include land issues. Registries are slow, cadastres are outdated, policy makers have rarely the courage to be persistent?
- Is it necessary? It is fundamental in all countries at all levels of density and urbanization.



Thank you