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Fiscal Policy and the Price of Land and Housing in Japan

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Summary. The improvement of the urban capital stock in Japan is caught between the high price of land (and housing) and local and national fiscal constraints. In recent years rising land prices have been underpinned by the relatively recent system of planning controls and by a wide array of subsidies: suppliers of urban development have not been charged the full cost of infrastructure; while the demand for housing and development has been supported by the protected capital market and by many forms of direct and indirect assistance. Since 1980, the stringent budgetary situation has helped to reduce the rate of increase of land prices. But higher local taxes and more expropriation of the land needed for development remain politically unacceptable.

Introduction

Two problems have dominated urban policy in Japan in recent years: the high price of housing, and of land for housing and other forms of urban development; and the constraints on national and local public expenditure and bond finance. Together they have severely limited efforts to make good the generally-recognised deficiencies of the urban social capital stock — housing, roads, sewerage, open space and other public facilities. For most of the last two decades increases in the price of land and housing have been stimulated — through not ultimately, or at least exclusively, *caused* — by a wide range of explicit or implicit subsidies to urban development and housing consumption whose effects are both inefficient and inequitable. While housing conditions generally have been improving, the circumstances of poorer households, and those dependent on rental housing, in the larger metropolitan areas have deteriorated relative to more fortunate groups. Japanese urban policy today faces a seemingly intractable contradiction: a more liberal fiscal climate fuels the escalation of land prices, encouraging in some part land-hoarding and raising the cost of infrastructure and public facilities; a more restrictive fiscal climate helps to reduce the cost of urban social capital but leaves little scope for an expansion of social capital formation. Yet the only workable alternatives — increased taxes and/or more frequent recourse to public expropriation of land — are politically unacceptable.

Urbanisation Trends and the Price of Land

Japanese cities are at an interesting stage of transition. During the late 1970s most observers concluded that after the rapid urbanisation of the post-war decades the growth of the large metropoli-

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tan areas was giving way to a process of urban deconcentration. Yamada (1981) pointed to the predominance of decentralisation in the larger metropolitan areas, and its beginnings in the smaller ones, during the period 1965–75. Kawashima (1981) confirmed this process of 'spatial deconcentration over functional urban regions', drawing on data up to 1980, with the observation that the tendency to disperse population over more extensive hinterlands was likely to occur more slowly than the initial phase of dispersal from inner cities. A major component of this slowing-down process was the fall in the rate of inmigration to the three major metropolitan areas (Tokyo, Osaka and Nagoya) which started in the late 1960s. However, out-migration also began to fall in the early 1970s, generating virtually zero net flow during the period 1975–80.

This change in the pattern of urban growth reflected a number of fundamental changes in the Japanese economy. At a national scale the most important shifts have been in the composition of output, away from manufacturing towards tertiary sector activity and, within manufacturing, away from heavy industry towards assembly and high-technology production. Regionally, the Japanese Government's spatial policies have underpinned a major convergence in regional income differentials, though as Glickman and Tani (1984) point out, it is hard to be certain to what extent policy led, and to what extent it followed, the evolving spatial trends. Metropolitan areas benefitted significantly both from the growth of the so-called 'urban' manufacturing sector (assembly processes, research-based production) and from the expansion of the tertiary sector. In marked opposition to the general tendency towards decentralisation, however, the spatial organisation of the producer-oriented services has become increasingly functionally and hierarchically specialised. Like Paris and London, Tokyo and its hinterland has attracted a quite disproportionate share of the higher 'control' functions (management, finance, marketing, information etc.) and of research and development.

The single most important event for the Japanese economy in the recent past was the oil price crisis of 1974 (and the subsequent increases in 1978). In an economy almost wholly dependent on imported energy, this had the effect of generating a fall in GDP in the year immediately following; more significantly, with hindsight, it is seen to have formed the watershed between the rapid growth of the early post-war period and the present phase of more 'normal' growth. One direct consequence of the oil crisis was a change in national fiscal policy which is still having a significant effect on the evolution of urban policy. I shall return to this later.

Since 1980, however, there have been some changes in this general picture. Gross migration within Japan has declined significantly, though inflow to the large metropolitan regions has fallen less than outflow from them. As a consequence the population of the larger areas is once again growing. (The population of Greater Tokyo, for example, increased marginally by 0.6 per cent to 11.83 millions in 1984). This is generally interpreted to be a reflection both of the external economic conditions which have affected Japan's export-oriented sectors during this period and of the stringent budgetary situation which has accompanied them. Public expenditure constraints, for example, have contributed to the recent growth of unemployment and relative income decline in some peripheral regions. In future there can be little doubt that urbanisation and urban policy in Japan will take shape in a generally less favourable fiscal climate than hitherto.

Throughout this period, the cost of land has been a dominant concern of urban policy and, with it, the cost of housing. In absolute terms the price of residential land is much higher than in other advanced industrial countries. The Japan Real Estate Surveyors' Association, for example, reported that in 1980 it was possible with an 'average income' to buy 148 square metres of 'ordinary' residential land in Los Angeles, 358 square metres in Sydney (1978), 406 square metres in Amsterdam (1979) and about 85 square metres in Frankfurt but only 11.7 square metres in Osaka and 9.3 square metres in Tokyo. Evidence from a survey by the National Land Agency (1982) of changes in land ownership suggests that the mean price paid in Tokyo in 1980 was in fact somewhat lower than that quoted by the J.R.E.S.A.; but the 'affordable' land area was nonetheless very small by international standards. The mean prices derived from this survey were as follows: (thousand yen per square metres) national average 38.8; major metropolitan areas 92.2 (Tokyo 110.2); other areas 23.7. For lower-income purchasers, the ratio of the price of land actually purchased to income in the three large metropolitan areas was found to be 3.7, while at upper-income levels it fell

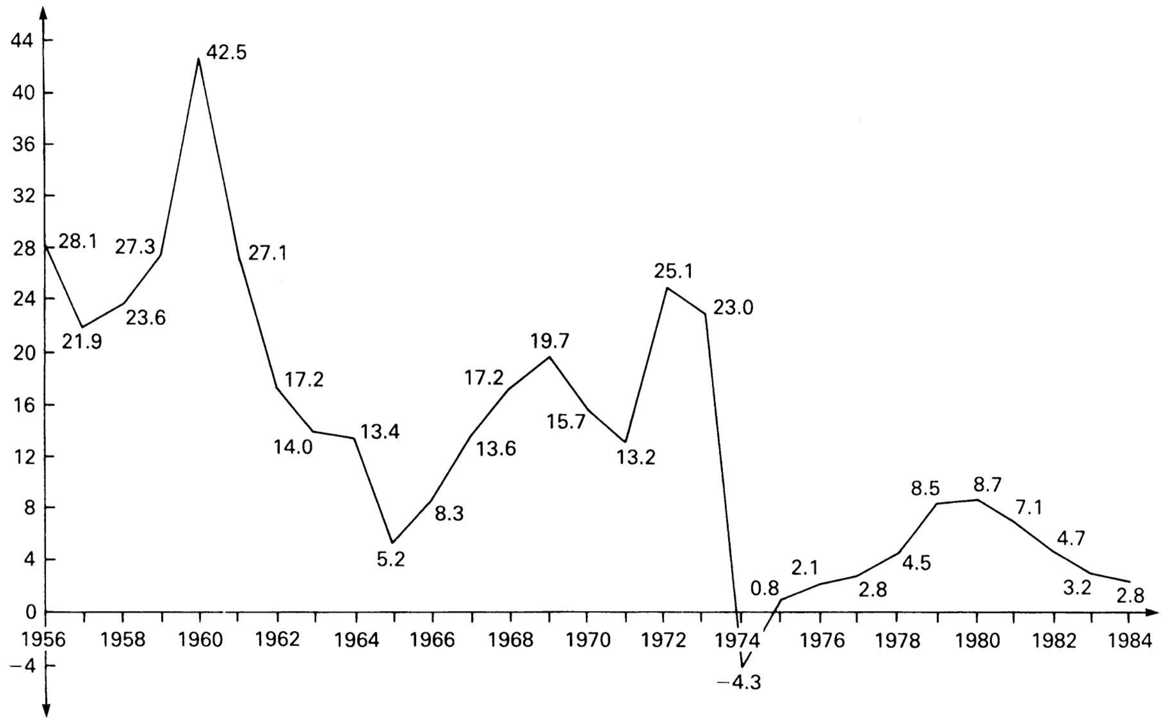

Fig. 1. Year-on-Year Percentage Changes in the Price of Land in Urban Areas.
Source: Japan Real Estate Research Institute.

to 2.7 (somewhat higher in Tokyo). In less urbanised areas the equivalent ratios were 2.2 and 1.2. The average prices also disguise a steep rate of decline within cities with increasing distance from the central area: in Tokyo, for example, the price of land for individual houses declined by a factor of 10 between the 10–20 kilometre band and the over 50 kilometre band (the fall for land for apartment blocks being even steeper).

The very rapid rate of increase in urban land prices in Japan experienced since 1950 has also been accompanied by marked cyclical swings. In 1972, for example, the year-on-year rate of increase topped 25 per cent, while in 1974 prices actually fell by 4 per cent. (See Fig. 1). More recently the rate of increase has been declining; and, taken together with evidence of a fall in the volume of land being converted to urban use, this suggests that demand factors have become more important.

Causes for Concern

Economists tend to start from two presumptions: that if land prices are high it does not matter much: so long as someone is paying the price, he must be deriving equivalent benefit; and that it is the demand for housing that determines the price of residential land and not *vice versa*. There are, however, a number of important qualifications which need to be added to these simple propositions.

High urban land prices are manifestly 'a problem' where as a consequence there is a lack of public infrastructure. In part this may be a matter of timing. High land prices in the short run, if predicated on the expectation of a provision of public goods that is not forthcoming, might be expected to fall in a subsequent period. Unfortunately the market is not always this 'rational'. It is easy for other and possibly perverse chains of consequences to become established, such as accelerated residential and business out-migration, before the market has fully adjusted. Public facilities nonetheless, it is argued, cannot be justified unless they meet the full opportunity cost of alternative land-uses. In equity, it certainly appears unjust, as has often been argued in Britain, that the public authorities should pay a price for land which itself incorporates the value of the benefit derived from public facilities. But all these problems are in essence fiscal. They reflect inefficiencies (and inequities) in the method of charging for the provision of public facilities, and in the scope for capturing an appropriate share of the resulting increase in land values.

A special and very important case of the consequent lack of publicly-provided goods — which is currently a matter of concern in Japan — is the shortage of lower-income, and especially rental, housing in major metropolitan areas. It is easy to dismiss this also as not essentially a problem of the land market but of the distribution of income or of the availability and scale of transfer payments. But this is to ignore both the evident and strong connections between the political and economic conditions which generate high and rising land prices, and the resistance to more generous distributive or subsidy policies, and the perverse effect which misguided attempts to introduce specific subsidies may have. These interconnections are well recognised in Japan, though, as I shall indicate below, the adjustments to policy have been far too limited to be effective. It is worth noting, however, that land costs have not been the only component of the rising cost of social infrastructure. Most estimates show that construction and other costs escalated many more times than the land cost component between the early 1950s and the mid-1970s.

Speculation and portfolio investment in land can also divorce prices from their underlying determinants. Short-term speculation, related to the cyclical fluctuations in land prices, are a problem in most countries where prices are rising rapidly. Japan has certainly had its share of speculative pressure, no less than of political and other 'scandals' relating to land deals. But there is no real evidence that this has had a major influence on the secular trend. Portfolio investment, on the other hand, has played a significant role. In theory, the price paid by long-run asset-holders should be determined by the underlying trends in urban development. However, prices can diverge significantly from this base-line for one (or both) of two reasons: because expectations are unrealistic and long-run asset-holders are speculating on value increases which either may not arise or more perversely they may prevent from arising; and/or because the volume of demand from portfolio investors (without a direct interest in the urban development process) is large relative to the volume of development-oriented demand. If in addition inflation and/or specific taxation arrangements favour this form of portfolio investment the situation is likely to be severely aggravated.

In Japan both households and businesses have been active portfolio investors in land. In 1980, it was estimated that about two-thirds of the land stock (by value) was owned by households, about one-quarter by non-financial corporations, 5.5 per cent by the public sector and 1.5 per cent by financial institutions. Corporate land acquisition during the 1970s closely followed the cyclical swings in land prices and asset investment. A large part of the ownership of land by non-financial corporations was almost certainly not motivated by a direct involvement in urban development. During the late 1960s and 1970s land became a wise haven for surplus funds, offering a hedge against inflation and taxation privileges and serving later as a sure collateral for bank loans. As Nobuyuki (1981) has pointed out, the concern that this would fuel an inflationary spiral turned out to be unfounded because the businesses used their increased asset strength and borrowing potential to invest profitably in real productivity gains. I shall return to the background to household investment in land at a later stage.

A final, and more straightforward, reason for accepting that high land prices are a problem is where they reflect well-recognised distortions in the economic system. Of these, the most important, and the ones that are most in evidence in Japan, are subsidies (actual or effective) on both the demand and supply sides of the market and constraints on land supply such as those that result from urban planning controls. The recent history of Japanese land and urbanisation policy suggests that distortions of both types have in fact played a critical and harmful role in the process.

Land and Planning Policy Since the 1960s

Land ownership in Japan largely stems from the major land reform introduced by General MacArthur immediately after World War II. This effectively enfranchised the mass of the rural peasant population, including those in the peripheral areas of the large cities which during the subsequent twenty-five years were to experience a very high rate of land conversion into urban use. The relatively short duration of this title to land seems to be one of the factors that lie behind what is generally recognised to be a very strong 'cultural' attachment to the land in Japan. Politically this manifests itself in the general sensitivity to issues affecting land use and land ownership and more especially in the extreme reluctance on the part of the public authorities to use powers of expropriation to obtain land for public facilities or to meet objectives of public policy, such as the creation of New Towns.[1] This has been increased by the political protest surrounding the acquisition of land for Narita airport. It is also important to understanding the political background to urban policy formulation in Japan to note that the rural and peasant-farmer lobby is a particularly strong element in the ruling Liberal Democratic Party. Generally speaking, however, at local and national levels, the parties of the left show equal sensitivity to the land issue.

Up to 1968, despite earlier attempts to establish city planning, there were effectively few planning controls in Japan[2]; even the attempt to introduce stricter planning in the Tokyo region in the later 1950s was recognised not to have been able to withstand the pressure of demand for development. (See Alden, 1984). Urban, and especially housing, development occurred in an uncontrolled manner, much of it on unserviced land. The 1968 reform was notable for two main points: firstly, it established a form of zoning system, which two important distinctions between City Planning Areas (CPAs) and other areas, and within CPAs between the so-called Urbanisation Promotion Areas (UPAs), Urbanised Control Areas (UCAs) and unclassified areas; and secondly, it introduced for the first time the requirement for specific permission to undertake development. This permission was initially only required in UPAs but was extended in 1975 to the unclassified areas. The power to establish UPAs was vested in local government, which was required to designate land that would be needed for development during the subsequent ten years. In principle new development was to be prohibited in UCAs 'for the time being'. This control and permissions system, however, did not apply (and still does not) to development on areas of less than 1,000 square metres in UPAs (or 3,000 square metres in unclassified CPAs).

The initial effects of these measures were predictable, the product in part of political, in part of economic, responses. In areas of rapid urbanisation, most municipalities used the new 'planning permission' system to restrict development to the level for which they could provide appropriate infrastructure. The essential constraint here was fiscal: despite generous central government subventions a major part of the cost of additions to the local road system and the water and sewerage networks had to be financed out of local funds. The coincidence of the new controls and a growing demand for development undoubtedly contributed to the rapid increase in land prices in the immediately following years. Perversely, however, the rise in prices — determined by the real supply constraint, that is 'permissions' — encouraged many local authorities to classify too much land as UPA. The motivation here seems often to have been not so much to reduce prices as to allow the politically powerful peasant-farmer group (and 'part-time' farmers) to cash in on the increasing price of land: land inside the UPA was bound to command a much higher exchange value than land outside it. From one perspective therefore the outcome of this combination of measures could be regarded as the 'worst of both worlds': supply restrictions drove up prices; but orderly physical planning was not achieved because the zoning was too generous.

The lower exemption limit of 1,000 square metres moreover encouraged a proliferation of small-scale development. This reached a peak in 1976, just after the peak in land prices, when 16.3 per cent of newly-constructed detached houses had sites of less than 100 square metres. (In Tokyo the percentage was 44.4, while in Osaka it reached 60.5). Subsequently, the ratio has fallen until in 1981 just under one-third of new residential development in Tokyo was 'small plot' development (10 per cent nationally). Although by 1982, nearly 90 per cent of the population

[1]Much land for such purposes has of course been purchased compulsorily; but it is indicative, for example, that in the case of the prestige project of Tsukuba Academic and Science City the national and prefectural governments have chosen to rely on purchase by consent. As a result plans for Tsukuba have had to be altered on a number of occasions and the distribution of land-uses remains far from ideal.

[2]There were, however, building regulations, which remain a very important part of the regulation system — particularly given to the risk of earthquake and consequent fire and flooding in Japan. Moreover, in Japan, unlike Britain, the building regulations specify many requirements which we normally associate with planning controls; in particular, such things as plot ratios, height controls and the use to which buildings may be put.

was living within designated City Planning Areas, more than half was in areas with no formal declaration of UPAs and UCAs. Here such planning as there is still relies heavily on the programming of public works, 'indicative' master plans and the building regulations. The results of these measures are clearly evident in Japan, where by European standards there seems often to be a confused and 'unplanned' pattern of residential and agricultural land in areas of new urbanisation. It is arguable of course that this view merely reflects a different cultural perspective: that the dominant pattern of land use in Japan (outside the major metropolitan areas) is one of the *integration* of agricultural and residential uses, in contrast to the European, and especially the British, conception of a rigid separation of uses. The advantages and disadvantages of the alternatives are not easy to evaluate; but whether or not the outcome is better or worse than the European model there is no doubt that this is not what the planning policy was designed to achieve.

Within the major cities the problems are essentially different: rearrangement of the existing land-use pattern; redevelopment of low standard housing and the development of new commercial centres; provision of more and better social infrastructure, notably open space, highways, sewerage and other public facilities. This has involved other measures, notably the Land Readjustment Programme which aims to encourage orderly redevelopment of existing mixed-ownership and mixed-use areas, by granting existing owners an equity stake in the redevelopment. There is not space in this article to cover this important and problematical part of Japan's contemporary policy. It is worth noting, however, that there is an underlying connection: the high land prices, which limit the scope for, and methods of, redevelopment within existing built-up areas, are undoubtedly related to the problems associated with new development, and the supply of development land, at the urban periphery.

Since 1968 there have been a number of adjustments to the planning system designed to make good some of its shortcomings. For example, the requirement for permissions has been extended to unclassified areas in CPAs. District planning has been introduced in an attempt to control disorderly small-scale development (since 1980). The most important subsequent policy developments, however, have been in the area of land and fiscal policy.

Land Taxation and Price Controls

The introduction of the new planning system was quickly followed by a period of high land price escalation. New measures were clearly required. These took two forms. The first was a system of price monitoring and control. This was initially established in 1969 and involved the regular publication of national land price data with representative 'appropriate' prices. Since this did not seem to have been sufficiently effective, prefectural governors were granted the power in 1974 (subject to Prime Ministerial directives) to designate Regulation Areas within which permission would be required for the buying and selling of land (or interests in land).

Permission was to be refused where prices were out of line with the established guidelines or where the transaction was not for clearly appropriate and approved development, subject to the right of the seller to require public expropriation *in lieu*. At the same time, buyers and sellers of land (in excess of 2,000 square metres in UPAs) were required to report details of proposed transactions, even where the area was not designated a Regulation Area. In addition the prefectural governor was given power in these cases to *recommend* that the transaction should not go ahead if the price or the development was deemed inappropriate. The names of those not complying would be published. Measures were also included to encourage the identification of idle land, with powers to recommend develoment and, as a last resort, expropriation.

The emphasis here on powers of persuasion is characteristically Japanese, relying as it does very heavily on notions of consensus and social conformity. Apparently up to 1982 there had been no Regulation Areas designated. On the other hand, in a typical year *recommendations* that transactions should not go ahead on the grounds of 'inappropriate' price or unsuitable development occurred in only about 10 per cent of the cases. Out of nearly 40,000 transactions registered in 1982, about 1,500 went ahead after 'corrections' of the price, 2,500 were withdrawn and the remainder approved at the intended price. The high exemption limit, though, still leaves a large volume of transactions unaffected.

The second main group of measures designed to tackle the escalation of land prices comprises taxes on land. These were of two types. Firstly, there was a new tax on land *holding*, introduced in 1973. This was designed to encourage the release of land for urbanisation. Municipalities were granted the power to tax agricultural land in UPAs at its residential use value. Secondly, there were new taxes on the *disposal* of land, dating from 1974. These penalised short-term land-holders (less than 10 years), in order to discourage speculation, by treating capital gains as income for individual or corporate tax purposes. On the other hand, through a complex system of allowances, long-term land-holders were treated relatively mildly if they disposed of their land holdings.

In practice the land-holding tax was ineffective because its imposition depended on the compliance of local municipalities. Most refused to implement the legislation, in part because of pressure from the owners of agricultural land and in part because the more rapid release of land for housing would have imposed on them a need for more expenditure on the associated infrastructure. The tax on short-term gains was almost certainly effective in curbing the worst forms of speculation, though it has become very unpopular with the large-scale commercial developers. The preferential treatment of long-term land-owners, however, was not sufficient to overcome the incentive to hold land against possible future price increases.

It is worth noting, however, that in practice the main instrument for the control of land prices in the short-run in the period 1973–74 was not these new taxes but a direct credit squeeze imposed by the central and commercial banks at the bidding of the Ministry of Finance. This is characteristic of the way in which economic policy was implemented at the time. This was immediately followed by the effects of the first 'oil shock'.

Another main source of support for the price of 'raw' land has been the failure to institute an effective system of beneficiary charges for public infrastructure investment. This in turn has increased the reluctance of municipalities to grant more development permissions. Although the 1968 City Planning Act included provision for the levying of contributions to the cost of public facilities this has not been nearly as effective or as significantly implemented as expected. There are two arrangements. Under the first the private developer must pay a charge related to the cost of the new infrastructure. This has had very little effect. Figures of the national cash-flow in investment in sewerage, for example, show that beneficiary assessments contributed only 1.1 per cent of total outlays in 1981 (compared with contributions of 59.7 per cent from local bond issues and 30.4 per cent from the national budget) and that even in the peak year, 1973, their share was only 3.3 per cent. The major part of the cost is thus recouped from local tax revenues (i.e. through average cost pricing) and from specific and non-specific government grants.

Under the second arrangement developers (as in Britain) are required to provide local infrastructures themselves. Necessarily this only affects the larger schemes and is a further incentive for 'small-plot' development. In this case the additional expense borne by the developer is relatively onerous. A national survey of the development sector in 1981, for example, showed that whereas for schemes of 1,000 square metres or less 91 per cent of the land area was effectively available for residential use, in schemes of 20 hectares and above only 57.3 per cent of the land area could be used for housing, the remainder being divided between roads (21.0 per cent), open space (9.3 per cent) and other public uses. The average availability of land for housing within development schemes has fallen steadily throughout the 1970s. From the developers' standpoint this of course *reduces* the price they are willing to pay for land. However, in a market where development is taking place at different scales and effectively subject to different planning requirements and charges it would not be surprising if this affected the willingness of developers to undertake larger schemes more than the price of land. While the rate of increase of land prices is certainly falling (not of course for this reason alone), it is notable also that the proportion of residential development permissions in UPAs given for sites of less than 1 hectare (but more than 1,000 square metres) — based on the number of sites, not their area — rose steadily from about 80 per cent in 1971 to 94 per cent in 1981.

Economic Influences on the Price of Land

At this point we can summarise the main inefficiencies and inequities noted so far that have been evident in the Japanese urban land market in recent years. On the one hand, there have been significant disincentives (or barriers) to the conversion of land into urban use. The most important of these is probably the planning permission system itself and the reluctance of municipalities to give permission for development. (This is not necessarily to imply that such a system is unjustified; merely that an inevitable corrollary, as in Britain, is an increase in the price of land.) In addition the taxation code has failed in effect to penalise land-holding as a long-term speculative investment, while it has been insufficiently generous to create an incentive to land release. Only the need to pay Inheritance Tax — the second most important reason for the sale of agricultural land after the need for funds to build a house — acts as a positive inducement to sales. Finally, the incentive to retain land in agricultural use has been sustained by generous agricultural subsidies. On the other hand, the price of 'raw' land has been able to internalise the benefit of public infrastructure provision, either because charges have not been imposed (and because infrastructure is subsidised by the national government) or because onerous planning requirements have driven the larger-scale developers out of the market.

The common characteristic of these sources of inefficiency of course is that they all affect the *supply* of residential development. At the same time, it is clear that there have been major subventions to the *demand* for housing and housing land which have equally contributed to the rise in land prices. While these are recognised in Japan, it seems that they are generally not given the attention that in my opinion they deserve.

One overriding influence on the demand, both for land and housing, throughout the 1960s and 1970s, was the Bank of Japan's maintenance of a generally low-interest rate monetary system. This was achieved by close control and regulation of the capital market which remained 'segmented and internationally relatively isolated' (OECD, 1984). Whether or not one counts this as a form of 'subsidy' is largely a matter of semantics; but 'it is generally agreed that interest rates would have been much higher in the absence of controls' (OECD, *op. cit.*, p. 43). This had a number of important effects on the land market. Firstly, the household savings ratio was growing (from about 18 per cent in the 1960s to 20 per cent in the 1970s). This is thought to have reflected both the shift from 'rapid' to 'moderate' economic growth and the ageing of the population. Most household savings, however, 'were generally deposited at banks and post offices at low controlled interest rates ... The range of "safe" domestic financial assets available to households ... was limited ... Controls and agreements limited competition and prevented ... institutions from "bidding-up" interest rates' (OECD, *op. cit.*, pp. 42–44). In this climate the attraction of land ownership as a form of capital accumulation was clear. At the same time, borrowing was potentially cheap. In practice, the scope for household borrowing (other than for housing) was limited and often — as with the so-called Sarakin consumer credit firms — extremely expensive (from 40 to 70 per cent p.a.). A certain amount of lending by recognised financial institutions, however, did occur (at controlled interest rates) and it is thought likely that much of this was against the security of land purchases. Secondly, the corporate sector equivalently lacked profitable outlets for surplus funds (while benefiting from the generally low borrowing rates). Land therefore also appeared a very attractive investment, even if the tax treatment of short-term gains limited the potential liquidity of the capital.

In total households have consistently been net sellers of land throughout the 1970s. The net sums, however, mask much larger gross transactions. A trial computation by the National Land Agency of the flow of funds in land transactions in 1980 illustrates the point (see Fig. 2). (Land in this context includes land purchased in connection with new housing). More than one-half of the flow of funds into land purchase was derived from recognised 'low-interest' financial institutions (including public agencies), while 10 per cent came from public revenues. Simultaneously, the equity investment by households in land purchase was matched by an equivalent volume of funds recycled out of land sales. While interest rates remain low, it is clear that this is a system geared to the rapid escalation of demand.

The Demand for Housing

So far I have not discussed the demand for housing itself. Clearly this remains the most important influence on the demand for residential land. Its main determinants in turn do not need much elaboration. They have been, on the one hand, the rapid growth of incomes, with a relatively high elasticity of demand for housing, and, on the other hand, the rapid

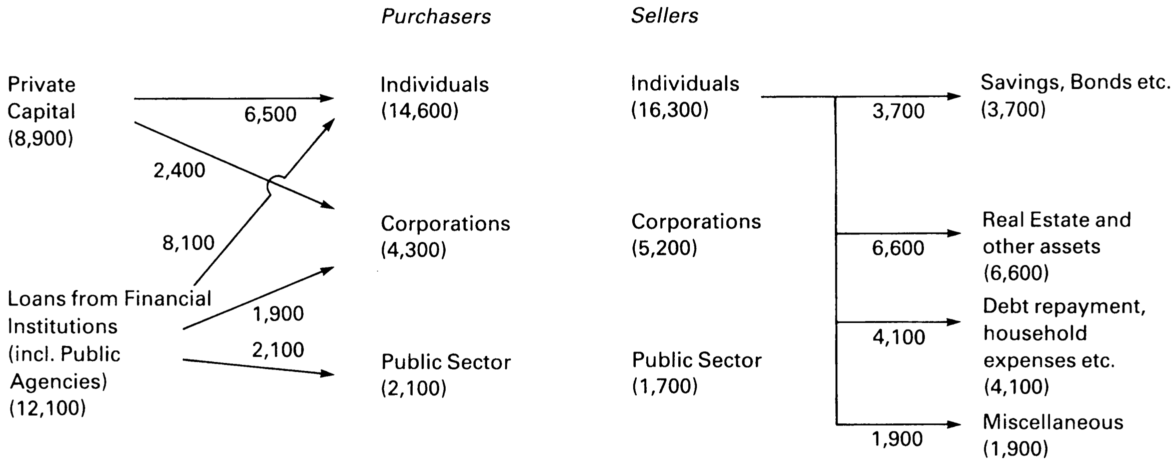

Fig. 2. Flow of Funds in Land Transactions: trial computation for Fiscal Year 1980.
Source: National Land Agency (1982).

rate of urbanisation. What is important, to my argument, however, is that this demand has been substantially increased by a wide range of direct and indirect subsidies. These have taken a number of forms. As in other countries, owner-occupiers enjoy various tax reliefs. They include reductions in registration and licence taxes, reductions in the tax on real estate acquisition, exemption of house acquisition payments from income tax and a reduction in the fiscal property tax for new houses. This has not served to increase the rate of owner-occupation which has in fact fallen from over 70 per cent in 1958 to about 60 per cent. The main reason for this is that the high price of housing has forced the lower income groups — traditionally owners of poor-quality dwellings — into renting. But it has effectively underpinned the growth of owner-occupation among upper and middle income groups: in fact between 1963 and 1978 there was a substantial rise in the proportion of households in the upper three quintiles of the income distribution moving into owner-occupation matched by a fall for the lower two groups.

Those building and purchasing housing, moreover, have been able to take advantage of the prevailing low rates of interest. As I have argued above, this 'disguised' subsidy has been available even where households have had recourse to the private market for credit. The outstanding characteristic of the Japanese housing market, however, by comparison with other advanced industrial capitalist countries, is the extent of the involvement of the public sector, and public finance, in house production and purchase. The main channel for public finance has been the Housing Loan Corporation (HLC) (and its predecessors). In addition the Housing and Urban Development Corporation (HUDC) is mainly concerned with redevelopment and the provision of rental housing in existing built-up areas; and local authorities also provide, finance and subsidise housing, mainly but not exclusively for rent. Since World War II in fact, two-thirds of all houses have been constructed with public funds (see Table 1). Since 1965, however, somewhat surprisingly, this proportion has been larger and increasing (up to 1982). The reason for this is that the Japanese government's response to the rising cost of housing was both to recognise a need for more, and more subsidised, rental units and to make public funds more readily available to those purchasing or building houses for owner-occupation.

The subsidy involved in HLC financing arises partly from the fact that loan finance is made available to it by the government at rates below the prevailing government bond rate (the fiscal arrangements are discussed further below) and partly from an explicit subsidy out of the General Account Budget to enable it to balance its books. This explicit subsidy element, which began in 1965, grew very rapidly (by a factor of 4) between 1975 and 1982. From the consumer's standpoint the availability of subsidised finance is restricted because substantial down-payments are still the norm in Japan (up to 30 per cent), because loans are limited

Table 1

Number of Houses Constructed by Source of Funds, 1945–1982 (thousand dwellings)

	Public Subsidised Housing	Redevelopment Housing	Housing Loan Corp. Housing	Housing and Urban Dev. Corp. Housing	Other Publicly Funded	Private Houses built with Private Funds	Total
1945–50	274	–	626	–	297	2,136	2,773
1951–55	224	–	245	17	118	994	1,548
1956–60	246	2	458	153	130	1,594	2,583
1961–65	288	21	630	189	321	2,537	3,986
1966–70	446	33	1,087	335	664	4,174	6,739
1971–75	453	41	1,664	284	666	5,172	8,280
1976–80	332	28	2,547	163	578	4,049	7,697
1976	70	6	367	25	124	1,049	1,641
1977	66	6	475	33	133	894	1,607
1978	70	6	599	35	120	753	1,583
1979	69	5	572	36	101	788	1,571
1980	57	4	534	34	100	565	1,294
1981	49	5	508	23	101	496	1,182
1982	49	4	558	20	90	462	1,183
1983 (est)	47	4	481	21	84	469	1,106
1984 (est)	43	4	462	20	105	497	1,131

Source: Ministry of Construction.

to a 'safe' multiple of the borrower's income and because HLC loans are usually limited to about 50 per cent of the purchase price (the remaining, say, 20 per cent being financed by a private loan). Nonetheless the effective subsidy has been substantial.

The significance of the combination of cheap finance and explicit subsidies can be gauged from the 'extreme' but not uncharacteristic case of housing built for sale in redevelopment areas or new towns (where additional explicit subsidies are available). Since both the developers, whether private or public, have access to this cheap finance (usually from the HUDC) and the purchasers have access to low-interest loans, the demand for these units (which are sold at controlled, net-of-subsidy prices) greatly exceeds the supply. Typically they are then allocated by lottery — a system which apparently does not appear odd or inequitable to the local citizens.

In sum, it is clear that housing development in Japan has been underpinned by a ramifying system of subsidies, so extensive in fact that there has been no attempt to assess their impact and so engrained that many of them are not recognised as subsidies. A brief listing would include:

— the generally low level of market interest rates
— low-interest finance made available under the Fiscal and Loan Programme (see below)
— general subsidies to public financing agencies (HLC, HUDC, etc.)
— specific subsidies for redevelopment, high rise, hazardous areas etc. by central government
— local government subsidies for rental housing and redevelopment
— below-marginal-cost (and explicitly subsidised) provision of infrastructure for new and redeveloped housing
— tax reliefs for owner-occupiers and landlords.

While the explicit financing of housing appears a relatively small item in the Japanese government's General Account Budget (between 1 and 2 per cent of the total since 1970), this clearly massively understates the true extent of the subsidisation. (See also the discussion of fiscal arrangements below.)

The price of housing (and hence the price of housing land) is very high not merely because of subsidies. In the last resort, it remains true that as well as having experienced a rapid growth of incomes and a very rapid concentration of urban development, Japan is a country with a large population and a small habitable area, where there is intense competition for the use of land. It would be surprising if a country that generated US$13 million of GNP per habitable square kilometre (compared with $3.3 million in Britain) did not have high average land values. Nonetheless, it is clear that within this general context subsidies and public finance have played a significant role in fuelling the escalation of urban land prices and in determining their level. The interaction between the land and housing price problem and urban fiscal policy is inescapable, whether one approaches it from the perspective of cause or effect.

National and Local Fiscal Organisation

The Japanese fiscal system is unlike that of most other industrial countries in three significant respects. Firstly, the central government is the main revenue-raising authority but not the main spending agent. The two sub-national tiers of government, prefectural and local, are responsible typically for up to two-thirds of general government expenditure, while central government is directly responsible for only about one quarter (see Table 2). There are two main mechanisms for the transfer of funds. The first is the Local Allocation Tax. The total volume of funds available is defined in law as 32 per cent of the national income, corporation and liquor tax yields (though in recent years the government has voted additional funds out of the General Budget). The allocation formula is determined by the government. These funds are available to be spent at the discretion of the local spending agency. The second main category of transfer is specific grants and subsidies, for which the use is dictated by central government. The prefectures, although in important respects an arm of central government on the French model, have achieved a large measure of independence under directly elected prefectural Governors, many from the opposition parties. Together with local government, they in turn command a range of taxes (and charging powers) including property, payroll, floorspace and turnover taxes and user-related charges. There are some additional so-called Transfered Taxes collected nationally and spent locally.

Secondly, central government spending is organised into two separate accounts. The first is the General Account Budget; the second is the Fiscal Investment and Loan Programme (FILP). The latter, sometimes referred to as 'the second budget', is viewed technically as a self-financing programme of capital expenditure and loan finance. Its sources of revenue are funds derived, via a Trust Fund, from Postal Savings, national pension funds and Postal Life Assurance. In addition, funds are raised by individual public agencies within the programme (such as the Japan Highway Public Corporation) through bonds guaranteed by the government. These funds are on-lent on a full interest-and-repayment basis; but the effective rate of interest is not merely below the current (controlled) market rate of interest for private loan finance but below the going secondary market rate on government bonds. In theory, with this major qualification, the programme is designed to fund only self-financing investments. In practice, however, many of the

Table 2

Distribution of Tax Revenues in Japan, 1961–1980 (trillions of yen)

	National Taxes	Local Taxes		Transfers from State to Local			Transfers from Local to State	Net Revenues available for Expenditure	
		Prefectural	Municipal	Local Allocation	Local Transfer Taxes	Grants and Subsidies		State	Local Bodies
1961	2.22	0.44	0.46	0.40	0.05	0.58	0.04	1.24	1.90
1972	10.40	2.66	2.35	2.40	0.16	3.38	0.23	4.68	10.73
1973	14.05	3.51	2.98	3.24	0.18	3.80	0.21	7.04	13.50
1974	15.75	4.27	3.97	4.20	0.22	5.03	0.24	6.54	17.45
1975	14.51	3.87	4.29	3.35	0.25	5.88	0.27	5.29	17.37
1976	16.81	4.50	5.06	3.87	0.30	6.68	0.28	6.23	20.14
1977	18.44	5.14	5.87	4.68	0.34	7.87	0.34	5.89	23.55
1978	23.23	5.64	6.60	5.53	0.37	9.03	0.40	8.70	26.76
1979	24.96	6.60	7.43	5.68	0.44	9.82	0.45	9.47	29.52
1980	28.37	7.39	8.50	7.58	0.44	10.58	0.46	10.23	34.03

Source: Ministry of Finance.

individual programmes are thought to involve a 'social' element; and for this reason the revenues of the FILP are additionally subsidised out of the General Account Budget. This permits the agencies financed by the programme, including the Housing Loan Corporation, the Housing and Urban Development Corporation and Local authorities, to pay even lower rates of interest or explicitly to subsidise some 'social capital' expenditures.

Thirdly, the Japanese Ministry of Finance for long maintained the somewhat 'old-fashioned' view that government borrowing is exclusively designed to finance public capital works, through so-called Construction Bonds. The involvement of central government in the financing of local infrastructure in fact goes back to the 1870s, as Sawamoto (1983) has documented. In the early period in addition to direct investment, assistance for railway building took the form of dividend guarantees (which entailed an interest subsidy), land grants or price controls and tax concessions. During the period 1917–34 there was a particularly rapid expansion of infrastructure investment, this time with increasing emphasis on road construction. In fact the rate of growth of capital formation in infrastructure during this period was nearly as fast as after World War II. The interesting difference, however, which underlines the perceived neglect of infrastructure in the recent past, was that during the 1920s the rate of growth of infrastructure investment was more than twice as high as that of GNP, while in the 'reconstruction' period from 1948–63, it was only marginally higher (10.9 per cent per annum real growth as opposed to 10.1 per cent for GNP).

Up to 1974 Construction Bonds were the only form of government bond (apart from those of public agencies); and since expenditure on social capital exceeded the amount of the finance generated in this way the 'fiction' that borrowing was confined to the financing of fixed capital formation was acceptable. In 1976, however, the relationship broke down, in the aftermath of the oil price crisis, and the Japanese government for the first time issued Deficit Financing Bonds (explicitly so identified).

Local and prefectural government by contrast are not supposed to engage in deficit-financing. They enjoy considerable autonomy over tax-setting and expenditure, though the national government establishes 'guide-lines' annually through an aggregate Local Public Finance Programme. Local borrowing is controlled, by the Ministry of Home Affairs, more to avoid the risk of default than for reasons of macro-economic planning. The two motives have converged, however, as current account deficits began to appear during the 1970s in a number of local authorities, including Tokyo and Osaka, necessitating both additional borrowing and increased central government assistance.

Since the 1960s the demand for local public expenditure has expanded steadily, initially with the growth of public health and education programmes, and more recently, with the inclusion in most areas, especially the large cities, of growing social service expenditures. These are directed mainly towards old people — Japan has a very rapidly ageing population — and towards child-care. Throughout this period there has also been a steady growth in the share of the public works budget taken by housing and sewerage.

Apart from central government transfers (and certain earmarked taxes which are allocated semi-automatically to local authorities, such as port dues and heavy vehicle licence fees), local and prefectural governments rely on local taxes, of which the most important are the Inhabitant Tax (a composite of poll and income or corporation tax, paid by individuals and businesses), the Property Tax and the City Planning Tax (effectively an addition to the Property Tax payable in Urban Promotion Areas). The yield of the last is dedicated to urbanisation project costs though it has met less than 15 per cent of toal expenditure in recent years. The most recent addition to this array of local taxes is the Business Establishments Tax which was instituted in 1975. This is based on a combination of business floor-space and payroll. Its proceeds are earmarked for expenditure on urban improvement projects. At present its use is limited to Tokyo and the so-called 'designated cities' plus some smaller cities in the hinterland of Tokyo and Osaka.

The Evolution of National and Local Fiscal Policy

Since the mid-1960s the fiscal conditions of the major cities have been deteriorating steadily. It would be an exaggeration to talk of a general fiscal collapse; but there is no doubt that the experience of the largest Japanese cities conforms to the model which predicts, on the one hand, increasing demand for an expanding range of services (including welfare-oriented services and social infrastructure) and, on the other hand, relative (if not absolute) deterioration in the fiscal base. The comparison with Britain is apposite because the first response in Japan, as here, was effectively to transfer the burden from the local to the national level (see Kirwan, 1980). Recent developments in urban fiscal policy, as in Britain, have been dictated primarily by the need to resolve the consequent difficulties.

During the period of rapid economic growth (up to 1974) tax revenues in Japan generally expanded fast enough to meet the demand for growth in public expenditure. In the largest cities, however, the signs of difficulty were evident even before the convulsion caused by the oil price crisis. The symptoms were familiar: slow-down in their rate of economic expansion; lack of buoyancy in the tax-base; failure to increase charges in line with inflation. In absolute terms the large cities remained (and remain) very rich, with a local tax-base that is much more productive than in small cities. (For example, prefectural and local taxes combined in the Tokyo Metropolitan Government area yielded 68 per cent of total revenues in 1981, compared with a national average of only 34 per cent.) As a consequence, they are less generously treated by central government in the allocation of fiscal transfers. The problems of these cities therefore were in reality not ones of insufficient resources but of adjustment to changing circumstances. The only tax that was genuinely problematical was the Corporate Inhabitants Tax, since its yield varies partly with the amount of corporate profits (net income). This makes the yield more sensitive to business cycles than other taxes.

The oil price crisis of 1974 was a watershed which revealed a host of latent problems. For the first time the national government had recourse to deficit-financing. The effect on Japanese public finance was dramatic. Debt service as a percentage of the General Account Budget rose from 5 per cent in 1975 to 18 per cent in 1984 (initial accounting basis); reliance on bond financing generally rose from the pre-1975 peak of 17 per cent (in 1972) to nearly 40 per cent in 1979, with over two-thirds of that due to come from Deficit Financing Bonds. (On a revised budget basis, it appears that Deficit Financing Bonds did not exceed Construction Bonds until 1980.) The national debt rose from less than 10 trillion yen in 1974 to an expected level of over 120 trillion yen in 1984. (See Table 3).

At the same time, an urban fiscal crisis was precipitated by the failure of revenues to keep pace with expenditures. In 1976 the total amount of the Local Allocation Tax distributed between local governments *fell* for the first time (as it did again in 1979 and 1983). Local tax rates were increased substantially. The Business Establishments Tax, mentioned above, was instituted; and soon after it came into effect, the threshold size for smaller cities was reduced from 500,000 to 300,000 population. In 1980, the tax rate was increased. (By then, 59 authorities were levying this tax.) But none of these measures was sufficient to keep pace with the rapacious demand for new expenditures. Whereas tax and transfer income had traditionally generated a substantial surplus which could be dedicated to the much-needed social capital programmes, by the mid-1970s the surplus had fallen on average to less than a fifth of total revenues, compared with about one-third in

Table 3

Central and Local Government Bond Financing, 1974–1984 (trillions of yen and per cent)

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Central Government											
Deficit* (tr. yen):	2.9	5.9	7.2	9.8	10.2	13.3	14.5	13.0	13.5	13.6	12.7
as % General A/c	(15.0)	(28.5)	(29.4)	(33.7)	(30.0)	(34.3)	(33.5)	(27.7)	(28.2)	(26.7)	(25.0)
Bond issues (tr. yen)											
Construction	2.2	3.2	3.7	5.0	6.3	7.1	7.0	7.0	7.0	6.8	6.2
Deficit	–	2.1	3.5	4.5	4.3	6.3	7.2	5.9	7.0	7.0	6.5
as % General A/c	(11.3)	(25.3)	(29.4)	(32.9)	(31.3)	(34.7)	(32.6)	(27.5)	(29.7)	(27.1)	(25.0)
Local Government											
Bond issues (tr. yen)	1.0	1.3	2.9	3.0	4.0	4.9	4.4	4.3	3.8	5.0	4.8
as % Total expenditure	(5.9)	(5.9)	(11.5)	(10.5)	(11.7)	(12.6)	(10.6)	(9.6)	(8.1)	(10.5)	(9.9)

*Current account deficit before borrowing.
Source: OECD (1984).

1970. As a result the cities turned to bond issues to make up the difference.

Tokyo was a good, if extreme, example. In 1975 current expenditure exceeded current revenues for the first time, initially by nearly three per cent; this rose to over six per cent in 1978. Overall the nominal fiscal deficit (for capital and current expenditures combined) rose to 101.1 billion yen by 1978. This was only marginally below the level at which legal restrictions on borrowing would have come into force.

The combination of national deficit financing and an increase in local bond issues had less effect on the money markets than might have been expected. This was partly because, at least until 1980, the Bank of Japan still exercised tight control over the market, with the majority of government bond issues placed with financial syndicates at below-market rates or held by the Bank of Japan itself. Nominal interest rates rose sharply in 1974 but were quickly brought under control again; (they rose again after the second 'oil shock'). The real rate of interest began to rise steadily, if slowly, from 1975 onwards. Conditions in the market as a whole, however, were eased by the healthy profits being earned by industry, especially in the export sector, by the lower rate of investment associated with adjustment to a generally lower rate of economic growth and by the increasing household savings ratio. Together the lower rate of corporate borrowing and net lending by households made room for more government borrowing with only a small and brief recourse to net lending from overseas.

The pressure for a reduction in local bond financing and local fiscal reforms, which was strongly felt by 1978, was motivated therefore less by the dictates of macro-economic management than by the local and national political demand for sound financing and a concern with the fiscal probity of the cities. (The experience of New York's near-bankruptcy was often quoted.) In the short run an increase in bond financing to get over the immediate crisis was permitted by central government but only in return for a commitment to subsequent retrenchment and fiscal rehabilitation. Once again, Tokyo provides a good example. Elected in April 1979, the new Governor quickly announced a programme of cut-backs which included such things as staff reductions, increased taxes, reviews of current programmes and subsidies and requests for more generous treatment by central government. The implications for the cities' ambitious programmes of capital works were clear. Since 1980, moreover, the situation has become even tighter, with the growing resolve of the national government, especially under Prime Minister Nakasone, to eliminate national deficit financing and at the same time cut taxes.

Conclusions

Japan's urban policy is caught between contradictory pressures. Housing, and land for residential development in the major cities, is extremely expensive. Though this reflects in large measure the effects of income growth and the shortage of land suitable for urbanisation, it has also been sustained by low interest rates, the lack of instruments for household capital accumulation, low taxes on, and direct and indirect subsidies to, land development and housing consumption and a general failure to make the users of urban land pay the full costs of its conversion and redevelopment. At the same time, there is an acutely perceived shortage of basic social infrastructure and a disorderly pattern of development and redevelopment which has failed, in the eyes of some Japanese at least, to generate the positive external economies of consumption which they see in the *best* examples of European or North American development. Planning has not been an effective method of controlling new urbanisation: either it has come up against political constraints on the exercise of effective instruments of control; or it has contributed to a reduction in the supply of newly-developable land and to a rise in the costs of development (as the requirements have become more stringent). The land market, as in other countries, has shown itself unwilling to absorb fully the cost of these constraints and impositions, though expectations of future price increases have almost certainly been dampened. Fiscally, the cities are faced by increased demands and costs which have outrun the growth of revenues and of the tax-base. The demand for improved social infrastructure, and for faster redevelopment of existing built-up areas, is thus frustrated in three different ways: by the underpricing of social capital; by the general constraints on revenue-raising; and by the high levels of costs, of which the price of land (and housing itself, in some social programmes) is a major, if certainly not the only, component.

Since 1980, these contradictions have become more evident. True, the rate of increase in the price of urban land has fallen; and it is likely to remain much lower than in the past. But as the concomitant reduction in the supply of urban development land (a response both to market conditions and to the workings of the planning system) suggests, this is largely because the overall demand situation has changed markedly. The growing surplus of dwellings over households, in conditions where stagnation in the spatial distribution of new job opportunities has reduced gross migration, has reduced the crude demand for additional residential development. Loan agreements initiated by the Housing Loan Corporation have fallen since 1982. At the same time, the 'liberalisation' of the capital markets, in response to the need to find new outlets for lendable funds, to foreign pressure to open them up to international competition and to the government's concern to make them more competitive, has led to a steady rise in interest rates. This has been accompanied by a growth in the number of new vehicles for household savings. As a consequence there has been a steady increase in the rates charged by government agencies. The Housing Loan Corporation, for example, has introduced differential rates related to the size of the dwelling (a crude proxy for income distribution). This is in response partly to the changed market conditions — where postal savings, a major source of funds for the FILP, are particularly vulnerable to the growth of new household savings media — and partly to criticism of the scale and distributional effects of the subsidies entailed by previous policy. (See Table 4). It is a long way, however, from a wholesale recognition of the extent and significance of subsidisation of the demand for housing and urbanisation.

Though there are effective constraints on the growth of land prices, the fiscal situation now leaves little scope for any consequential increase in social capital formation. Nationally, the government is committed to limiting the growth of national indebtedness. The current Medium-Term Estimates for the period 1983–87 predict on the one hand an increase in Local Allocation Tax disbursements significantly less fast than that of government expenditure generally and on the other hand the maintenance of Construction Bond issues at a constant level from 1984 onwards. In the event the tension between the 'Keynesians' in the ruling Liberal Democratic Party, who argue in favour of a liberal public works programme to stimulate domestic demand and replace lost export growth opportunities, and the 'Monetarists', among whom is Prime Minister Nakasone, has been resolved in the short run by treating construction financing more generously than other programmes. But the longer run prospects for an increased level of central government contributions to the cost of social infrastructure cannot be good. Meanwhile at the metropolitan and city level, local authorities are stuck in the climate of fiscal retrenchment which severely limits their ability to increase expenditure on social infrastructure. The situation is recognised. The 'Long-Term Plan for the

Table 4

Housing Loan Corporation Operations, 1973–1983

	1973	1976	1977	1978	1979	1980	1981	1982	1983	1984
General Operations										
Loan Agreements: number (000)	310	n.a.	n.a.	605	581	539	514	572	510	489
Loan Agreements: trillion yen	0.74	n.a.	n.a.	2.86	3.06	3.06	3.17	3.83	3.59	3.38
Sources of Funds:										
FILP	0.58	n.a.	n.a.	2.23	2.78	3.16	3.29	3.53	3.66	3.66
General Account	0.02	n.a.	n.a.	0.11	0.13	0.20	0.22	0.28	0.28	0.29
Distribution of Loans by Income Groups (percentages)										
Lowest quintile	n.a.	10.1	17.3	19.2	21.4	20.9	24.8	27.1	n.a.	n.a.
Second quintile	n.a.	27.3	26.8	28.2	26.1	26.1	28.2	27.7	n.a.	n.a.
Third quintile	n.a.	26.7	24.1	25.1	21.8	22.4	22.6	22.3	n.a.	n.a.
Fourth quintile	n.a.	22.7	20.3	17.8	19.7	18.8	17.1	14.8	n.a.	n.a.
Highest quintile	n.a.	13.2	11.5	9.8	11.1	11.8	7.4	8.0	n.a.	n.a.

Sources: OECD (1984) and HLC statistics.

Tokyo Metropolis', for example, foresees the need for annual rate of growth of 7.5 per cent in metropolitan taxes for the period 1983–90, compared with assumed rates of growth of 2.7 per cent for transfers from central government and 3.4 per cent for local bond financing. It is not clear, however, whether the political will or the economic conditions exist for such a rapid rate of increase in the local tax burden. Meanwhile, there is a search for ways of encouraging joint public-private participation but most of the suggested programmes not surprisingly focus on lucrative commercial centre development and limited areas of concentrated and high-value development rather than the general spread of social infrastructure and high standard new development which is what is really needed.

The requirements are difficult to meet: a larger and more equitably distributed provision of social infrastructure; better planning of new development and redevelopment to achieve a more orderly and efficient land-use pattern; lower land and housing costs (or a lower rate of increase); and overall fiscal restraint. The only mixture of policies that could meet them would undoubtedly entail (1) higher local taxes, and specifically much higher charges, oriented to the distribution of the benefits of urban development, both on specific items such as sewerage investment and more generally on land value increments; (2) tough implementation of the taxes on land-holding in urbanisation and redevelopment areas; (3) a thorough-going review and reform of the subsidies to urban development and housing demand with a view to their replacement by full marginal cost pricing, except for clearly identified social programmes; and more flexible and effective planning. Whatever the arrangements for taxes on land-holding and disposal, there is undoubtedly a risk that there would be some adverse impact on the supply of urban development land in such a programme. An inevitable corrollary therefore would need to be a greater willingness to use the power of expropriation at 'fair' prices, with or without public sector land banking, to supplement and influence the pattern of private land-holding and supply. It seems unlikely that the political conditions exist in contemporary Japan for such an interventionist programme, though it goes no further than was common in many European countries during the period of rapid post-war development.

The alternative seems clear — though not perhaps exactly equivalent to its precursors in North America and Europe — that in the longer run the spontaneous deconcentration of population will accelerate from the major urban centres. (Planned decentralisation would also need to continue to be a component of the more policy-driven scenario.) Faced with high, if no longer so rapidly-increasing, prices for housing and land and with high metropolitan taxes, but with a relatively slow rate of delivery of the social infrastructure and improved 'quality of life' that has been promised, the Japanese household is no less likely to want to vote with its feet than its occidental counterpart. The differences, however, will arise partly from the different influences (corporate, governmental and economic) governing the movement of enterprises and hence of employment opportunities and partly from the fact that although Japanese households are undoubtedly attracted by lower-cost and more spacious housing and better environmental facilities no less than in other countries their perception of the supposed 'poor quality' of life in the existing metropolitan areas is probably less extreme than that of some foreign observers. For despite the environmental deficiencies and the high cost of housing — to which the space-economising organisation of the traditional Japanese house is intelligently adapted — contemporary big-city life in Japan still offers many tangible social and economic benefits which will not quickly be reproduced in new suburban and exurban development.

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