



Japan's Urban Economy and Land Policy

Author(s): Takahiro Miyao

Source: *The Annals of the American Academy of Political and Social Science*, Jan., 1991, Vol. 513, Japan's External Economic Relations: Japanese Perspectives (Jan., 1991), pp. 130-138

Published by: Sage Publications, Inc. in association with the American Academy of Political and Social Science

Stable URL: <https://www.jstor.org/stable/1047086>

JSTOR is a not-for-profit service that helps scholars, researchers, and students discover, use, and build upon a wide range of content in a trusted digital archive. We use information technology and tools to increase productivity and facilitate new forms of scholarship. For more information about JSTOR, please contact support@jstor.org.

Your use of the JSTOR archive indicates your acceptance of the Terms & Conditions of Use, available at <https://about.jstor.org/terms>



and Sage Publications, Inc. are collaborating with JSTOR to digitize, preserve and extend access to *The Annals of the American Academy of Political and Social Science*

JSTOR

Japan's Urban Economy and Land Policy

By TAKAHIRO MIYAO

ABSTRACT: In the 1980s, with advancing information technology and business globalization, Tokyo emerged as a major business and financial center in the world economy. Especially after 1985 Tokyo and then other large cities experienced a strong boom and a rapid increase in land values. It should be pointed out that, instead of high land prices restricting domestic demand, the appreciation of land along with other assets has helped boost the economy through the wealth effect and has made Japan the "richest" nation in the world in terms of the value of assets. There are, however, some serious problems associated with land in Tokyo and other large cities. Among them are inefficient land use, inadequate public infrastructure, and an increasing disparity between the haves and the have-nots due to land-price escalation. To solve these problems, it is essential that excessive regulations over land use and transactions be removed and the present land-tax system be reformed. Japan's land problem must be dealt with by encouraging the supply of land and the efficient use of land.

Takahiro Miyao is professor of economics at the University of Tsukuba. He received his B.A. and M.A. from Keio University and Ph.D. in economics from the Massachusetts Institute of Technology. He has taught at the University of Toronto and the University of California, Santa Barbara, as assistant professor of economics and then at the University of Southern California as professor of economics. His list of publications includes Dynamic Analysis of the Urban Economy (1981) and Modern Urban Economics [Gendai toshi keizaigaku] (1985).

AS Japan has emerged as a world economic power, its large cities have grown to be major business centers on a global scale. Especially Tokyo, the nation's capital, has attracted economic activities from home and abroad, resulting in more and more new commercial buildings appearing in its central districts and in the suburbs as well. Probably most visible are what might be called intelligent buildings, which incorporate all modern telecommunications equipment, in prime locations such as the ARK Hills development, and a variety of fashion stores mostly catering to young people in Tokyo's subcenters and surrounding areas. More recently, in competition with Tokyo, the Osaka region has staged its own revival and a subsequent boom, as the construction of the well-known Kansai airport and related facilities has been under way in and around the city.

REVIVAL OF LARGE CITIES

This renewed strength of large cities became apparent in the early 1980s and was quite a change from the 1970s, when many people expressed their concern about the decline of large cities. In fact, in the latter half of the 1970s, both Tokyo and Osaka experienced a population decline.¹ At that time, not only Japan but also other developed nations, almost without exception, saw tendencies toward declining large cities and decaying urban centers, which in

1. Japan, Management and Coordination Agency, Statistics Bureau, *Nihon no jinkō idō: showa 29-58* [Internal migration in Japan: 1954-1983], 1984.

many cases turned into slums and ghettos, creating serious social problems. As a result, one was led to believe that the end of the metropolitan era was imminent.

As soon as the 1980s arrived, however, advantages of the agglomeration of large cities began to be reevaluated with respect to expanding financial and service industries in major metropolitan centers. The rapid development of information technology and the globalization of business and financial activities have played a crucially important role in revitalizing large cities and making them interrelated with each other beyond national borders.

Particularly in Japan, which suddenly became a world economic leader in the 1980s, the influence of information technology and business globalization has been more visible in large metropolitan areas. In this regard, Tokyo has distinct advantages as the home of an extreme concentration of the information industries that are vital to contemporary business activities in a changing world environment. Thus an increasing number of companies have been attempting to locate their main offices in Tokyo in order to strengthen the functions of their corporate headquarters. Also, with the rapid globalization of financial markets, many foreign financial institutions have been flocking to downtown Tokyo, which can now be compared to New York's Wall Street and London's City.

TOKYO'S ROLE IN THE EARLY 1980s

In the early 1980s, against the background of advancing informa-

tion technology and business globalization, Tokyo became the engine for the whole economy, which was trying to recover from the worldwide recession caused by the second oil crisis and subsequent high interest rates. Almost all kinds of businesses were expanding with the creation of new jobs and the provision of new services, mostly in the Tokyo metropolitan area. In fact, from 1980 to 1985, more than 80 percent of the newly created jobs were in the service sector and about half of the service-related jobs centered around the Tokyo area.²

Two additional factors fueled Tokyo's business activities in the early and mid-1980s. One was rapidly declining interest rates as a result of the government's policy mix of tightening fiscal policy and easing monetary policy. Actually, the official discount rate was cut in half and other interest rates fell accordingly from 1980 to 1985. This gave a boost to the markets for various assets such as stocks, bonds, and real estate, especially in Tokyo, where all these valuable assets are highly concentrated. The second was the government's move toward deregulation and privatization in order to revitalize the economy and society. Following Reaganomics and Thatcherism in the early 1980s, Yasuhiro Nakasone, then prime minister, strongly suggested that land-use regulations in central Tokyo be modified to allow more high-rise buildings and condominiums to be built and to

make Japan's capital look more like New York, London, or Paris.

All these factors contributed to the reevaluation of prime locations in Tokyo and greater demand for floor space in downtown Tokyo. On the other hand, the supply is naturally very scarce in Japan and particularly in large cities like Tokyo and Osaka. The important point is that not only the supply of land but also that of floor space is severely limited because of unnecessarily strict regulations and tax distortions that tend to prevent efficient land use. At any rate, such an abnormal relation between supply and demand has resulted in an extreme shortage of office space, giving rise to a spectacular increase in the value of land in large cities such as Tokyo.

In the early 1980s, however, the phenomenon of land-price escalation was confined to the central part of Tokyo, while land prices were generally stable or even declining elsewhere. Tokyo's mini-boom was not strong enough to offset recessionary tendencies in the overall economy and boost domestic demand to any significant degree. Japan's imports stagnated, while exports grew rapidly, thus leading to the huge trade surplus by the mid-1980s.

LAND-PRICE ESCALATION

Soon after the Plaza accord in 1985 the value of the yen increased sharply against the dollar, and interest rates were further reduced to a record low level in an attempt to alleviate the *endaka* recession. Lower interest rates and expanding money supply touched off a wave of land-

2. Japan, Management and Coordination Agency, Statistics Bureau, *Daitoshiken no jinkō* [Population of major metropolitan areas], 1988.

TABLE 1
PRICE INCREASES FOR COMMERCIAL AND
RESIDENTIAL LAND IN LARGE CITIES (Annual appreciation rate)

	1983	1984	1985	1986	1987	1988	1989
Commercial land							
Tokyo region	4.2	5.5	7.2	12.5	48.2	61.2	3.0
Tokyo	5.3	8.4	10.8	19.6	74.9	36.7	-0.8
Osaka	4.5	6.0	8.9	13.9	27.2	45.1	27.6
Nagoya	3.9	3.8	4.0	5.5	11.8	29.5	26.5
Residential land							
Tokyo region	4.1	2.2	1.7	3.0	21.5	68.6	0.4
Tokyo	3.8	2.9	2.9	6.4	50.5	67.0	-6.3
Osaka	4.1	3.7	3.7	4.3	6.7	30.0	36.4
Nagoya	4.6	2.6	2.0	1.5	2.3	14.0	25.2

SOURCE: Japan, National Land Agency, *Kokudo riyō hakusho: Heisei 1* [White paper on national land use: 1989], 1989.

price escalation: in 1986-87, land values in both commercial and residential zones in central Tokyo almost doubled. This trend of sharply rising land values then spread to the surrounding suburbs and other large cities (see Table 1).

Many people came to believe that land speculators were mostly to blame for the present situation. In particular, shady real estate dealers, or the *jiageya* (eviction specialists who buy up small plots to consolidate them for large building projects), as well as easy bank financing were adding fuel to the fire. At the same time, it was widely argued that high land prices would make housing construction and urban redevelopment more difficult and thus prevent domestic demand from expanding.

Based on this kind of argument, the government tried to dampen land speculation by tightening regulations on land transactions. First, in 1986 the Tokyo metropolitan government, in response to a request from

the National Planning Agency, enacted a local ordinance requiring the monitoring of all land transactions involving more than 300 square meters of property in the central Tokyo area. This was soon revised to cover the whole city of Tokyo and was subsequently replaced by the National Land Agency with a revised version of the National Land Use Planning Law in an attempt to apply anti-speculation measures to surrounding municipalities in the Tokyo area and possibly to other regions.

In addition, the central government strengthened administrative guidance of financial institutions by directing banks to exercise greater self-restraint in their lending to finance land dealings. At the same time, the government imposed a heavier capital gains tax on land resold within two years of purchase, and a freeze on the auctioning of public properties, including those from the privatized Japan National Railway. All these efforts were made on

the assumption that speculation was the main cause for high land prices, which would create a shortage of housing and a lack of domestic demand.

ASSET EFFECT ON DOMESTIC DEMAND

In reality, Japan recovered quickly from the *endaka* recession and had begun expanding its domestic economy by 1987. Lower interest rates led to a housing boom first in the Tokyo area and later in other large cities. This, coupled with public spending to stimulate the economy, helped boost domestic demand, offsetting the decline in exports due to the high value of the yen. The prices of land and the prices of other assets such as stocks and bonds skyrocketed, as interest rates were reduced to a record low level and the economic recovery improved prospects for future returns on those assets in the late 1980s. Instead of high land prices restricting domestic demand, the appreciation of land and other assets was taking place along with the strong economic expansion, which was not based on external demand growth as expansion had been before.

The following points should be made in this regard.

First, by the time the government's control policy took effect in Tokyo, the land-price spiral had already spread through surrounding cities and into some places outside the Tokyo region. Apparently, such a policy only caused unnecessarily large increases in land prices outside the area where the control was applied. This in turn forced the government to strengthen the control policy

further so as to cover wider areas, resulting in a vicious circle of regulation and price increases.

Second, contrary to the conventional view that high land prices would hinder domestic demand growth, the spatial pattern of land-price escalation seemed to have followed that of the economic recovery and demand expansion, spreading from Tokyo to other areas through time. This implies that the appreciation of land values was not an obstacle to domestic demand growth but rather a direct result of it.

Third, one could even argue that higher land prices in Tokyo and other cities actually helped boost the economy and domestic demand as a whole. This argument is based on the so-called asset effect or the wealth effect of the appreciation of land holdings on the part of households and corporations that tend to feel richer and increase their spending on consumption and investment. In fact, since 1988, household consumption and business investment have replaced housing construction as the leading factors for Japan's economic expansion, and these two factors have been strongly influenced by the wealth effect of appreciated land values.

EMERGENCE OF THE ASSET-ORIENTED ECONOMY

Japan has by now emerged as the "richest" nation in the world in terms of the value of assets. According to the latest statistics, Japan's national assets—the total value of assets such as cash, deposits, insurance, stocks, bonds, land, buildings, capital equip-

ment, inventories, and so forth—have exceeded \$40 trillion, surpassing the national assets of the United States.³ Land accounts for approximately one-third of Japan's national asset. This is a disproportionately high ratio, much higher than that in any other country, due to the extremely high value of land in Japan.

In particular, Tokyo's land is so expensive that Tokyo alone is now worth the whole United States in terms of land values. The average homeowner in Tokyo has a couple of million dollars' worth of residential land. Furthermore, most of the homeowners in Tokyo are relatively old and naturally possess a more than average amount of financial assets as their savings. Quite a few of them even made a fortune by investing in the Tokyo stock market in the late 1980s. All this has resulted in a high propensity to spend on various kinds of consumption goods, especially high-quality and luxury items such as large-sized home appliances, imported furniture, and expensive jewelry and paintings, in the Tokyo area, where the positive asset, or wealth, effect is most visible. A similar effect has been felt in Osaka and other large cities, where land prices have recently been catching up with those in Tokyo.

Largely due to booming Tokyo and other cities, the Japanese economy has succeeded in expanding domestic demand and imports, and thus reducing the current-account surplus at a faster rate than anyone anticipated

3. Japan, Economic Planning Agency, *Kokumin keizai keisan: 1988-nendo* [National Economic Accounting: FY1988], 1989.

only a few years ago. Also with the huge accumulation of assets, Japan has been able to recycle a large amount of the dollar funds back to the United States in the form of foreign investment.

SERIOUS LAND PROBLEMS

While the booming urban economy based on higher land values has benefited many people at home and abroad, there are some problems associated with land in large cities such as Tokyo.

First, the most serious land problem in Japan is very inefficient use of land in large cities. Much of the Tokyo area is covered by old two-story structures, and the average building in Tokyo is less than three stories high. This low utilization of land means abnormally low returns, especially in relation to high land prices. In other words, it is a waste of scarce resources not to utilize valuable land to the fullest extent.

Second, land-price escalation tends to aggravate the shortage of public infrastructure such as roads and sewage. This is because the government can no longer afford to buy land for many public-works projects. In downtown Tokyo, more than 95 percent of the cost for road-building projects is made up of land acquisition. Thus much of the public money will go into the pockets of landowners. As a result of land-price increases, public infrastructure investment tends to shrink, at least relative to private investment.

Third, a rise in property values tends to benefit those who have land

TABLE 2a
ASSET DISTRIBUTION AMONG HOUSEHOLDS: INTERNATIONAL COMPARISONS

	Japan (1984)	United States (1983)	United Kingdom (1972)
Gini coefficient	0.52	0.72	0.78

SOURCE: Noriyuki Takayama et al., "Nihonniokeru shisanhoyū no jittai" [Japan's asset distribution], *ESP* (Jan. 1989).

TABLE 2b
JAPAN'S ASSET DISTRIBUTION AMONG HOUSEHOLDS (Gini coefficient)

	1979	1984	1987
Net asset	0.515	0.526	0.597
Financial asset	0.524	0.537	0.558
Real asset	0.535	0.537	0.621
Residential land	0.597	0.566	0.675

SOURCE: Noriyuki Takayama et al., "Nihonniokeru shisanhoyū no jittai" [Japan's asset distribution], *ESP* (Jan. 1989).

and housing, but not those who lack them. In other words, the land-price spiral will widen the gap between the haves and the have-nots. Although Japan's asset distribution among households seems more equal than that in the United States and the United Kingdom, it is generally perceived that the gap between rich landowners and poor workers has been widening rapidly in recent years, primarily because of the accelerated land- and housing-price spiral.

These facts are shown in Tables 2a and 2b, where the Gini coefficient indicates the degree of inequality. Obviously, Japan's coefficient is distinctly lower than that of the United States and the United Kingdom. Recently, however, the degree of inequality seems to be increasing in

Japan, mainly due to a sharp increase in the coefficient for residential land from 1984 to 1987.

Needless to say, the problem of unequal distribution is very serious in large cities like Tokyo, since a majority of households there are renters and not homeowners, although in Japan as a whole, more than 60 percent of households live in their own homes, including single-family and multifamily dwellings. The high rate of homeownership for the nation tends to hinder the solution of urban housing and land problems.

These issues, however difficult to resolve, must be addressed in order for Japan to continue the prosperity of the urban economy and to keep expanding domestic demand in the future.

DEREGULATION MEASURES TO BE ADOPTED

To solve Japan's land problems, it is essential that excessive regulations over land transactions and land use be removed. Now is the time to make bold deregulatory moves, which are long overdue.

First of all, the present controls on land transactions are not solving any problems but rather are creating one by restricting land supply, particularly in central Tokyo. These regulations as well as controls on real estate financing should be abolished.

Zoning and building codes tend to be too restrictive, often preventing high-density development from occurring in central Tokyo. Local development control and administrative guidance are blocking private initiative regarding further developments around large metropolitan areas. The relaxation of zoning requirements and other barriers to development are now in order.

An additional obstacle to efficient land use is the antiquated Tenancy Law, which makes it virtually impossible for landowners to evict tenants even for redevelopment purposes. In Japan, there seem to be too many cases in which a landowner has to give up redeveloping his or her property after losing a legal battle with a small shopkeeper occupying one corner of it. The difficulty of clearing land for redevelopment purposes by legal means has led some landowners to hire the *jiageya*, eviction specialists who often use pressure tactics to do the job. Instead of blaming those eviction specialists for Japan's land problems, the main cause should be

dealt with; that means a drastic revision of the Tenancy Law to promote effective utilization of land and already existing dwellings. Such a revision should also help solve the shortage of office buildings in central Tokyo and at the same time disperse business activities to the surrounding areas and other regions through more frequent turnovers of tenants.

All these liberalization measures will lead to more efficient use of land and therefore higher returns on property in accordance with current land prices.

TAXATION POLICIES TO BE ADOPTED

Deregulation alone may not be enough to solve the complicated land problems in Japan. Particularly important is the tax system, which is currently encouraging the holding of land and discouraging the supply of land and its efficient utilization. Heavy taxation on capital gains from the sale of property in the short run tends to restrict the supply of land, because landowners likely postpone sales in order to avoid taxation. Low property taxes reward landholders with no intention of using the land and tend to widen the gap between the haves and the have-nots in terms of asset distribution.

Now reforming the land-tax system is imperative. The supply of land must be encouraged through drastic cuts in taxes on capital gains from land sales, especially on short-term gains. In addition, the efficient use of land should be promoted by increasing property taxes. In particular, taxes on farmland in and around

large metropolitan areas should be raised at least to the same level as for nearby residential land to encourage farmers to sell or use some of their land for other purposes, such as the supply of rental accommodations to city residents.

Taxing farmland in urban areas at residential rates would be only a first step. What needs to be done is to raise effective property tax rates in general. This means that land is to be appraised at much closer to its market value than the current, artificially low level for tax purposes. The present gap between the market value and the assessed value of land is extremely wide, especially in large cities like Tokyo where prices have risen sharply in a short period of time. Closing this gap by raising the assessed value of land toward its market value will be important in encouraging supply and efficient use as well as in narrowing the gap between the haves and the have-nots. Furthermore, the increased tax revenue could be used to finance government projects to improve public infrastructure. To avoid putting too much of a burden on homeowners, local residence taxes in addition to capital gains taxes could be reduced substantially.

CONCLUSION

Most of the land policies that have been mentioned in this article have been proposed by many on various occasions. For example, the well-known Maekawa Report called for heavier taxes on farmland in and around large cities, and this was

later repeated by the U.S. representatives at the Structural Impediments Initiative negotiations between Japan and the United States.

The U.S. government seems particularly interested in Japan's land problem, because a more efficient land market would allow the Japanese to build larger homes and to buy more household goods from, presumably, the United States, resulting in an increase in U.S. exports to Japan. More reasonable land values also would enable foreign companies to enter or expand in the Japanese market, which outsiders see as closed.

Under these circumstances, the Japanese government has been pressed to adopt appropriate land policies such as deregulation and land-tax reform measures. Yet, none of those policies have been implemented to any significant extent, because of strong resistance within political and bureaucratic constituencies including farmers and other land-owners in and around large cities.

In the meantime, the government appears to be still moving toward tighter regulations on land transactions and financing. As pointed out before, such control measures would be counterproductive and would likely make the already serious land problem even worse in the long run.

The land problem must be dealt with by encouraging the supply of land and the effective use of land. Japan's economic outlook and its external relations in the 1990s may well depend on whether the Japanese government can and will tackle this problem in the right way.