

# The Impact of the State and the Market on Japan's Land Problems

FUKAI N. Shigeko

Okayama University

## Introduction

For its inability to achieve rational land use and control land price inflation in the fast-growing metropolitan areas, Japan's land policy has been branded by most experts as a failure. Most economists blame government intervention and regulation as causing perennial shortages in land supply. Specifically, low property tax and rigid regulations such as the height regulation of the building code induce land owners to hold land as an asset for capital gains rather than to sell or use it for profitable purposes. City planners blame loose city planning regulations and lack of enforcement mechanisms for the chaotic urban development and land price spiral that spread rapidly from commercial to residential to vacant industrial land in the latest land boom. In short, economists blame the state's regulation while city planners blame the state's inaction for a host of land problems in Japan.

I take a third view that attributes a pivotal cause of Japan's land problems to the state's failure to establish separate land markets for agricultural, residential, commercial, and industrial uses by clearly demarcating and enforcing zoning divisions. Each market, if zoning lines are clearly demarcated and enforced, will have a set of players with similar needs and goals and a separate price mechanism in play in each market. Fair competition is ensured among players of more or less equal footing to prevent such abnormal occurrences like Japan's land bubble in the late 1980s which inflated the price of metropolitan and urban residential land beyond the reach of the average working citizen.

This failure, in turn, is to be explained by a combination of factors. Of central importance is the power structure of the Japanese state. In other words, the policies related to land use and land prices were determined ultimately by the composition and balance of power among major actors in the relevant policymaking process. The relevant policies encompass monetary, financial, and tax policies as well as measures dealing specifically with zoning, city planning, land development and the like. During the rapid urbanization in Japan, it was mainly economic policy that determined the land use and land prices rather than the policies specifically designed to control land use or land price or to improve housing conditions. The priority placed on economic growth was based on the tacit consensus among leading politicians, bureaucrats, and politically influential social-economic groups. Until roughly the mid-1960s, the public also seemed to have no objections to the view that economic recovery

and growth were the preconditions for achieving better quality of life and living environment.

In terms of land problems and policy agendas, the postwar era can be divided into five periods:<sup>1</sup>

- (1) Immediate Postwar Reconstruction Period, 1945-54
- (2) Urbanization/Pre-Basic Planning Law Period, 1955-1967
- (3) Basic Land Use Legislation Period, 1968-1987
- (4) Deregulation/Land Bubble Period, 1982-1990
- (5) Post-Bubble Period, 1990-

For each period, the interaction of the state and the market at the domestic and international levels will be examined focusing on housing, housing land development, city planning/ building regulations, and land tax. Housing prices, conditions, and environment have, to a significant degree, defined the lifestyle as well as the quality of life of the urban work force.<sup>2</sup> As mentioned earlier, among the important elements to be examined in this context are the saving, consumption, and investment patterns. The paper examines how the state and market forces have interacted to create and perpetuate the neo-social dumping system and how, in turn, that system has interacted with the external forces, either state or market. What would be the prospects for change in Japan's land policy and social dumping system? My view is that significant changes are bound to occur and there will be good chances for correcting some of the land problems in Japan. This is so ultimately because the system is so closely linked to the global political economy that it will inevitably be exposed to and transformed by the market forces and the pressures from Japan's business partners.

## I. Overview of the Postwar Land Problems and Policies

### A. Postwar Reconstruction Period: 1945-1954

The first period was marked by a combination of Occupation-inspired agricultural land reform, *zaibatsu* resolution, "liberalization" or rather blatant deregulation in the field of real estate business.

With about one third of the nation's housing stock destroyed during the war, the government started housing policy with a newly created Housing Corporation (*Jutaku eidan*) and local governments as two institutional pillars. The former, however, was disbanded by the Occupation authorities toward the end of 1946. For the reason that there was already a budget for subsidizing housing construction, the Ministry of Finance rejected the proposal made by the War Damages Reconstruction Agency (*Sensai fukko-in*) to more systematically promote housing construction for average citizens by transferring decision-making authorities to prefectural and municipal governments. Also rejected by MOF was the proposal made by Ichizo Kobayashi, the first president of *fukko-in* for the government to purchase war-damaged land to increase the publicly-owned land stock by issuing land-bonds (*tochi saiken*) to prepare for the land problems which he predicted to come in the near future. The Reconstruction Agency called for the construction of 4.5 million housing units per year. But the actual

number built was far below the target. Evidently, the Japanese officials did not regard housing policy as an integral part of social policy.<sup>3</sup> This contrasts sharply with the West German government's policy which gave a high priority to housing policy.

In 1948, the Ministry of Construction was established by combining the Reconstruction Agency and the National Land Bureau of the disbanded Home Affairs Ministry. In 1949, the Housing Finance Corporation (*Jutaku kinyu koko*) was established to start long-term low interest housing loans for individual and corporate housing construction.

According to the Japan Real Estate Institute, the residential land prices in the six metropolitan cities increased on average 63.3 percent per year and commercial land, 81.9 percent during this decade (1945-55). The rapidly increasing demand for land was met with "deregulation" allegedly to ensure the freedom of the individual to choose his or her occupation (by removing the qualification requirements for entering into the real estate business). The influx of unqualified real estate brokers and their aggressive and often undisciplined sales (and resales) activities contributed to the steep land price hikes during the chaotic postwar decade. This was an era of small and medium brokers. The larger real estate firms were still suffering from the after-effects of zaibatsu dissolution.<sup>4</sup> In 1952, finally, the Residential Land Business Law (*Takuchi tatemono torihiki ho*) was enacted to make registration of real estate brokers obligatory to curb the chaotic situation in the business.<sup>5</sup>

Other major legislative actions include a War-Damaged Cities Reconstruction Plan (1945-50), the agricultural land reform (1946-50), and rent control. There were also some aborted attempts to adopt residential land law (1947) and to revise the city planning law (1950).

The Reconstruction Plan was adopted as a guide for rebuilding cities ravaged by the war. The plan was intended "to restrain the growth of oversized cities and to develop local cities of small and medium sizes." It provided for boundary adjustments and requisitions by local authorities. The planning standards included one for green belts, a detailed zoning code, and strict building control measures. Tokyo, which accounted for 26.6% of the plan's land area, was given a chance to rationalize its land use patterns.

Because of the severe reduction in the central government subsidy under the Dodge Line austerity policy and the affected residents' resistance, however, the plan was implemented in only 6.8% of the planned area in Tokyo in contrast to 61.2% of the areas in Japan as a whole. The Allied Occupation was of an opinion that the reconstruction plan was too luxurious for a defeated country.<sup>6</sup>

The agricultural land reform, implemented under the authority and sponsorship of the Allied Occupation, was the most important reform affecting the development of land policy in postwar Japan. About six million small owner-farmers, each with about 2 acres, were created by the reform which placed a ceiling of three cho (1 cho is about 2.5 acres) on individual farmland holdings. To protect the newly created class of owner-farmers, the Agricultural Land Law of 1952 made conversion from agricultural to other uses subject to the approval of a prefectural governor or the Minister of Agriculture and Forestry. It was in force until its

revision in 1970 to facilitate more productive large-scale agricultural operations.<sup>7</sup> The land reform created a large, stable support base for conservative politicians, who won't support any land use control measures against farmers' opposition.<sup>8</sup>

In 1947, by legislating a basic law, the Japanese planning bureaucracy attempted to empower the government to acquire land for such purposes as readjusting boundaries, and constructing roads, city water supply facilities, greenery zones, and housing for common people (*shomin jutaku*). The bill called for citizen participation and stabilization of residential land prices. The Allied Occupation opposed the enactment of this bill.<sup>9</sup>

Also aborted was an attempt by a Ministry of Construction's (MOC) advisory committee to revise the City Planning Law of 1918. The main reason, this time, seemed to have been inter-ministerial rivalry (MOC vs. the Ministry of Home Affairs) and the central bureaucracy's mistrust of local autonomy. Emergency measures such as freezing of the housing and land rent<sup>10</sup> had also influenced land use and ownership patterns.<sup>11</sup>

#### **B. Urbanization without Basic Land Law: 1955-1967**

Thus, urbanization occurred without a vision or basic laws to guide and control the growth of the cities. The government was preoccupied with building the industrial base and infrastructure to support heavy and chemical industrialization. A 10-year housing plan announced by the Hatoyama Cabinet in 1955 was designed to house massive flows of immigrants from the rural areas. It called for building 4.8 million houses between 1955 and 1964 to achieve "one house one household" goal. To support this plan, the Japan Housing Corporation was established in July 1955 with joint capitalization by the central and local governments and insurance companies.

However, with continued rural-urban migration of workers, the housing shortage remained acute. In 1959, still 1.8 million additional units were needed, according to the MOC data. Under the rapidly growing demand, the housing land boom continued and expanded to an area as far as 30-40 km from central Tokyo. Small and medium developers remained core actors. Housing land development was primitive and often involved false advertisements and dubious business practices on the verge of illegality.

Heavy and chemical industries mushroomed on cheap imported oil in the Pacific coastal region. The population in the Tokyo metropolitan area increased from 13 million in 1955 to over 30 million in 1970.<sup>12</sup> A government attempt in the mid-1950s to build a green belt around inner city area and new town outside that belt, the idea borrowed from the 1944 Greater London Plan, failed dismally, because of the strong opposition by the farmers who owned land.<sup>13</sup>

Residential areas were expanded rapidly often without adequate roads, parks, or sewers, interspersed with factories, retail stores and patches of farmlands. No zoning meant that industrial and commercial bidders competed with individual buyers of housing land in the same land market. Between 1955 and 1985, the average residential land prices increased at more than three times the rate of wage increases. This land price inflation vis a vis wages compelled the urban workers wishing to buy a house to save over 20% of their disposable



income during the high economic growth period. The MOF had discouraged the development of consumer finance until the mid-1970s when big businesses ceased to depend on bank loans. Huge savings squeezed from the household sector were then channeled by government subsidies and tax policies into the corporate sector.<sup>14</sup>

The Ministry of Finance maintained artificially low ceilings on deposit rates to enable low interest loans to corporate borrowers. Land prices rose at more than double the regulated interest rates. Land became the best collateral for bank loans. Since land ownership promised far higher yields than bank deposits, many people borrowed money to buy land as a way to build an asset.<sup>15</sup> The LDP government also encouraged home ownership which is believed to make voters conservative. As a result, the majority (61 percent nationwide; 40 percent in Tokyo) of Japanese households have become homeowners of some sort.<sup>16</sup> Politicians in both ruling and opposition parties became increasingly reluctant to support land policy measures limiting property rights. Land owners became increasingly unwilling to sell their land. Land sales were further discouraged by a high sales tax. A constant shortage of land relative to demand generated perennial pressure for further land price increases. The price of commercial and residential land in Tokyo rose tenfold from 1977 to 1988. The "land myth" — a belief that land prices will keep rising forever — became an essential part of Japan's economic-growth machine. The critical role played by rising land prices in Japan's economy led analysts to characterize the Japanese economy as a "land-standard," rather than a gold-standard, system.<sup>17</sup>

Until mid-1960s, the goal of the LDP government was economic growth. They were more concerned with a growing gap between urban and rural areas and how to stem the tide of massive rural-urban migration and create enough jobs and revenue sources in the increasingly deserted rural areas. Urban sprawl was not an important issue yet. Japan's urbanization continued at a breakneck pace without effective urban planning or concern for urban amenities.

It was local governments that initiated policies to give some order in the urbanization process. As in the case of the Kobe city's Cliff Ordinance of 1960, the central government adopted some of these ideas.<sup>18</sup>

It was not until 1964, however, that the national government finally enacted regulations, on housing land development — such as the minimum standards regarding the sizes of roads, green areas and parks — within the governor-designated development regulation areas. Almost the entire Tokyo metropolitan region was designated as a regulation area.

This law was a severe blow to small and medium developers but a blessing for bigger developers. The Japan Housing Land Development Association, an industry group of small and medium developers, lost its membership from 65 in 1967 to 18 three years later. The membership of the Real Estate Association of larger firms, almost doubled for the period.

Although the quality of housing land improved, the costs of development and hence the land prices soared. The Real Estate Evaluation System introduced in 1963 was intended to control land price hikes, but it was not mandatory to use this system in a transaction. The

system was used mainly in legal disputes and did not have any restraining effect on land prices.

The government adopted measures to expand housing loans. The increased demand for housing land pushed land prices further up. The surveys indicated that 76 percent of the people who bought houses using loans from the Public Housing Corporation owned the housing lots already. The constantly rising land prices made it increasingly hard for those without land to build a house.<sup>19</sup>

### **C. The State Turns to Active Land Policy: 1968-87**

In the 1960s, frustrated voters began electing reformist mayors, local council members, and governors in the metropolitan and urban areas. It was a sense of crisis that prompted the LDP to pay attention to the worsening metropolitan land problems.

In the late 1960s, a formal legal framework for systematic city planning was finally set up with the legislation of the New City Planning Law (1968), the revised Building Standard Law (1970), and a series of land related laws.<sup>20</sup> Conceding to the demands of developers and farmers, the original idea proposed by the advisory council was considerably watered down,<sup>21</sup> and the authority of municipal governments and citizen participation in city planning was still very limited.<sup>22</sup>

For the first time, the government used tax measures to control land prices, but the results were disastrous. By reducing land sales tax, the government anticipated increased land supply and stabilization of land prices. As the law did not apply to the corporate land transactions, and the timing coincided with the high corporate liquidity caused by the expansive monetary and fiscal policies, the policy created not only land-based instant millionaires<sup>23</sup> but also the nationwide land speculation, which was further fueled by *The Remodeling of the Japanese Archipelago*, an instant best-seller revealed in June 1972 by Kakuei Tanaka, then Minister of International Trade and Industry. Railroad companies, developers, and builders were joined by trading companies and banks in gobbling up tracts large enough to exert monopoly power in the area to drive up land prices. The financial institutions played a central role by financing their own as well as corporate land speculation, often through subsidiaries.

Skyrocketed land prices spawned sharp criticism of the Tanaka government and the remodeling plan among the public, the mass media, and opposition parties, and even within financial and industrial circles and the LDP. The LDP lost seats in the Lower House election in December 1972 and belatedly adopted a corporate land transaction tax and a special corporate land-holding tax to restrain and punish corporate land speculation.

Attempts to raise the tax rates on tracts of agricultural land in the Urbanization Promotion Area (UPA) to the same level as those on residential land in neighboring areas (*takuchi nami kazei*) faced strong opposition from the National Association of Agricultural Cooperatives (*Nokyo*). Repeatedly the implementation of the residential rate taxes were postponed by yielding to the farm groups' opposition.

To coordinate land-related policymaking authority, previously fragmented among various

ministries, the Tanaka administration introduced the National Land Agency (NLA) and enacted the National Land Use Planning Law (NLUPL).<sup>24</sup> The new law has authorized prefectural governors to suspend or recommend changes in land sales in certain cases, if, for example, a proposed transaction failed to meet the standards set for the price and prospective use of the land, infrastructure, environmental protection, etc.; to designate “controlled areas” (*kisei kuiki*) where speculative land purchases have driven up land prices, and subsequently freeze land prices or declare land sales subject to government approval. The government was empowered to exercise greater supervisory power over land sales through preliminary investigations into the state of potential controlled areas; and to designate an idle land (*yukyu tochi seido*) within which the governor could notify an owner of his duty to use idle land efficiently, either voluntarily or according to a plan developed at the advice of the governor. The recurrence of land boom in the late 1980s proved, however, the ineffectiveness of the legal and institutional framework introduced in the early 1970s in changing the fundamental structure of the land-standard system analyzed earlier.

#### **D. Deregulation/Land Bubble Era: 1982-1990**

The steep stock and land price inflation between 1985 and 1989 made Japan an “asset superpower.”<sup>25</sup> The land price spiral was largely triggered by a perceived acute shortage of office space in the face of a rapidly increasing demand stemming from Tokyo’s emergence as a global financial services center. But many analysts trace the origin of the bubble to Nakasone administration’s deregulation policy conducted as part of its administrative reform. To overcome the threat of a recession posed by the revaluation of the yen through industrial restructuring and rationalization; and to respond to United States pressure to expand domestic demand, the Bank of Japan (BOJ) adopted easy money policy, for which it later admitted misjudgment on the timing to quit. The Nakasone administration promoted the idea of *minkatsu* [it literally means “private sector vitality”] (i. e., using private sector resources in public infrastructure-building and urban redevelopment projects) It was a device to achieve two conflicting goals: one for fiscal and administrative reforms to reduce the budget deficit, and the other to increase domestic demand to meet the US demand. To cut back government spending for public works projects, *minkatsu* idea was to stimulate private-sector participation with a variety of incentives, including deregulation in urban redevelopment. The idea coincided with the demands of the depressed industries, such as steel, cement, construction, and real estate, that wanted to use their excess capacity in lucrative construction contracts for high-rise buildings, roads, bridges, etc.<sup>26</sup>

To stimulate private sector investment, the Nakasone government started the sales of public lands in choice locations in and around Tokyo. Such urban public land sales usually require prior approval of detailed plans for their use provided by sellers in most European countries and by buyers in the United States.<sup>27</sup> Japanese public land sales were not accompanied by such plans and were often made at two to four times market prices. Critics blame these sales for triggering the price escalation in central Tokyo. Also, in most Western countries, to improve housing and a variety of public facilities, local governments are often

given the preemptive and compulsory purchase powers in the case of public land sales.<sup>28</sup> By contrast, Japan's local governments have to compete with private sector buyers.<sup>29</sup>

In interviews, some city planners acknowledged the adverse impact of the public land sales. By raising the costs of improving urban infrastructure or resolving housing problems, these sales aggravated the land problems. It is said that these sales gave opportunities for the prime minister and other politicians to raise political funds. They reveal a lack of good judgment and no sense of public responsibility on the part of policymakers as providers of public goods. Again, reckless bank lending fueled speculation and land price spiral.<sup>30</sup>

The case represents a general pattern and reveals the unchanging mentality and "ideology" of the main actors in land policymaking process in postwar Japan. Before proceeding further on this topic, let us briefly look at the consequences of the land boom. That will help us understand why serious attempts to solve land problems, which were bound to inflict huge and unpredictable costs on the otherwise well performing economy, have repeatedly been postponed.

As emergency measures, the government resorted, first, to regulatory measures and tax and monetary policies. The Ministry of Finance resorted to administrative guidance to restrain bank lending for speculative real estate deals, later expanding its guidance to nonbank financial institutions, which had often been used as media to evade MOF supervision.

To explore longer-range vision and policies, following Tanaka administration's precedent after the archipelago remodeling boom, the Nakasone government created an Advisory Council on Land Policy, *Tochi Rincho*, in August 1987 and enacted another law, the Basic land law, in December 1989.

The goal of the Basic Land Law was to establish the guiding principles on land policy and to foster national consensus on the public nature of land. Soon after its passage, the Ministerial Conference on Land Policy announced ten priority policy measures to be implemented: (1) increasing housing and residential land in the large metropolitan areas, (2) comprehensive review of land tax system, (3) development of nuclear business centers (*gyomu kaku toshi*) and bay areas, (4) efficient use of national and public land, (5) review of rental house and land laws, (6) restraining speculative land transactions, (7) improving the public land evaluation system, (8) returning developmental interest to society, (9) improving information disclosure on land, (10) public education on the concept of land.<sup>31</sup>

To prevent recurrence of destructive land price booms, the basic law assumed that it is imperative to reform the absolutist notion of property right long-held by both leaders and the public in Japan. Thus, the law declared that public welfare takes precedence over the principle of private property ownership, that land-use should be planned, and that land speculation should be controlled. It also enunciated the principle of "betterment levies," i. e., taxation of development-derived gains.<sup>32</sup>

As a compromise between conflicting interests represented on the advisory council the basic land law incorporated portion of minority opinions. Its pronounced intent was to foster a

consensus on a more activist government land policy and to educate policymakers, businessmen, and the general public in the social responsibility that accompanies property ownership. But as critics point out, its effectiveness is in question. The law is declaratory in character and lacks power to force change in the existing laws and regulations of lower order. It remains to be seen if the government can enforce policies that either limit property rights or change the almost monomaniacal desire for owning land that is prevalent in society and thereby break the vicious circle based on the myth of infinitely rising land prices.

#### **E. Post-Bubble Period: 1990 —**

During 1991, according to the National Land Agency, the residential land prices fell 5.6% on average nationwide. This was the first decline since 1974. Prices in the greater Tokyo, Osaka and Nagoya areas declined 12.5%. The basic reason of the drop of the land prices was that they had reached the ceiling where supply exceeded demand. Also, the stock market crash reduced the asset base of the financial institutions and their client companies substantially thus disrupting the capital flow into real estate investment.<sup>33</sup>

If the market forces were the reason for reversing the trend, does the fundamental structure of Japan's land standard system remain unchanged? What was the impact of the government policies in bringing down the land prices? Another important question to be examined is the impact of the Structural Impediments Initiative (SII) talks that began in September 1989.

American negotiators in that talk shifted attention from the Japanese government's trade policies to structural "elements", such as socioeconomic conditions, habits, and customs, that appear to compel Japanese citizens to save rather than spend. They argued that (1) high land prices force consumers to save excessively and limit consumption and imports; (2) they retard housing and public works investments and dampen their multiplier effects on domestic demand; and (3) prohibitive land costs pose a formidable obstacle to entry of foreign business into Japanese markets.<sup>34</sup> They demanded the Japanese government to adopt: (1) measures to increase housing land and housing units in the metropolitan areas; (2) a comprehensive tax reform that will remove preferential taxes for farmers, increase property (fixed asset) tax in general, and reduce the prohibitive capital gains tax on land sales so as to increase land supply and thereby to reduce land prices; (3) utilization of idle or underutilized public land; (4) stepped-up investment in public works to improve the infrastructure; (5) revision of land and house lease laws to give landowners incentives to build more rental properties; (6) deregulation of certain types of zoning and construction (especially, height control and "sunshine") rules to increase high-rise construction; and (7) rationalization of the land value assessment for various tax purposes.<sup>35</sup>

In compiling these demands, the Treasury Department staff at the American Embassy in Tokyo drew ideas from the Second Maekawa Report. Also they consulted with Japanese economists and media reports and publications.<sup>36</sup>

Since the SII negotiation was started in the summer of 1989, the Japanese government has reformed the land tax system, revised the land and house lease laws, changed land use

regulations, conducted surveys and introduced a new system for identifying and better utilizing idle or underutilized public land, and expanded the budget on infrastructure building to induce an increased supply of housing land, all to boost the supply and more efficient use of land. It is clear that the American pressure played an important role in the Japanese policy making process. The impact of these policies on the land prices, however, seems secondary, at best.<sup>37</sup> They have not changed the basic structure of the Japanese system characterized as the land standard system, as will be analyzed below.

## **II. Land Use Policy and Land Price Management**

In a market economy, land price changes can be explained mainly by changes in demand and supply in the land market caused by industrialization and urbanization, which in turn affect the degree of centralization or decentralization in the distribution of population and industry. The effectiveness of government control over these long-term developments is generally limited in free-market economies.

Three other factors more directly influence land price by affecting its demand or supply: (1) government-imposed control on land development, (2) taxation, and (3) speculation. Although speculation is caused by market forces and constrained by the availability of finance, the state can influence it through zoning regulations, national development plans, and taxing profits. The state can use more direct control measures like a freeze on land prices and more indirect measures of fiscal and monetary policy.

West Germany, which undertook postwar reconstruction of its economy and cities in conditions comparable to, or worse than, conditions in Japan, has nonetheless succeeded in controlling the rise in land prices mainly by controlling development. The government zoned enough land for development and developed it as quickly as possible. In Britain, strict enforcement of zoning for the sake of preservation of countryside and planned large-scale development were the two key elements of its land policy. The land-hoarding tax was also used to force landowners to part with unused property.

By contrast, the Japanese government tried to control land prices by decentralizing industry and population. Only after it proved a complete failure in the mid-1960s, the LDP government turned to city planning and other land use policies.

By then, however, the "land-standard" had been firmly established.<sup>38</sup> The land price inflation of the late 1980s was consistent with a long-term cyclical pattern of steady increases in land prices punctuated by periodic price surges, like those in the early 1950s, 1960s, and 1970s. Because the "land-standard" system worked so well for economic policy goals, a series of belated attempts made since the late 1960s to control land price inflation proved no more than temporary stopgaps.

This system was supported by three pillars: a myth of continuous rise of land prices, a collateral system that turns the latent value of land assets into real financial capital, and government monetary policy oriented toward corporate finance in benign neglect of the



interests of consumers and individual savers.

What is striking about Japan's postwar land policy is the government's slow, half-hearted response to urban problems and the salience of conflicting interests that account for it.

The government failure to demarcate different land markets for residential, agricultural, commercial, and industrial uses during the period of rapid urbanization led to chaotic land development in and around Tokyo and other major cities. Individual buyers of housing land had to compete with corporate buyers of commercial or industrial land in the same market. The situation naturally benefited those with large capital and assets at the expense of average urban workers, who were pressed to save for the purchase of a house or housing land. The high rate of household savings served as the main source of industrial capital to fuel the engine of Japan's economic miracle machine. Thus, through its inaction in land use policy proper and action in fiscal and monetary policy, the Japanese state helped promote economic growth. The chaotic urbanization, however, has proved to be an obstinate burden dragging down the quality of life of urban dwellers in that cities once built are difficult, if not impossible, to remodel according to changing income or lifestyles.<sup>39</sup> Also, the rate of increase in wages and consumption of the work force in Japan was significantly lower than that of the country's economic growth. The land price hike at the rate several times higher than that of wage increase played a key role in maintaining this system.

The state's actions related to land use taken after late 1960s did inject some measures of order but failed to make clear demarcation of land markets. Furthermore, various government projects and land-use regulations provided politicians of all levels with illicit but highly lucrative fund raising opportunities through such actions as buying up the land designated for public works projects (such as building roads, bridges, railways, harbor, industrial parks, etc.) before their public announcement. The so-called *tochi-korogashi* (land-rolling) accompanying this kind of practice was another common cause of land price hikes. This system could function because not only corporations but also the majority of the people became involved in speculative land purchases. People often bought land as the best means to make quick and sure capital gains rather than for just building a house for living. The state action thus not only fail to destroy but helped perpetuate the land myth<sup>40</sup>

Here, it is important to note the trade-off between efficiency and equity involved in land policy as in any public policy involving resource allocation.<sup>41</sup> Corresponding to these two values are two sets of goals for land policy, one economic and the other social. The two are mutually reinforcing in some areas but are incompatible or contradictory in many other issue areas. In most Western nations where urbanization has occurred in limited land areas as in Japan, social policy goals have generally dominated land policy making, and governments have often intervened in the land market for the sake of equity and public welfare. In Japan, by contrast, the goal of economic efficiency goal has been dominant in government policies, including those related to land-use patterns and land-price changes.

In explaining the government's single-minded focus on economic growth that led to chaotic urbanization and land price hikes, critics often blame the lack of a vision and political

leadership. The weak leadership was certainly an important factor, but visions and policy proposals did exist. They were aborted by pressures from various groups while citizens remained too preoccupied with making ends meet to demand amenity in the urban environment.

The changes occurred only when the urban citizenry began to complain vocally about such unwelcome costs of extremely fast industrialization as pollution, overcongestion, and high land prices and poor housing conditions in the late 1960s. It was not until then that the concepts of city planning and amenity became recognized and accepted by the general public, although those concepts had existed among some bureaucrats and politicians as well as city planners and experts. What motivated citizens' movement before was mainly NIMBYism, i.e., "build it, but not in my backyard," which seldom extended beyond narrow neighborhood concerns.

Japan's land policy-making process has been flawed with fragmentation of jurisdiction among ministries and agencies at the national level, and domination by the well-organized groups of farmers and construction and real estate industries, as well as the general influence of the business and financial communities. These interest groups are all well connected to the Liberal Democratic Party's "construction tribe" members and relevant departments and sections of the bureaucracy, forming iron triangles that dominate Japan's policy making process. Policies on public works, which have been one of the most important factors determining land price and land use in various localities in Japan, have been made through the negotiation among relevant iron triangles. Under these circumstances, the state's intervention in the market tends to produce a land use policy to serve special interests often at odds with public welfare.

Land price inflation and irrational land use were aggravated also by the lack of information on the land market and the lack of transparency in the land policy making process. Not only has the government reluctant to disclose information on land transactions but also has the ministerial sectionalism prevented the government from collecting accurate data on land ownership and transactions.

Another problem revealed in the above review is overconcentration of land use policy-making power in the hands of the national government ministries and concomitant lack of local autonomy. Local governments have often been the major source of innovation in land use policy, and demonstrated their ability to adopt more flexible land use policies that are suited to local conditions than the central government. On balance, however, the system has tended to stifle such local initiatives.

### **III. Conclusion**

As a result of these characteristics of the government, land has become a key factor in preserving what may be called Japan's neo-social dumping system — a system that promotes exports by keeping lower real wages and higher household savings rates than those prevailing

in most advanced industrial economies of the West. The high savings rate reinforces the export drive by providing capital for productive investment as well as generating export pressure by reducing the level of domestic consumption. Japan's export drive is very hard to tame because this neo-social dumping system is embedded in the kaleidoscopic urbanization patterns that are impossible to undo or rectify expeditiously. Thus, the yen will keep appreciating to bloat Japan's GNP to the stratospheric level.

A rupture to this export driven economy will be wrought by the global market forces generated in reaction to this social dumping system. The SII negotiation and its aftermath reflect the impact of such forces wrought indirectly by the US government. The massive transfer of manufacturing bases abroad is driven directly by the market forces that keep driving up the value of the yen. In addition to deindustrialization, the "quality of life" gaps may drive Japanese with skills and talents to move out of the country in search for better life. Not only production sites but R & D bases may be transferred overseas in an accelerated pace. National boundaries may not disappear but the grip of the state over those mobile individuals and companies would weaken and so would its influence over the market.

These global forces, rather than the states' actions and negotiations, will eventually pull the countries of similar economic standing toward a state of equilibrium, not only in the quantitative but also qualitative terms by synchronizing social and economic conditions of the industrialized nations. Life-styles and values, even those fostered within unique cultural tradition, tend to acquire similar patterns with the advance of communications technology. Eventually, the Japanese policy and policy-making framework will have to change to prevent deindustrialization and brain drain as the people become increasingly exposed to the global market forces.<sup>42</sup>

To fill the void left by the relocation of factories, again, market forces may well direct domestic capital into investment in housing and infrastructure building to improve the quality of life of the ordinary Japanese. The government will be compelled to follow such market trend to shift its focus onto investment in building long-neglected public goods. In the final analysis, it will be pressure emanating from the global market that eventually eradicates the neo-social dumping system in Japan.<sup>43</sup>

## Notes

- 1 This periodization is borrowed from Yorifusa Ishida, *Nihon kindai toshi keikaku-shi* (The history of modern Japanese city planning) (Tokyo: Kashiwa Shobo, 1992) pp. 13-15.
- 2 "Impact upon lifestyle and quality of life: As workers continue to gravitate to metropolitan areas, suburban sprawl continues. Commuting time increases, the size of the average house decreases, and housing costs rise as land prices go up. Disposable incomes are squeezed. At the same time, urbanites must content with noise, traffic congestion, water pollution, and garbage disposal problems. Given unpleasant living conditions, the workplace provides many workers with a more relaxing space. Not only loyalty to the company leads Japanese to work overtime — housing conditions and the failure of land use policy have shaped the 'workaholic living in a rabbit hutch' lifestyle." Shigeko N. Fukai, "Japan's Land Policy and Foreign Relations," *Dialogue: A magazine of international affairs* 2, 2 (Winter

- 1989/90), pp. 31-32; Susan B. Hanley, "Traditional Housing and Unique Lifestyles: The Unintended Outcomes of Japan's Land Policy," in John O. Haley and Kozo Yamamura, eds., *Land Issues in Japan: A Policy Failure?* (Seattle: Society for Japanese Studies, 1992), pp. 195-222.
- 3 Mikio Sato, *Document: Chika mondai-tochi shinwa wa kooshite tsukurareta* (Tokyo: Shinshindo, 1991), pp. 20-23.
- 4 Hideo Eda, President of Mitsui Real Estate, the largest real estate firm in Japan, later described the 1945-50 as the dark age of larger real estate companies. Mikio Sato, *Chika mondai*, p. 39.
- 5 Mikio Sato, *Chika mondai*, pp. 25-36.
- 6 Yorifusa Ishida, *Nihon kindai toshi keikaku no hyaku nen* (One hundred years of Japanese modern city planning) (Tokyo: Jichitai Kenkyu-sha, 1988) pp. 213-232.
- 7 *Nenpo Seijigaku* (Tokyo: Nihon Seiji Gakkai, 1979), pp. 215-216; Inoue Shuhachi, "Nochi wo meguru sengo-shi," *Chuo Koron* 87 (August 1972), p. 163.
- 8 J. A. A. Stockwin, *Japan: Divided Politics in Growth Economy* (New York: W. W. Norton, 1975), p. 49
- 9 Yorifusa Ishida, *hyakunen*.
- 10 This rent control was introduced by the Land and Housing Rent Control Ordinance based on the National Mobilization Act of 1939 and lasted till 1950.
- 11 Faced with a rampant inflation, many landowners had tenants purchase their plots and houses, leading to a rapid decline in the number of families living in rental housing. In consequence, the percentage share of owner-occupied housing in the total housing stock rose from some 30 percent in prewar times to 71 percent in 1958. Following the subsequent influx of population into large cities, the ratio declined to 59 percent in 1973. The trend reversed as a result of the Tanaka government's decision to use housing construction as a major means of stimulating the stagnant economy.
- 12 *Kokudo riyō hakusho* 1989, p. 132.
- 13 In 1956, the Diet passed the National Capital Region Development Law (*Shuto-ken Seibi Ho*). Modeled after the 1944 Greater London Plan, the law envisioned a green belt around the inner city area and new towns outside that belt to relieve the housing pressure in Tokyo. Because the land designated as a green belt area could not be developed, which in turn meant a reduced land value, farmers who owned land in the area strongly opposed the whole city planning idea. As a result, the government failed to designate even a single green belt area. The dismal fate of the first land use plan foreshadowed the destiny of all subsequent land use plans until the early 1970s.
- 14 Hamada and Horiuchi, "The Political Economy," in Yamamura et al., *The Political Economy*, p. 258.
- 15 For instance, consider the difference made in the increases in assets realized in 30 years by Mr. A who bought a residential lot at Y3 million in 1955 and Mr. B who deposited the same amount in a bank account. By 1985, A's asset would be Y180 million and B's only Y20 million. If A borrowed B's deposit of Y3 million and bought Y6 million worth of land, A's asset would be Y360 million, 16 times B's. *Tochi mondai jiten*, p. 62)
- 16 *Yomiuri Shinbun*, 1 April 1990. The Building Center of Japan, *A Quick Look at Housing in Japan*, (Tokyo: Ministry of Construction and the Housing and Urban Development Corporation, 1985), p. 12.
- 17 Yozo Watanabe, "Ho seido kara mita tochi mondai to toshi keikaku," [Land problems and city planning from the viewpoint of a legal system] in Hajime Higasa, ed., *Tochi mondai to toshi keikaku* [Land problems and city planning] (Tokyo: Tokyo University Press, 1981), p. 31.
- 18 Yoshinori Morino, "Jichitai no seisaku keisei no jitsujo to tembo" (The reality and prospects of policymaking at the local governments), in Akira Tamura, ed., *Jichitai no seisaku keisei* (Policymaking of the local governments) (Tokyo: Gakuyo Shobo, 1989), pp. 3-18.
- 19 Sato, *Chika mondai*, p.72.
- 20 Yorifusa Ishida, *Nihon kindai toshi keikaku no hyaku nen* (One hundred years of Japanese modern city planning) (Tokyo: Jichitai Kenkyu-sha, 1988) p. 295.
- 21 Shigeo N. Fukai, "Japan's Land Policy," in Haruhiro Fukui, ed., *Japan's Resource Politics* to be published, pp. 16-18. In the original draft, the city planning area was divided into five zones, to

enable government to control stage-by-stage urban development and to preserve conservation areas. However, with the opposition of the realtor's group and interventions of LDP's relevant PARC committees, the final draft contained only two zones, the Urbanization Promotion Area (UPA) and the Urbanization Control Area (UCA). In implementation, the farmers succeeded in expanding UPA to include purely agricultural land. See also, Yoichiro Oshio, (Summary of the city planning law) (Tokyo: Jutaku Shimpou-sha, 1971), pp. 22-*Toshi keikaku ho no yoten*.

- 22 McDougall, p. 140.
- 23 Hyoma Seki, who reported the highest income, paid only a 10 percent tax on the 390 million yen he had earned by selling his land to a real estate company founded by Seki himself. Asahi Shimbun-sha, *Nihon no tochi mondai* [Japan's land problems] (Asahi Shimbun-sha Internal Report, 1979), p. 134.
- 24 Land-related policymaking authority had been shared by the Ministries of Construction (MOC), Transport (MOT), International Trade and Industry (MITI), Agriculture and Forestry (MAF), Home Affairs (MHA), and Finance (MOF), and the Economic Planning Agency (EPA).
- 25 Takeuchi Hiroshi, "Is our asset-bloated economy in danger of collapsing under its own weight?" *JEJ*, 14 April 1990, p. 8.
- 26 Critics charged that the policy was devised for, and by, the Japan Project Industry Council (JAPIC), formed in April 1983 by a group of businessmen from these depressed industries. JAPIC *White Paper on National Land Use*, 1989, p. 132.
- 27 Soichiro Tawara, "Tochi no jubaku karano kaiho" (Freed from the land spell), *Bungei Shunju*, June, 1989, pp. 282-288.
- 28 In West Germany, for instance, 13.4 percent of the national land is owned by municipalities; cities with a population of 100,000-200,000 own on average 34 percent of land within their boundaries, and cities more than 1 million own 46 percent. Graham Hallett, ed., *Land and Housing Policies in Europe and the United States A : A comparative analysis* (London: Routledge, 1988), pp. 205-207; Nomura Sogo Kenkyujo, *Chika to tochi system* (Land Price and land system) (Tokyo: Nomura sogo kenkyujo, 1988), p. 195.
- 29 Even Tokyo's conservative Governor, Shunichi Suzuki, opposed this practice and warned of its inflationary effects. During the hearings held in 1987 by the Provisional Commission on Administrative Reform or *Rincho*, the Tokyo Metropolitan Government (TMG) recommended a more rigorous application of the National Land Use Act's price regulation provisions. The TMG also encouraged the central government to consult with local governments and coordinate land use plans to better suit local conditions. The report of the Provisional Council on Land Policy or, Tochi Rincho, endorsed the ideas underlying the TMG's recommendations by proposing that "public land suitable for housing construction should be used for public housing projects." NLA Minister Makoto Utsumi also supported the TMG's priority for purchasing the land vacated by the old Japan National Railway (JNR) and other holders of public land. However, the JNR Liquidation Corporation (and the Ministry of Transport, MOT) adopted a policy that was at variance with the NLA or *Rincho* recommendations and guided by a narrow profit maximization goal, although media criticisms and public opinion later changed the corporation's approach. Yoshihito Honma, *Tochi mondai sotenken* (Complete study of land problems) (Tokyo: Yuhikaku, 1990, 2nd ed.), pp. 186-7.
- 30 Tochi mondai kenkyukai (Land problems study group), ed., *Tochi mondai jiten* (Dictionary on land problems), (Tokyo: Toyo keizai, 1989), pp. xi, 106. Another dilemma for policymakers caused by the skyrocketing land prices is how to deal with the livelihood of the residents in older inner city communities. In these areas, land prices soared so much that most residents can not afford to pay property taxes if the rates were raised to levels comparable to those in Western nations. As some economists suggest, higher property taxes would likely prompt the sale of the land through eviction of the tenants or residents. A higher land tax may be an effective means to increase the supply of land and to realize "rational" (i. e., efficient) land use in high-priced choice urban areas. For the dislocated families, however, such policy means destruction of their communities and deprivation of their basic human rights to live in their homes. Deregulation has also had similar impacts on

residents in older urban communities. Deregulation has been advocated and implemented as an incentive for private developers to expand the land and housing stock available to the public. In reality, however, the results of such development were often higher priced commercial buildings or housing beyond the reach of ordinary citizens. Both cases reveal policymakers' lack of concern with the preservation of the old neighborhoods and their residents' welfare. G. R. Falconeri, "The Impact of Rapid Urban Change on Neighborhood Solidarity: A Case Study of a Japanese Neighborhood Association," in James E. White and Frank Munger, eds., *Social Change and Community Politics in Urban Japan* (Chapel Hill; University of North Carolina, Comparative Urban Studies Monograph Series No. 4, 1976), pp. 31-60.

- 31 *Tochi hakusho*, 1992, p. 122.
- 32 It says: "The national and local governments ought to take necessary measures to have beneficiaries who reap inordinate amounts of benefits share appropriate portions of the costs incurred in the generation of such benefits through improvement of social capital."
- 33 Complying with Tokyo Stock Exchange disclosure guidelines, the banks announced losses related to the declining value of stocks and other securities they held during the financial year ended March 31, 1992. As a group, Japan's 11 city banks, ie., major commercial banks and three long-term credit banks, wrote down losses totaling 1.045 trillion yen (\$7.76 billion) for the period, five times more than the previous year. *Wall Street Journal*, 4/27/92, A10, also see 4/24/92.
- 34 *Nihon Keizai Shimbun*, 9/1/1990.
- 35 Final Report of SII Talks, June 28, 1990, pp. II-1-6; *New York Times*, 9 April 1990.
- 36 Interviews with William Corbett, First Secretary, Office of Treasury Attache, Embassy of Japan, 12/27/91; Kentaro Owada (reporter in charge of land policy series) 12/15/91 and Shinichi Yoshida (reporter in charge of U.S.-Japan relations), *Asahi Shimbun*, 12/24/91. For data and analysis of the land price spiral, see Shigeko N. Fukai, *Japan's Land Policy and Its Global Impacts* USJP Occasional Paper 90-01, The Center for International Affairs and the Reischauer Institute of Japanese Studies, 1991. The *Tochi Rincho* comprised 20 representatives and a chairman and a deputy chairman: five each from business (real estate, banking, and others), government (NLA, MOF, MAF, MHA, MOT), and academe; two from labor (Sohyo and Rengo); three from the media; one from a local government (Tokyo's Deputy Governor); and one public interests representative (an economic commentator).
- 37 For a detailed analysis of the post-bubble, SII-inspired land policy making, see Shigeko N. Fukai, "The Role of 'Gaiatsu' in Japan's Land Policymaking," a paper presented at the American Political Science Association Annual Meeting, Chicago, September 3-6, 1992.
- 38 Keiichi Tanaka, *Tochi no keizaigaku* (Economics on land) (Tokyo: Kodansha, 1985), p. 61.
- 39 There were some sporadic efforts by developers to build a new town (danchi) with some vision and overall city planning concept, but the government failed to support such efforts on the part of private developers by providing, for example, subsidies to help deflate the cost of better infrastructure-building for the project. Mikio Sato, *Chika mondai*.
- 40 Mikio Sato, *Document: Chika mondai — tochi shinwa wa kooshite tsukurareta* (Tokyo: Shinshindo, 1991), Ch. 3.
- 41 Hayashi Yoshitsugu, *Toshi-mondai no keizaigaku* (Tokyo: Nihon keizai shimbun-sha, 1993), p.49.
- 42 Stock trading is also shifting away from Tokyo to overseas markets, particularly London, as investors flee Tokyo's high taxes and commissions as well as living expenses. Observers note that this is one of the many telling signs of Tokyo's diminishing role as a world financial center. *Nikkei Weekly*, 8/29/94, p. 16.
- 43 Shigeko N. Fukai, "The High Yen and Japan's Dual Economy", *The Impact of Evolving Business Practices in the US and Japan: A Report of the Nihon-Auburn University Research Program* (March 1995), pp. 105-124.