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LAND PROBLEM AS AN UNINTENDED INDUSTRIAL POLICY: ITS MECHANISM AND LIMIT

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Abstract

During the 1950s and 1960s, significant land price increase occurred in urban areas in Japan because only insufficient resources were allocated for urban development in the face of rapid urbanization. The burden of high land price fell mainly on households rather than on firms because of an aysmmetry of the lease market. High land price worked favourably for industrial development because it forced workers to save much and it enabled firms to raise funds using land as collateral. Indeed, this was the basic mechanism of the investment-led rapid economic growth of the post-war Japan. Thus, industrial sector was able to extract benefits from land problem without assuming its social costs. In this sense, policies that caused and worsened land problem can be regarded as very important industrial policies.

I. *Introduction*

Land price in major urban areas in Japan showed violent increase during the recent years. In the Tokyo metropolitan area, land price more than doubled during the single year of 1986. This is unprecedented even in the history of Japan where the rate of price increase has been very high. The seriousness of the problem is represented by the fact that it has become virtually impossible for an ordinary worker to purchase a house within commuting distances in the Tokyo metropolitan area.

This phenomenon may be interpreted as a reflection of the recent change in Japan's economic structure, especially the emergence of new economic activities. It is true that office space shortage developed in the central business district of Tokyo during the recent years due to internalization of financial activities and developments of communication and information processing technologies. It was this shortage that triggered the land price increase. However, the following facts must be noted: First, the present level of land price in many locations is much higher than capitalized value of rentals.[1] Second, extraordinary land price hike occurred not only in business districts but also in residential areas. These facts imply that there is a significant speculative element in the present land price.

The speculation has been caused by a considerable relaxation of the monetary policy, which has been required to prevent the rapid appreciation of the yen. If we recognize the

[1] Noguchi (1987).

fact that the appreciation of the yen is a result of increased competitiveness of the Japanese industry, and that the latter has been brought about by economic policies which placed utmost importance upon industrial development, we can regard the recent land problem as an ultimate result of these policies.

The main argument presented in this paper is that policies that caused and worsened land problem can be interpreted as very important industrial policies not only in an obvious sense that they made it possible to concentrate economic resources in industrial developments, but also in the sense that the industrial sector extracted benefits from high land price.

In section II, we first point out that it is capitalized value of rentals rather than rental itself that is extraordinarily high in Japan. Based on this recognition, we argue that the burden of high land price falls unevenly between households and firms. We further argue that firms in fact ontained "benefits" from the land problem. We then examine in section III the process in which land problem has become serious by briefly reviewing the history of land-related policies in the post-war period. We point out that only insufficient resources were allocated to urban developments during the rapid growth era in the face of rapid urbanization. We also point out that many land-related policies had adverse effects in the long run in spite of their original intentions. The discussion in section IV is for identifying the reason why economic and political processes fail to solve the land problem. In the final section, we discuss the seriousness of land problem in various aspects of the Japanese economy.

II. *Uneven Distribution of the Burden of High Land Price*

As is well known, land price in Japan is extremely high compared to that in other industrialized countries. Although it is difficult to make a precise international comparison, due, among others, to lack of uniform standard in statistics, figures in Tables 1 and 2 are sufficient to show the difference between Britain and Japan. Land price in Tokyo is about thirty to sixty times as high as that in London.[2]

TABLE 1. PRICE OF LAND FOR RESIDENTIAL DEVELOPMENT IN BRITAIN (Oct. 1, 1986)
(Thousand pounds per hectare)

	A	B	C
Inner London	3,113	2,956	4,035
Outer London	1,181	1,333	1,642
Northern	196	180	193
North West	216	163	215
Yorkshire	222	156	226
Wales	164	127	211
West Midlands	277	225	238
East Midlands	282	203	300
East Anglia	513	467	805
South West	513	467	805
South East	777	746	988

Note: A: Small sites, B: Bulk land, C: Sites for flats or maisonettes.
Source: Valuation Office, Inland Revenue, *Property Market Report*, Number 46, Autumn 1986.

TABLE 2. PRICE OF RESIDENTIAL LAND IN JAPAN (Jan. 1, 1987)

	Thousand yen per square meter	Thousand pounds per hectare
Inner Tokyo		
Roppongi	6,080	243,200
Shoto	5,450	218,000
Yotsuya	4,450	178,000
Suburban Tokyo		
Jiyugaoka	1,700	68,000
Ogikubo	1,050	42,000
Kichijoji	930	27,200
Osaka		
Toyonaka	285	11,400
Senri	255	10,200
Nagoya		
Chigusa	258	10,320
Fukuoka	146	5,840
Sapporo	103	4,120

Source: Kokudocho, *Chika Koji* (Annual Survey of Land Price), April 1, 1987.

However, if we look at the rental cost of space as indicated by rental cost of office, the difference is not so large. As shown in Table 4, office rental cost in the central business district of Tokyo is about 200 to 800 pounds per square meter per year. It is about 90 to 170 pounds in regional center cities such as Sapporo and Fukuoka. On the other hand, the cost is about 70 to 350 pounds in London, and 70 to 160 pounds in such cities as Oxford, Manchester and Reading (Table 3).

In comparing the office rental cost, we must take into account the difference in the tax burden: While the property tax burden in Japan is negligible,[3] burden of the rate cost in Britain is comparable to rental cost in many cities. Thus if it is included in the cost as shown in column c of Table 3, there is no starting difference in the cost of using office space between the two countries.[4]

It would be interesting to investigate the reason of the above phenomenon because in principle land price should be the capitalized value of rentals. However, since the purpose of the present paper is not to present an economic analysis of land price, we do not investigate this problem further.[5] Instead ,we consider an implication of this phenomenon, namely, while high land price is a serious problem for those who are forced to buy land, it is not for those who can utilize land (or space) by lease.

[2] A systematic comparison of prices of commercial lands is difficult due to scarcity of transactions in Britain. *The Property Market Report* (1987) reports a case where the Old Town Hall at Kensington High street was sold in July 1984 for 38.5 million pounds per hectare. On the other hand, the price of commercial land in the central business district of Tokyo is above 15 million yen per square metre (600 million pounds per hectare).

[3] See discussion in section 3.

[4] This may be interpreted as an evidence of the "factor price equalization theorem."

[5] The fact that rental cost of space is not extraordinarily high compared to other countries implies that the scarcity of land is not the essential cause of high land price in Japan. The true cause must be found in various factors related to capitalization process such as tax parameters and expectations of future prices. Also, existence of asset demand for land (demand to hold land in expectation of capital gains) is an important cause, because they decrease effective supply of land for actual uses. See discussion in section 3.

TABLE 3. OFFICE RENTAL VALUES IN BRITAIN (1986)
(Pounds per square meter per year)

Location	Rental Value (a)	Rate Cost (b)	c=a+b
London			
Tower Hamlets	70-215	168	238-383
Holborn	151-165	133	284-298
Islington	150-320	143	293-263
Waterloo	75-110	90	165-200
Lewisham	65- 70	47	112-117
London Bridge	75-210	165	240-375
Kensington	175-235	59	234-294
Mayfair	290-350	108	398-438
Marylbone	202-207	95	297-302
Manchester	70- 85	50	120-135
Liverpool	27- 60	36	63- 96
Oxford	75- 85	26	101-111
Reading	140-160	36	176-196

Source: Same as Table 1.

TABLE 4. OFFICE RENTAL COST IN JAPAN (1986)
(Per square meter per year)

Location	Thousand yen	Pounds
Tokyo		
Marunouchi	177-204	708-816
Kasumigaseki	121-202	484-808
Ginza	87-142	348-568
Shinbashi	87-170	348-680
Shibuya	68-102	272-408
Shinjuku	91-141	364-564
Ueno	56- 91	224-364
Osaka	56- 72	236-288
Nagoya	35- 43	140-172
Fukuoka	22- 35	88-140
Sapporo	26- 42	104-168

Note: Tental cost includes not only direct regular payment but also interest cost of key money.
Source: *Nihon Keizai Shinbun* (Feb. 23, 1987).

If, for the sake of simplicity, we divide the economy into the household sector and the firm sector,[6] there is a significant difference between the two sectors in Japan regarding the

[6] This is admittedly a naive distinction. See discussions in notes 9 and 12. Also, there are sectors such as the small retailers which have the characteristic of both firm and household. We typically imply by the "firm sector" relatively large firms in the manufacturing industry, and by the "household sector" workers employed by them.

Furthermore, since profits of firms are eventually distributed to households, there is no ultimate conflict of interests between the two sectors in a closed economy. The purpose of making this distinction is to examine whether Japanese fir,ms international competitiveness was increased by sacrificing the households.

possibility of renting land (or space). For the household sector, it is in general difficult to use land by lease. There are several reasons why supply of rented land for residential use is limited. The most important one is the restrictions imposed by the Land Lease Law and the House Lease Law. Since the legal rights of tenants are heavily protected by these laws, lending land or house, especially for residential purpose, is not an economically profitable business.[7] Another reason is the fact that most of the land in residential area is owned by individuals who are not professional lessors. They prefer selling land to engaging in a troublesome business of leasing.

It is true that a significant number of household live in rented apartments, especially in large cities (For example, 42 percent of households live in rented apartments in the Tokyo metropolitan area). However, most of those who live in rented apartments are short-term tenants such as students, single persons and foreigners. The supply of rented houses for family use is quite limited. In general, only low quality apartments are available, as indicated by the fact that while the average size of an owner-occupied houses is 106.2 square meter, that of rental houses is only 40.6 square meter.

Therefore, unless they inherited land, households are sooner or later forced to buy land if they wsih to live in houses above a certain standard.[8] Hence, the burden of high land price falls upon them. It is obvious that households bear the burden when they purchase land. It must be note that most of the households are adversely affected by high land price even if they already own land.[9] First, they are forced to live in narrow spaces. According to a government statistics, about 40 percent of the houses in the Tokyo metropolitan area are built on sites narrower than 100 square meters.[10] Second, most of the workers suffer from implicit cost of commuting, because they are forced to live in places distant from their work places. In the Tokyo metropolitan area, about one third of employed workers spend more than one hour to commute to their work places.[11] Since the average working hour in non-agricultural industry is 6.7 hour per day (in 1986) and since firms do not pay for hours spent in commuting, their effective wage is only about three quarters of the nominal wage (Note that commuting is extremely energy-consuming because trains are terribly crowded).

All these can be regarded as exploitation, in the sense that wage would be much higher than the present level if the above costs were compensated.[12] It can therefore be argued that at least a part of the international competitiveness of the Japanese exporting industry is supported by this mechanism.

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[7] The most important rules set by the laws are follows: First, the lessor cannot refuse to renew a lease contract unless he intends to use the land or house for his own purpose or he has a "just cause." The latter is interpreted by the courts very strictly, so that in many cases it is difficult for the lessor to recover possession of his property at the end of the term of a lease. Second, if rent agreement is not reached, the tenant may continue to pay the amount that he deems as reasonable. This makes it difficult for a lessor to raise rents.

[8] This is true even for condominium type houses because a part of the cost is land acquisition cost.

[9] Needless to say, those households which own land in addition to that for their own residential use obtained benefits from land price hike. A typical example is farmers in the outskirts of large cities.

[10] Statistics Bureau, *Jutaku Tokei Chosa (Housing Survey)*.

[11] Statistics Bureau, *Jutaku Tokei Chosa*.

[12] Some firms bear (a part of) the cost by providing their employees of rented houses. But this practice is limited to a small number of large companies. Also, this does not solve the problem since workers must vacate the houses when they retire.

On the other hand, firms do not suffer from high land price in the same way as households do because it is relatively easy for them to find rented spaces.[13] In fact, most of the office spaces are rented ones. It may be questioned why the asymmetry arises between the household sector and the firm sector with regard to the availability of rented spaces in spite of the fact that the Lease Laws apply equally to both sectors. One reason is that firms are in general willing and able to accept revisions in rent so that leasing for business purpose is economically profitable despite the restrictions by the Lease Laws. Another reason is that a considerable portion of lands in business districts are owned by relatively large real estate companies, whose concern is to lease land rather than to sell.

It is true that firms possess land, especially those for factory use.[14] However, unlike workers, they have freedom of choosing the location. If they judge land price in large cities too high, they will choose their location in smaller cities or in rural area. Thus they are not necessarily hurt by land price increase.

On the contrary, it can be argued that many firms are beneficiaries of high land price, because they can borrow money from banks with their lands as collateral. Banks are able to lend money without risk since land is regarded, as discussed in the next section, the most profitable and riskless asset (Note that factories or machines are not necessarily ideal collaterals because they are not always salable especially when they are firm- or industry-specific). It is well known that the rapid economic growth of the postwar Japan was led by investments and that most of them was financed by borrowing from banks. If land could not function as collateral, this mechanism might not have worked.

There is one more way in which firms benefited from high land price. Since the price of houses was high, workers were forced to work hard and to save much in order to obtain houses. Although it is difficult to quantitatively assess how important this factor is for the diligence of Japanese workers, the effect would not be negligible. As for the saving behavior, several studies identify the above factor as one of the most important reasons of the high saving rate of the Japanese households.[15] Needless to say, abundant saving supplied by the household sector was the essential source of the huge investments in the industrial sector.

Therefore, firms were able to extract benefits from high price of land without assuming its entire social cost. This can be regarded as one of the most important factors that made rapid economic growth of the post war Japan possible. If the word "industrial policy" is interpreted broadly, this was an important industrial policy. Indeed, it may even be argued that this was more important than industrial policies in the conventional sense, especially administrative guidances by the Ministry of International Trade and Industry.

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[13] According to the classical economic theory, price paid for land service is residuals. It follows that high land price is nothing but a reflection of the fact that profits can be obtainable by using the land. Thus, according to this thoery, "burden of high land price" is meaningless. Although this may be true for firms as a whole, land price is still a "burden" from the point of view of individual firm which takes market price of land as given.

[14] Value of land held by incorporated enterprises is 248 billion yen and that by households (including private unincorporated enterprises) is 614 billion yen at the end of 1984. (Economic Planning Agency, *Annual Report on National Accounts*).

[15] Sato (1987).

III. *Neglect of Urban Development and Adverse Effect of Myopic Policies*

During the 1950s and 1960s, urbanization took place at a very rapid pace in Japan. People migrated from rural areas to urban areas as new industrial activities grew in urban areas. Table 5 shows the trend in population migration from rural areas and small cities (shown as "other area" in the table) to the three major metropolitan areas. During the 1960s, the number of people migrated to the metropolitan area was greater than natural increase in other area, so that population in the latter area decreased. On the other hand, population in the former areas increased by more than one million a year. As a result of this migration, the ratio of urban population to total population which was 28 percent in 1945 rose to 70 percent in 1975.

It was therefore necessary to increase supply of spaces in large cities for residential and industrial purposes. In reality, however, policy response was far from satisfactory especially in increasing space for residential use. Only insufficient investment was undertaken for improving such urban infrastructures as commuting railways, streets, sewages, and parks. Although the public sector supplied rented apartments, the number of units supplied was far from sufficient to accommodate the huge population increase in urban areas.

There were two reasons why punlic investment in urban infrastructures was insufficient. One is the total size of public investment. When Japan embarked upon the rapid economic growth in the latter half of the 1950s, the share of private investment to GNP showed a remarkable rise, whereas that of public investment remained at about the same level, lead-

TABLE 5. TRENDS IN POPULATION MIGRATION (thousand)

	Metropolitan Areas				Other Area
	Total	Greater Tokyo	Greater Osaka	Greater Nagoya	
1960-65					
Total	5,738	3,178	1,773	825	−829
Natural increase	3,161	1,538	954	794	1,747
Migration	2,576	1,640	818	31	−2,576
1965-70					
Total	5,790	3,295	1,647	907	−334
Natural increase	3,968	1,999	1,183	911	1,488
Migration	1,822	1,295	464	−4	−1,822
1970-75					
Total	5,940	3,364	1,543	1,243	1,234
Natural increase	4,743	2,382	1,396	1,128	2,431
Migration	1,197	982	147	115	−1,197
1975-80					
Total	3,526	2,077	783	853	1,592
Natural increase	3,451	1,745	978	863	1,667
Migration	75	332	−205	−10	−75

Source: Kokudocho, *Daitoshiken Yoran.*

ing to a decline in the ratio of public investment to private investment (Table 6).

The other reason is the allocation of public investment. As shown in Table 7, more than forty percent of the total public works budget was allocated for industry-related infrastructures such as roads, harbors, and airports during the 1960s.[16] This allocation pattern was regarded as necessary on the ground that insufficient stock of these facilities became a bottleneck to economic growth.[17] The share of budget for housing and sewage was small

TABLE 6. TRENDS IN PUBLIC AND PRIVATE INVESTMENTS

FY	Ig/Y	Ip/Y	Ig/Ip
1951	6.5(%)	11.4(%)	0.57
1952	6.3	11.5	0.54
1953	7.2	12.3	0.59
1954	7.1	11.1	0.64
1955	6.3	10.8	0.58
1956	6.2	15.2	0.41
1957	6.8	16.6	0.41
1958	7.3	14.7	0.50
1959	7.0	16.3	0.47
1960	7.5	19.6	0.38
1961	8.3	21.3	0.39
1962	9.6	19.5	0.49
1963	9.3	18.2	0.51
1964	8.7	18.4	0.47
1965	8.8	15.1	0.58
1966	8.8	16.5	0.54
1967	8.5	18.3	0.47
1968	8.2	18.9	0.44
1969	7.9	20.9	0.38
1970	8.2	20.8	0.39
1971	9.5	18.5	0.51
1972	9.8	17.5	0.56
1973	9.0	19.2	0.47
1974	9.3	17.8	0.52
1975	9.2	16.0	0.57
1976	8.6	15.0	0.58
1977	9.3	13.9	0.67
1978	10.0	14.4	0.71
1979	9.8	15.1	0.65
1980	9.6	15.7	0.61
1981	9.3	15.4	0.60
1982	8.8	15.0	0.59
1983	9.2	14.9	0.55
1984	7.6	15.5	0.49
1985	6.7	16.5	0.41
1986	6.7	16.1	0.42
1987	7.1	16.2	0.44
1988	6.9	17.0	0.40

Notes: 1. Ig/Y: Ratio of public investment to GNP, Ip/Y: Ratio of private investment to GNP, Ig/Ip: Ratio of public investment to private investment.
2. Public investment includes those by public corporations.

Source: Economic Planning Agency.

TABLE 7. ALLOCATION OF PUBLIC WORKS BUDGET
(General Account of the National Budget)

	FY 1960	1965	1970	1975	1980	1985
Housing	4.5	4.9	6.7	10.1	11.3	11.9
Sewage	1.7	3.1	4.5	9.8	14.5	15.2
Harbors and Airport	7.0	7.5	8.3	8.2	8.0	8.0
Roads	34.0	43.0	41.6	32.9	28.7	28.7
Reclamation	16.2	15.4	15.9	14.8	16.2	16.5
Flood Control	16.3	16.4	16.8	15.5	16.6	17.0
Disaster Repairs	20.0	9.1	5.7	8.3	4.5	2.5

Note: Figures are percentage shares in the initial budget.
Source: Ministry of Finance.

TABLE 8. PER CAPITA PUBLIC INVESTMENT IN SELECTED PREFECTURES
(hundred yen)

	1960	1965	1970	1977
"Urban" Prefectures				
Tokyo	13.3	48.0	78.4	146.2
Kanagawa	18.2	48.8	67.7	202.2
Osaka	20.5	62.0	105.5	204.8
"Rural" Prefectures				
Hokkaido	28.1	84.1	192.6	751.2
Niigata	30.3	180.7	290.9	713.4
Kochi	37.1	136.2	267.3	1,299.2
Kagoshima	24.4	91.1	178.4	708.2

Source: Ishi et al. (1972).

during this period. It was only after the first oil crisis that their shares were significantly raised. Also, regional distribution was biased in favour of rural areas. As shown in Table 8, per capita public investment in urban areas was considerably lower than that in rural areas.

Since the supply of new spaces for urban uses did not increase enough, land price rose very sharply. In 1960, land price rose by 69.5 percent from the previous year. The average rate of land price increase during the period from 1956 through 1974 amounted to 19.5 percent. This led people to believe that land is the most profitable and the most riskless asset. In case when land is possessed as an asset, it is usually kept idle in order to keep salability (The restrictions imposed by the Lease Laws are important reasons why this is necessary). Thus effective supply of land for urban use was reduced. This raised land price further.

Moreover, as land price became higher, it became more difficult to improve infrastruc-

[16] Construction of industry-related infrastructures was put forward systematically, as indicated by the enactments of the following laws: Land Reclamation Law (1946), Law for Construction of Roads (1952), Law for Construction of Harbors (1951), Law for Construction of Airports (1956).

On the other hand, the revision of the Town Planning Law was undertaken as late as in 1968.

[17] The Income Doubling Plan formulated in 1960 designated the construction of industry-related infrastructure as the top priority policy because it regarded the insufficient stock of those infrastructure as the bottleneck of economic growth.

tures since greater portion of the budget was used up for acquisition of land. This also contributed to increase in land price. In this way, a vicious circle began.

The above does not imply that the government did nothing to cope with the land problem. On the contrary, many policies were introduced. The problem was that they had adverse long-run effects on land problem in spite of their original intentions. Followings are typical examples.

(1) Regulation of Railway Fares: Because of high land price, more and more people were forced to live in the outskirts of cities. Thus it was regarded as necessary to suppress railway fares in order to reduce the burden of transportation costs. However, this policy had an adverse long-run effect on land problem, because this made it difficult for the Japan National Railway and private railway companies to accumulate enough funds for construction of new lines. In fact, virtually no new commuting railway lines were constructed during the rapid growth era. This contrasts sharply with the huge investments undertaken in the industrial sector during the same period. As a result, development of new residential areas was severely restricted.

(2) Lease Laws: As mentioned in section II, legal rights of tenants are heavily protected by the Land Lease Law and the House Lease Law, which were first introduced in 1921 and revised in 1971. The original objective was to protect tenants under an unstable social condition during the war. However, the law remained intact after such condition vanished, leaving the long-run effect of reducing supply of rented land and houses.[18]

(3) Property Tax: When land price rose sharply in the early 1960s, measures were taken to keep the burden of the property tax relatively stable. In case of farm land, the absolute burden was kept virtually constant. The objective of this policy was to relieve land owners of sharp increase in the property tax burden. In the long-run, however, this also had a serious adverde effect.

As the relief measures have been accumulated since the early 1960s, the effective rate of the property tax has fallen significantly. The average effective rate measured by the total tax revenue to the total market value of privately held land is now around 0.15 percent. In case of farm land in urban areas, the rate is still lower: about one-thirties of that of residential land. This implies that idle holding of land, especially farm land in urban area, is not "penalized" by the property tax. This encourages asset holding of land, and accelerates the vicious circle discussed above.

IV. *Failure of the Political System*

It may be argued that the market mechanism should in principle solve the land problem, since if it becomes serious in large cities, people would move to smaller cities or rural areas where land price is lower. This does not happen to a sufficient degree, however, in the actual world. The reason is that firms do not perceive the full cost of high land price as was argued in section II and that it is primarily firms that decide the locations of economic

[18] Recently, many people have come to realize that the Lease Laws are serious obstacles for increasing rented spaces for residential use and that the present laws should be revised. The Ministry of Justice has established a study commission for the revision of the laws. However, it is uncertain whether the revision will be realized in a near future.

activities. Households, which are victims of high land price, usually have little freedom of choice over the location of their residence once they are employed by a specific firm (Recall that inter-firm movements are very rare in Japan's employment practice). Therefore, market "fails" to solve the problem.

How about the political process? If households suffer from the land problem, their demand would be reflected in the political process and hence the problem should be resolved. Here again, there are several factors which prevents the system from functioning ideally.

First, there is a general bias in the political system that, unlike producers, consumers (or households) do not form political coalitions because their interests are diversified. This general bias exists with regard to the land problem as well. Second, those households which own land tend to be captured by an illusion that they are beneficiaries of land price increase, despite the fact that most of them are victims as was pointed out in section II.

Because of these reasons, land problem is never taken up seriously in the political process. The problem is always treated only superficially. Indeed, there is a typical pattern in which land problem is treated. The political process takes up land problem only when it is regarded as a serious social problem by the journalism. The journalism, on the other hand, takes up the problem only when it becomes an event worth reporting, i.e., only when the rate of land price hike becomes extraordinary. It follows that when land price stabilizes, it is no longer a political problem, even though land problem itself is not solved.

The third reason why political process fails to solve the land problem is the myopic bias in policy system, namely, the fact that people evaluate only direct and short-run effects of policies. For this reason, policies tend to be "symptomatic" in the sense that those policies which alleviate the short-run problems are chosen without considering their long-run effects. Although this kind of bias exists in other policy areas as well, it is particularly serious in land related policies, as pointed out in the latter half of section III. All the policies discussed there are well intended policies to respond to land price increases. The problem was that they failed to take into account long-run adverse effects.[19]

V. *Concluding Remarks: A Stalemate or a Turning Point?*

The discussions in the preceding sections can be summarized as follows: During the 1950s and 1960s, significant land price increase occurred in urban areas in Japan because only insufficient resources were allocated for urban development in the face of rapid urbanization. In this respect, land problem is a direct consequence of the bias in economic policies that placed utmost priority on industrial development.

There was another aspect in the relationship between land and industry. High land price worked favourably for industrial development in the sense that (1) it forced workers to save much for the purpose of obtaining houses, and (2) it helped firms to raise funds because they were able to borrow money from banks using land as collateral. In this way, abundant saving supplied by the household sector was channelled into the firm sector, en-

[19] This tendency is still quite strong with regard to the property tax. Even the communist party, which should be the party of "proletariat," insists very strongly upon the reduction of the burden.

abling the latter to undertake an investment-led rapid economic growth. If we recognize the additional fact that the burden of high land price fell mainly on households rather than on firms, we can conclude that the industrial sector was able to extract benefits from land problem without assuming its social costs.

This policy structure had a favourable effect in that it strengthened international competitiveness of Japanese firms. However, the effect went too far. Enhanced international competitiveness brought excessive appreciation of the yen. This necessitated a significant monetary expansion, which in turn caused as extraordinary land price increase through speculation. Many people including businessmen have come to realize that land problem is now a serious obstacle to a further development of the Japanese economy in the following respects.

First, land problem prevents Japan from changing its economic structure. As the Maekawa Report points out, it is necessary to transform the economy into a domestic-demand-oriented type by increasing investments in social infrastructures and housing in order to reduce the huge external surplus. This is also necessary for raising the living standard in Japan to a level comparable to that in European countries. However, extremely expensive land is a serious constraint for achieving this objective, because a significant portion of budget is absorbed in land acquisition cost.

Second, the seriousness of land problem will come to be perceived by firms. As the price of houses becomes extremely high, it will become difficult for firms to recruit good workers in the metropolitan areas. Although workers' choice of residential location is limited once they are employed by a specific firm, they do have considerable freedom when they first enter the labor force. In order to attract those people who wish to live in small cities into large cities, firms will have to provide housing or to raise wages. This will push their costs up.

Third, social and political stability may be endangered. The even distribution of income and asset was one of the most important factors that stabilized the Japanese society in the post war period. If inequality develops as the result of land price increase, there will be a significant change in the basic social and political condition.

Furthermore, labor incentives may be hurt. When price of houses was in the obtainable range, people worked hard and saved much to obtain houses. But if the price becomes too high as it is so in the Tokyo metropolitan area, people will abandon such efforts. Also, in a society where capital gains from land exceed lifetime labor income, people will loose their diligence. In the long-run, this will become the most serious problem for the Japanese economy.

It is beyond the scope of this paper to offer a forecast of the future. We do not know whether we will be able to change the policy structure radically or will not be able to break the stalemate. All that can be said is that the land problem will remain to be the key factor for the Japanese economy.

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