

URBAN LAND ECONOMICS

THIRD EDITION



Jack Harvey

URBAN LAND ECONOMICS

By the same author

BASIC ECONOMICS

BASIC ECONOMICS WORKBOOK

ELEMENTARY ECONOMICS

WORKBOOK FOR ELEMENTARY ECONOMICS

INTERMEDIATE ECONOMICS

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THE ORGANISATION IN ITS ENVIRONMENT

**THE ORGANISATION IN ITS ENVIRONMENT:
ASSIGNMENTS FOR BEC COURSES**
(*with J. Chilver*)

MASTERING ECONOMICS

I am the basis of all wealth, the heritage of the wise, the thrifty and prudent.

I am the poor man's joy and comfort, the rich man's prize, the right hand of capital, the silent partner of many thousands of successful men.

I am the solace of the widow, the comfort of old age, the cornerstone of security against misfortune and want. I am handed down to children, through generations, as a thing of greatest worth.

I am the choicest fruit of toil. Credit respects me. Yet I am humble. I stand before every man, bidding him know me for what I am and possess me.

I grow and increase in value through countless days. Though I seem dormant, my worth increases, never failing, never ceasing, time is my aid and population heaps up my gain. Fire and the elements I defy, for they cannot destroy me.

My possessors learn to believe in me; invariably they become envied. While all things wither and decay, I survive. The centuries find me younger, increasing with strength.

The thriftless speak ill of me. The charlatans of finance attack me. I am trustworthy. I am sound. Unfailingly I triumph and detractors are disproved.

Minerals and oils come from me. I am producer of food, the basis for ships and factories, the foundation of banks.

Yet I am so common that thousands, unthinking and unknowingly, pass by me.

I am land.

Lou Scott, *What is Real Estate?*

Preface to the First Edition

In recent years much attention has been directed to the nature of our environment in its various aspects – town planning, adequate open spaces providing recreational and cultural facilities, housing, inner-city decay, pollution, noise, architectural harmony, conservation, and so on. Our environment today is the result of a combination of economic, sociological, aesthetic and political influences. This book concentrates on the economic factors which have to be taken into account. While it recognises the importance of the other influences, its central theme is that, instead of economics being relegated to a secondary role often called upon to appraise and analyse only after basic decisions have been taken, the economist should be integrated into the decision-making process from the beginning, for his approach is of vital importance.

Since land and buildings are scarce resources, it is essential that they are used as efficiently as possible. This is the starting-point of the economist, and his task is, by applying economic analysis, to formulate principles necessary for the efficient use of land resources and thereby to suggest ways in which the existing allocation might be improved.

Thus the book follows the accepted procedure of first building abstract models, from which are derived the essential conditions for the efficient allocation of resources, and then proceeds to examine the assumptions which are essential for this most efficient situation to be achieved. Using this theoretical analysis, it goes on to consider how, in the British context, the conclusions derived from the model can be applied to the allocation of real property resources – land and buildings.

In Britain's mixed economy real property resources are mainly distributed by market forces. Initially, therefore, the book examines the market solution, its strengths and weaknesses, both in the way in which it functions and the institutions through which it works. Subjects covered are the nature of the market, the determination of real property prices, investment in real property assets, property development in both the

private and public sectors, the construction industry and housing policy.

While passing references are made to possible government adjustments to the market solution, the main discussion of government policy is reserved for the final chapter. This considers the impact on land resources of government macro policy and the strengths and weaknesses of influencing the allocation of resources through taxation and subsidies, planning controls and public ownership. It must be emphasised, however, that the economist can only define the economic issues involved. For instance, he is limited in what he can say about the redistributive, sociological, aesthetic and even the political effects. Different strategies have different economic results – and while the economist can indicate these, the final choice of policy must rest with the politician.

Although the emphasis is on theoretical economic analysis, the discussion is made as practical as possible by being conducted in the context of the real property market in Britain and by being supplemented by empirical studies and selected statistics.

The main aim of the book is to provide a text for the student following courses in estate management, surveying, valuation, town planning, housing administration, geography and environmental subjects. While it does assume some knowledge of basic economic theory, this is no more than is required for most first-year courses for professional examinations. But the book should be of interest to those already actively engaged in professions relating to the land, in that it demonstrates how economics can provide a useful tool in the solution of practical problems. More hopefully, where decisions are subject to or are influenced by politicians or public administrators, it is trusted that what economics reveals may cause them to reflect on the full implications of their selected policies.

Of the many people – fellow-lecturers and students – who have contributed to the ideas expressed in this book, the outstanding influence has been the late Professor F. G. Pennance, a pioneer in applying economic analysis in the field of land use. He is remembered as a true friend and a wise counsellor, always encouraging, suggesting improvements and offering penetrating criticism and alternatives, backed by a sound professional training and long experience in teaching. Many past students of the College of Estate Management, the University of Reading and the University of Aberdeen who had the privilege of attending his tutorials must, like me, now appreciate the contribution which sound economics can make to the principles which should guide the improvement of our environment.

J. H.

Preface to the Second Edition

The scope of the book, as reflected in its new title, has been extended to cover the syllabuses of the main professional bodies and degree courses in land and property economics. Eight new chapters deal with the economics of planning controls, land use and land values, the pattern of urban land use, the growth of urban areas, the quality of the environment, regional policy, the background to urban public finance and the incidence of taxation on land resources. In addition, facts and institutional changes have been brought up-to-date.

Ideas for improvement from many readers have been incorporated in this new edition, but I would like to acknowledge the particular debt I owe to Dr M. Oxley, Principal Lecturer, Leicester Polytechnic, for his careful reading of the proofs and his many helpful and constructive suggestions.

J. H.

Preface to the Third Edition

Facts have been brought up to date and recent changes in institutions have been incorporated in the text. But major changes in the UK economy have had pronounced effects on the real property market during the last decade; to cover these, I have considered that the most satisfactory course was to provide an additional final chapter (Chapter 22). Rather than 'sit on the fence', I have allowed some of my own views to intrude in the section on 'the crisis in real property'.

J.H.

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PART I

**WELFARE AND
ECONOMIC EFFICIENCY**

Economic Efficiency Through the Price System

1.1 Welfare and economic efficiency

Maximising welfare

We can start with the proposition that society's aim is to maximise its welfare. Two factors which will influence welfare are: (a) the way society uses its limited resources; and (b) the distribution of income between members of society.

The first is the subject-matter of positive economics; it is possible to analyse it scientifically. Economic efficiency is achieved when society has secured the best allocation of its limited resources, in the sense that the maximum possible satisfaction is obtained.

The second, the distribution of income, does not lend itself to scientific analysis. The reason is that satisfaction, like love and pain, is personal to the individual and cannot be measured on any objective scale. Taking a small amount of income from the rich man and giving it to a poor man may increase welfare since the former's loss may be little compared with the latter's gain. But we can never be sure: since we cannot measure welfare cardinally, interpersonal comparisons are impossible. Thus, while distributional efficiency is necessary to maximise welfare, it cannot be dealt with scientifically, and decisions on income redistribution ultimately rest with the politician.

This book is concerned with economic efficiency, with particular reference to the allocation of land resources more generally referred to as *real property*. This does not mean that we shall ignore the redistribu-