

THE POLITICAL ECONOMY OF GOVERNMENT POLICY ON REAL
ESTATE: WITH APPLICATIONS TO KOREA

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I. INTRODUCTION

Economists perform policy evaluation based on the criteria of efficiency and equity. In many cases, however, actual policy decisions are made through a political process in which various interest groups seek to promote their own interests and political compromises are made on a regular basis. Of particular importance in this process are the interests of the government body affected by the policy decisions that may have to defend its decision against the charges made by the media and other stakeholders. In this situation, it may not necessarily be in the best interests of government officials to stick to the efficiency and equity criteria. Instead, they will prefer solutions that are more palatable to their constituents and can be endorsed by the media. There are many such examples, and policies concerning housing and land use are certainly among them, especially in Korea. This paper presents a set of hypotheses about the behavior of government officials and illustrates how it can explain the real estate policy decision-making in Korea using a few concrete cases.

During the past three and a half decades, Korea has achieved rapid economic growth and experienced accompanying rapid urbanization. Per capita GNP rose from \$ 69 to \$10,000 between 1960 and 1995, while urban population increased at an average annual rate of 3.5 %. Currently 85 % of the nation's 44.6 million citizens live in urban areas with 20,000 inhabitants or more. Rapid growth of income and urban population resulted in a strong demand for urban land and housing. However, the supply of developable land and housing did not keep up with the growing demand. As a result, prices of urban housing and land rose much faster than other prices, and stabilizing real estate prices has been the top priority objective of government policy (Kim, K 1993).

Considering the natural demand forces, real estate price hike has a lot to do with the supply-side constraints that created shortages of urban land. However, many Koreans, from government officials to the media and some scholars, tend to hold speculators responsible for high and rapidly rising prices of real estate. Therefore, government has committed itself to fighting speculation in the hope of making housing and land more affordable to the average household and business firm. Only recently, government began to recognize the various regulations governing the supply system as a major cause of the shortages in housing and urban land, and that relaxation of some regulations was necessary to stabilize their prices.

Despite the long overdue recognition of the need for rationalizing regulations, government officials are often hesitant to implement a fundamental reform. A main reason for such lukewarm attitude to reform is that they have been a captive of the unfounded claim that deregulation will invite speculation and hence lead to higher real estate prices. We will present a few examples later. Whatever the reason, a lukewarm and piecemeal approach to reform in real estate policy is undesirable for several reasons. Obviously, it slows down the reform process and makes it difficult to fully realize expected social gains from reform. An equally important negative effect is that it may leave an impression that deregulation causes price increases. People can easily recognize substantial decreases in real estate prices, which would result from a massive increase in supply. In the case of a small-scale deregulation, the most directly observable impact is the rise in the prices of those plots directly affected by deregulation. On the other hand, it is more subtle and difficult to notice the fact that prices of other plots rise more slowly or even fall slightly, and that the consequent decline in overall price of land may be significant. This will jeopardize the public opinion's support to further deregulation. Finally, the lukewarm approach often leads to a search for politically

acceptable solutions that are inconsistent with more easily justifiable public policy objectives such as efficiency and equity. For example, by keeping land inside green belt undeveloped and developing land outside the belt, the society is forced to bear larger social costs due to longer commuting and more serious air pollution.¹

This paper analyzes the mechanics of policy decision-making on real estate drawing on a few examples taken from Korea. The best example is the case of the price control on new apartments produced by private developers. Another example concerns the relaxation of land use control governing the conversion of non-urban land into urban use. A third one is about green belts. We describe and demonstrate that these cases are not justifiable from efficiency and equity points of view. We then explain how such inefficient and inequitable policies have been sustained. Our answer is that status quo represents the choice by risk-averse policy-makers faced with the powerful media, a champion of the unfounded belief that overall housing and land prices will rise following deregulation.

II. Price Control on New Apartments

The Korean government has long been trying to address the housing problem by increasing the supply of new dwellings at "affordable" prices to "non-speculators". In so doing, it relied heavily on direct intervention through various regulations in housing and land markets, and the price control on new apartments is the key ingredient of the regulatory system. As we will elaborate later, the price control and the various regulations that go with it have made housing

¹ This outcome is similar to what is observable in socialist cities with no land markets. See Bertaud and Renaud 1997.

supply very inelastic and stimulated demand². The main beneficiaries of these regulations have been the middle income class, consistent with “Director’s law”³.

The price control applies to any new dwelling supplied through residential development projects involving twenty units or more. It was first introduced in 1977 in the form of a uniform price ceiling on new housing regardless of size. Since 1985, two different sets of price ceilings have applied varying with the size of dwelling. The controlled price was made indexed to the costs of production since 1989 in order to stimulate housing supply. Despite its general coverage, the price control affects only apartments in practice. In the case of single-family dwelling and row houses, the developer suffers only a moderate profit loss if she opts for a project comprising less than twenty units in order to avoid the price control. However, the developer’s profit declines substantially in the case of apartments if the volume of production is reduced below the limit of twenty units. Therefore, the developer will not reduce the scale of operation in order to escape from the price control. Since the vast majority of new housing supply consists of apartments, the price control has far-reaching implications.

Typically, a price ceiling leads to a reduction in the supply of the good on which it is imposed (Kim, K. 1997b, Kim and Kim 1998). However, this is not the case with the price control on new apartments in Korea. The fundamental reason is that the supply of housing is conditioned by the availability of developable land, which in turn is controlled by government. The Ministry of Construction and Transport (MOCT) estimates the amount of land needed for residential, commercial, industrial development as well as infrastructure

² This point is highlighted in Green et al (1993) and Kim (1993). Angel and Mayo (1996) also demonstrates this in an international context.

³ Director’s Law says that redistributive politics favors middle classes at the expense of both rich and poor.

projects and then ensures that the ‘necessary’ amount of land be rezoned and developed. The Ministry also approves land use conversion, and permits are issued exclusively to public agencies to prevent private developers from collecting large windfall profits from land development. Consequently, large-scale land development projects are virtually monopolized by the public sector comprising the Korea Land Corporation (KLC), the Korea National Housing Corporation (KNHC) and local governments (Hannah, Kim and Mills 1993). They purchase plots of raw land from landlords at appraised prices, exercising the power of eminent domain when necessary. The plots are serviced and rezoned to residential and commercial sites before they are sold to homebuilders. Under this system, houses get built in response to increased demand as long as government increases the supply of developable land and the controlled price of new housing is linked to the land and other costs. Some apartments are constructed in smaller quantities through housing associations on private land whose supply is unaffected by the price control. Although it is not clear whether the price control has affected the supply of total housing space, the volume of housing production in fact increased substantially since 1988. This is attributable to the five-year drive to build two million units to implement which project the Office of the President intervened to rezone agricultural land and supply developable land to meet the housing policy goal.

The price control does have an impact on the quality of housing supplied. The revenue from a residential development project consists of two components. The first part comes from the sale of apartments and it is equal to the total floor space times the controlled price per square meter of floor space. The second component is the sum equal to the floor area of commercial premises included in the project multiplied by the market price of commercial floor space. Since the controlled price is determined regardless of the quality of the floor space supplied, a profit-maximizing developer has an incentive to maximize the total floor space of apartments and

especially commercial premises. This is undesirable because safety standards may be compromised and open space is provided at a bare minimum. Government enforces additional regulations to control such behavior to the extent possible. From the viewpoint of the first-time purchase of a new apartment, the size of floor space is of dominant importance. This is because the total gain from purchasing an apartment at the controlled price is proportional to its size. As a result, the developer tries to meet only the minimum quality standards set by government. In fact, many buyers of new apartments spending large sums of money to upgrade the finishing materials and remodel the interior after the house is completed. Also, higher quality dwellings are supplied in areas where the price control is not enforced.

A major efficiency consequence of the price control and its supplementary regulations is the distortion of the size distribution of new apartments supplied in favor of larger units. For the reason explained above, consumers prefer larger units as long as they are eligible to buy the units and have the ability to mobilize funds. Most of the apartments that remain unsold for a long time are small ones. It is also in the developer's best interest to maximize the share of large units in a project. This is because the controlled price on the large units (exceeding 85 square meters of net floor space) is higher than that on the smaller units while the cost of production of an apartment decreases with its size. The chance of not being able to sell a unit also declines with size. Therefore, government regulates the size distribution of apartments in order to ensure that smaller units are supplied in large quantities so that a large segment of population can benefit from the price control. For this reason, government mandates land development projects to allocate at least 70 % of developed residential sites to houses smaller than 85 square meters in net floor space, and 30 % to those smaller than 60 square meters. Also the eligibility for purchasing apartments is granted in three different size categories i.e., 85 square meters and

smaller, between 85 and 102 square meters, between 102 and 135 square meters, 135 meters and above.

As a result, the supply of new housing is concentrated in a few size groups rather than spread in a continuum. This can be seen from Figure that illustrates the size distribution of new apartments supplied during the 1993-96 period. One can see that 41 % were clustered between 59 and 61 square meters in net floor space, 33 % between 83 and 85 square meters, and 5 % between 133 and 135 square meters. On the other hand, two other categories accounted for 2 % each, eight other size categories had 1 % each, while no units were found in other categories in more than 1 % of the total supply. Most interestingly, the number of dwelling units within the range of 62 to 82 square meters or 85 to 133 square meters is negligible⁴. In short, the price control and the supplementary regulations led to skewed and concentrated size distribution of new apartments around the maximum floor space in each size group described above. This certainly limits consumers' choice. If apartments were built without being subjected by these regulations, their size distribution would more or less resemble the distribution of household income and wealth, and probably result in a pattern similar to that of houses that are supplied under no price control (Kim, C. 1997).

But the most important consequence of the price control lies in its equity implication. The main beneficiaries of the price control have been the middle households for several reasons. First of all, the difference between the market price and the controlled price of an apartment increases with its size. But one needs a larger amount of funds in order to reap the profit from purchasing a larger apartment. Besides, one must deposit a larger amount of money up

⁴ One may notice that the percentage shares indicated on the graph do not add up to 100. This is because the tails on both sides of the graph were cut off.

front in order to be eligible to bid for a larger unit. In the past, the rights to purchase apartments were transferable, and this enabled some moderate-income households to cash in a part of the premium by selling off their privileges. However, this practice was made illegal because it was judged to be an act of speculation. Thus, the system favors the relatively well-to-do.

Finally, there is the financing constraint. One peculiar aspect of the Korean housing supply system is that all the apartments are sold well before they are completed. Homebuilders are allowed to market their supplies as early as when 10 or 20 per cent of the project is advanced. A person who has been selected to purchase such a dwelling must pay 20 per cent of the purchase price at the signing of the purchase agreement and pay 60 per cent of the proceeds in installments over the next two years or so while the apartment is built. The remaining 20 per cent is due when the completed dwelling is occupied. But mortgage financing is highly limited and most moderate-income households have their equity tied up in the key money deposited with the landlord of the rental unit they occupy. The current 'advance sale' system generates a cash-flow problem that works at the disadvantage of low-income groups, and hence it is inequitable (Kim, K. 1993). Moreover, there is hardly any justification for distributing a windfall gain worth a few years' salary income through a random lottery process.

One may wonder how such an inefficient and inequitable system has been upheld for so long. There are several explanations. First of all, the system creates its own demand. It is taken for granted that new apartments are priced below markets and lots of people believe that they will eventually be given a chance to enjoy the privileges of buying apartments at discounted prices. There are about 765,000 households awaiting a chance to purchase apartments built by private

developers and about 500,000 households wishing to purchase smaller units provided by the public sector developers. Discontinuing the system is a politically dangerous move. Although it can be argued that the current system is inequitable because it favors the middle and high-income groups more than lower income households, the same fact provides a good excuse for maintaining the system because it helps build political constituency⁵.

But the most important reason for the continuation of the price control is that policymakers are captured by the unfounded fear that its removal will jack up the prices of existing houses. It is argued that many households waiting in line to purchase new apartments at controlled prices will opt to purchase from the existing housing stock if the price control is lifted, raising the demand for the existing units and hence their prices. But it is highly unlikely that a person in the queue wanting to buy a house at a subsidy has the ability to purchase an existing house of the same size at the market price. Therefore, the increase in the demand for the existing dwelling units due to deregulation will not be large enough to raise their prices. Housing prices may rise for a short while following deregulation only with self-fulfilling expectations. In another paper (Kim and Kim 1998) we demonstrate that housing prices will rise indeed if people expect the price of housing to rise in proportion to the gap between the market price and the controlled price. However, such price increase can last for only a short while and the overall price of apartments falls in the long run if the price control and the accompanying regulation on size distribution of new apartments are removed. As was illustrated in the figure, currently too many small units and too few larger units are produced in comparison with demand or the cost of production per unit floor space. Deregulation will increase the effective supply of new housing

⁵ The same logic explains why interest rate subsidies are preferred to targeted lump sum subsidies by so many governments world over (Kim, K. 1997a).

space by allowing homebuilders to produce new apartments commensurate with demand. Therefore, the overall price of housing will fall.

However, there is a pervasive belief that deregulation will raise overall housing prices. This makes it difficult for government officials to initiate decontrol. About nine years ago, then Minister of Construction mentioned his plan to consider lifting the price control. He was immediately snowed under blames from the media for being 'irresponsible' and 'unrealistic', and was forced to resign a few days later. Government officials became even more cautious since then. They would say, "There is no need to stir up the market with decontrol" when housing markets cooled down, and "It is no time to think about it because it is like adding fuel to fire" when housing prices were on the rise. Instead, government adjusted the controlled price by an amount just sufficient to ensure that housing gets built by guaranteeing a small profit for homebuilders⁶. And every time such move was made, the media would criticize it on the ground that it would raise the financial burden of those who need to purchase new apartments. However, the newspaper editorials would cover themselves by adding that appropriate margin should be provided to suppliers of housing.

Since the last administration took office in 1993, plans were announced to lift the price control when preconditions were fulfilled. The major precondition was that the shortage of housing be substantially reduced. And the price control was lifted partially in 1995 starting with large apartments supplied in the regions with substantial amount of glut on the market. The price control on single-family housing and row houses was abolished entirely in 1996. Government continues to regulate the price of small apartments (net floor space of 60 square meters or less)

⁶ In fact, many small homebuilders say in private that they were quite happy about the system because they are protected them from severe competition and are secured some work.

built with financing through the National Housing Fund, a public sector housing finance institution, and apartments built on land developed by the public sector developers. A developer can get around with the price control in the Capital Region if she does not borrow from the National Housing Fund, the apartments are built on private property using steel structure, and the units are placed on the market after the construction process reached the 80 % mark. In addition, government recently abolished the minimum requirement on the share of small units in 1997 in two stages⁷.

The sequence of deregulation of the price control was precisely in the order of decreasing risk to government officials. The price control was lifted first where markets were flooded with unsold new housing, especially the unpopular, small apartments. In other words, the price control was removed only where it had already become irrelevant. If the government officials had been convinced that de-control would serve the efficiency and equity objectives, they would have chosen to lift the price control in markets where the price control was binding. They might not have had the confidence in the positive outcome of deregulation. But more important reason was that they did not want to take any chance. The benefit accruing to them when successful would have been moderate and they might not get the full credit. On the other hand, the cost of failure on a policy of such high visibility would have been devastating to the government officials. All things considered, they probably made the best decision considering the expected political pay-off.

⁷ In the first stage, the requirement was removed except for Seoul and the heavily populated part of the Capital Region. In Seoul, at least 75 % of apartments built had to be of 85 square meters of net floor space, and 30 % must be smaller than 60 square meters. In the selected part of the Capital Region, the required ratios are 60 % and 20 %, respectively. These requirements were abolished in December 1997.

III. Deregulation of Land-use Control

A second example of lukewarm and peace-meal approach relates to the deregulation on the conversion of agricultural land into urban use. Deregulation has been the catchword in public policy for the past five years. A wide array of deregulation was introduced to the various sectors of the economy, and land-use was no exception. Government recognized the need to increase the supply of developable land in order to stabilize land prices, to improve housing conditions, to secure industrial sites, and to expand and upgrade infrastructure. Government simplified the classification of national land use and adopted a negative list system of land use regulation in 1994. With the revision of the National Land Use Management Act (NLMA hereafter), the share of so called 'developable' land jumped from 15.6 % to 41.7 % of the nation's total land area. It should be noted, however, that actual use of a piece of land classified as 'developable' by the NLMA is regulated by Urban Planning Act. According to the Urban Planning Act, 14 % of the total land of the nation is designated as urban planning area (UPA hereafter), but 76 % of UPA was zoned as agricultural land or Green Belts, and hence practically not developable. As a result, the share of land in urban use as a percentage of the nation's entire land increased only slightly from 4.3 % to only 4.8 % between 1990 and 1995.

Included in the category of developable land under the revised NLMA was 'semi agricultural and forest area' (SAFA hereafter). A total of 27 % of the nation's land area was designated as SAFA around the built-up areas outside of the urban planning area. While conversion of agricultural and forest land into urban use is strictly regulated by various laws, development was allowed on land within SAFA with permission of the relevant local government except for activities causing serious environmental damages.

Initially, the maximum floor area ratio (FAR) was set at 400 % at the same level as that applicable in the urban planning area and much larger than 100 % allowed elsewhere. However, a maximum was set at 30,000 square meters on the amount of SAFA land to be converted for development. Moreover, many of the plots in SAFA are of irregular topography. This is because most of the plots comprising land that is flat and of regular shape with good access to the road network were designated as 'agriculture promotion area' and SAFA covered the rest of agricultural land. These constraints rendered impossible any large-scale residential development with adequate public facilities (e.g. schools) and infrastructure (roads, water and sewerage). Consequently, only those structures for which scale is not of crucial importance were built. For example, restaurants and motels were built along the scenic drives, and isolated apartment towers were erected in the middle of paddy fields.

Such pattern of development was criticized by the media as well as urban planners as an example of failed deregulation of land use control. It also strengthened the argument for preservation of agricultural land by the Ministry of Agriculture that was unhappy with the idea of designating SAFA to begin with. In addition, the transfer of SAFA land from local residents to developers and the accompanying increase in land prices was viewed as an undesirable outcome of speculation.

In response to these criticisms, the Ministry of Construction and Transport issued a guideline for development of SAFA land in June 1994, requiring local governments to prepare development plans, lowering FAR from 400 % to 150 %, and introducing a building height limit at 15 stories. In just one month, the guideline was revised to raise FAR to 200 % and to allow up to 20 stories in selected areas. Then the maximum size of land for residential

development was lowered from 30,000 to 10,000 square meters. The regulation of land use conversion in SAFA was further tightened in 1996 as the maximum size of development was reduced to 2,000 square meters for factories, storage and shopping facilities, and 5,000 square meters for apartments. In order to control excessive development, a limit was introduced on the amount of land use conversion that can be authorized by local government. The floor area ratio was also lowered to 200 % for apartments and 100 % for other buildings.

This case illustrates the consequences of an uncoordinated piece-meal approach to deregulation. A fundamental problem of SAFA was that it was designated outside of urban planning area and hence not integrated into urban planning. Another cause of irregular development was the ceiling on the amount of land use conversion. The right policy would have been the removal of the ceiling on the size of development and the introduction of an integrated planning system covering both urban and non-urban areas. Although these measures were also the advice of most experts, the government tightened the limit on the size of development instead. Certainly, such a move was against the originally claimed objective of deregulation, i.e. to increase supply of developable land around built-up urban areas. The sequence of actions taken by the government raises the fundamental question of whether they wanted to relax the strict control on the conversion of agricultural land. Probably, the answer is no.

Government's reluctance to deregulation concerning land use and land development can be seen from its track record. Between 1993 and 1996, 88 items of regulations were relaxed and 24 others were pending. Among the 112 items reviewed, only 41 items were proposed by the Ministry of Construction and Transport and the rest were recommended by the Committee on Deregulation and the Committee on Administrative Reform, consisting of members from

outside of government. Also government accepted only 15 out of 52 requests for deregulation submitted to one of these committee meetings by the private sector.

The case also points to the vulnerability of the government against the charges that deregulation leads to speculation. The main purpose of deregulation of land use control should be facilitating the supply of developable land to absorb demand pressure with the reasonable increase in prices. If a development of a particular plot of agricultural land is permitted, its price will rise inevitably. In this process, some speculators can reap capital gains. What is important, however, is that a large-scale deregulation increases the supply of developable land and hence lowers the overall price of land and housing. A fundamental point is that speculation is more often the outcome of high land prices rather than being their cause. Artificial scarcity of land caused by excessive control on land use conversion leads to high land prices, and makes land a valuable item for profitable investment or speculation. Attempts to stabilize land prices by controlling speculation are only an act of “killing the messenger”.

Green belt policy offers another interesting example. Green belts were designated around major Korean cities between 1971 and 1977 according to the provision of the Urban Planning Act of 1971 in order to contain disorderly expansion of built-up areas. The green belts take up 5.5 % of total land area of the country. The amount of land covered by green belt surrounding the capital city of Seoul is equivalent to 50 % of developable land in the metropolitan area. Only 60 % of the green belt land is forest. Paddy fields comprise 25 %, and the remaining 15 % is plain land. About one million persons live inside green belt areas. Development is strictly prohibited on green belt land.

Green belts have enjoyed enormous support from the general public. This enabled the government to the original green belts in their entirety despite the continuous challenges by the residents living inside the belts suffering from the outright ban on development of their own private property. Whenever government relaxed some details of building regulation to alleviate the hardships of the land-owners and residents, the media criticizes the government for allowing environmental degradation and instigating speculation.

Public's perception that any amendment to green belt policy poses a threat to the environment is misguided. Few people know that only 60 % of green belt land consists of wooded land worth protection for environmental preservation. Very few people mind the fact that forests are routinely destroyed and converted into residential and industrial sites as long as they are located outside of green belts. Even fewer people understand that longer commuting caused by leap-frogging development beyond the green belts increases consumption of gasoline and hence adds to air pollution. No question is asked why the 'belt' is needed to preserve the 'green', or why greens cannot be kept in the form of parks or gardens scattered throughout the city.

More importantly, the indirect costs of the green belts are rarely recognized. Virtually nobody appears to see the linkage between the scarcity of land caused by the green belts and the high prices of land and housing in Korean cities. And finally, there is the issue of speculation. Again, the price of land inside the green belt rises whenever government relaxes regulations. But people do not understand the fact that the plot would have commanded much higher price had it not been included in the green belt. But the fear of criticisms by the public and the media essentially prohibits government from even thinking about fundamental revision of the green belt policy.

IV. Concluding Remarks

In this paper, we presented an explanation of the seemingly irrational policy decisions in real estate in Korea using a few examples. In all the cases analyzed, the government policy moves can best be explained when political factors are adequately considered. They demonstrate the fact that government officials take the political ramifications of policy decisions as perceived by the general public, interest groups and the media very seriously. This is especially true when they are not sure about the short-term impact of deregulation. The piecemeal approach to green belt policy appears to represent a delicate compromise to minimize the political risk. It was also claimed that efficiency and equity aspects are considered only after a policy decision passes the test of a political benefit-cost calculation. A case in point is the partial deregulation of the price control on new apartments implemented recently. In 1996, government lifted the price control outside of the Capital Region, i.e. Seoul and the Kyung-gi Province surrounding the Capital City. The decision was made probably because deregulation was judged to pose no political threat in the presence of plenty of new houses remaining unsold.⁸ But the price control became irrelevant in that situation because it had already become a non-binding regulation, and hence deregulation would not have made contributions in terms of efficiency and equity. Finally, government may take advantage of criticisms against deregulation to revert to its most preferred option. The series of moves made about government policy on land use conversion make one wonder if government were interested in relaxing the regulation. If the answer were no, the

⁸ At the time of writing of this paper, the removal of the price control is imminent on the apartments built on the private land.

criticisms against disorderly development and ‘speculation’ following deregulation might have been a blessing that the government needed to revoke its reluctant initial decision to deregulate.

The price control on new apartments and green belts are two of the so called “three taboos in the Ministry of Construction and Transport”. The third one refers to a set of regulations aimed at controlling the growth of the Capital Region for which green belts are regarded as a major tool. The main feature of these regulations is an outright ban on development of population-attracting facilities. It is often claimed that population dispersal is necessary because too large a share of population is concentrated in the Region. If this statement can be interpreted as referring to the external costs to society, the most efficient solution would be adequate pricing of public services and resource usage. For example, if “over-concentration of population” in the Capital Region requires fetching water from far-away regions to support the Region, the logical solution would be to control demand by raising water tariff. In fact, government officials know that water is grossly under-priced. Besides, many people buy bottled water at much higher prices. However government would rather try to contain population growth than directly tackling the water problem, and thereby reducing enormous social waste. This may be yet another example of a risk-averse government decision-making.

Our analysis of political dimensions of real estate policy making in Korea offers proves that the survival strategy of risk-averse government officials and the misguided public opinion may result in socially harmful decisions. This has nothing to do with rent seeking. It also highlights the importance of expectations about short-term dynamics and the role of the media in vindicating and propagating them. The media would take the side with the majority, and this can aggravate the situation when the majority is captured by unfounded myths. Unfortunately, there appear to be no elements in Korea that are more powerful in influencing the way of

thinking of the average citizen⁹. Perhaps some people may not want to have such myths broken. In this situation, it is sensible for both the media and government officials to offer what the public wants to have than trying to provide something new¹⁰. The alleged social ill the speculators do in Korea is a good example. It is important to note, however, that the human nature appears to be quite similar across countries¹¹. Speculation proves to be more detrimental when it interacts with rigid supply-side regulations as in Korea.

Rectifying the current practice will not be easy. But the delegation of authority to issue permits for land use conversion and development to local government and the establishment of a system of mandatory compensation for the victims of regulations would be a positive step. Such measures will bring the political cost-benefit calculations of public servants closer to the correct social payoffs, and encouraging more rational policy decisions. Experts have a lot to contribute in guiding the public debate and identify feasible options for policy reform. In the case of green belt, for example, the discussions center around the question of how to compensate the landowners for their loss due to the designation of green belt. But the unnoticed fact is that a much larger segment of the population suffers from green belt. Recognition of this opens a new perspective in seeking solutions.

Although most of our discussions are related to specific cases taken from Korea, we believe that the underlying principles have more general applicability. Provision of income tax subsidies to homeowners in the U.S. and the popularity of interest subsidies over lump sum subsidies in

⁹ There is an alternative view saying that the mass media's role in the policy process is often sporadic and quite marginal (Howlett and Ramesh 1995, p.59)

¹⁰ This point is made by Friedland and Friedman (1979, p.224) in the context of advertizing.

many countries can be explained by the political considerations overriding efficiency and equity considerations. The U.S. practice that regulatory-taking does not require compensation can also be understood in the general context in which the costs are dissipated over a large number of people while the beneficiaries are clear.

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