

Reform for Urban and Housing Regulations

Law and Economics: Part 2

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Response to External Diseconomies (Review)

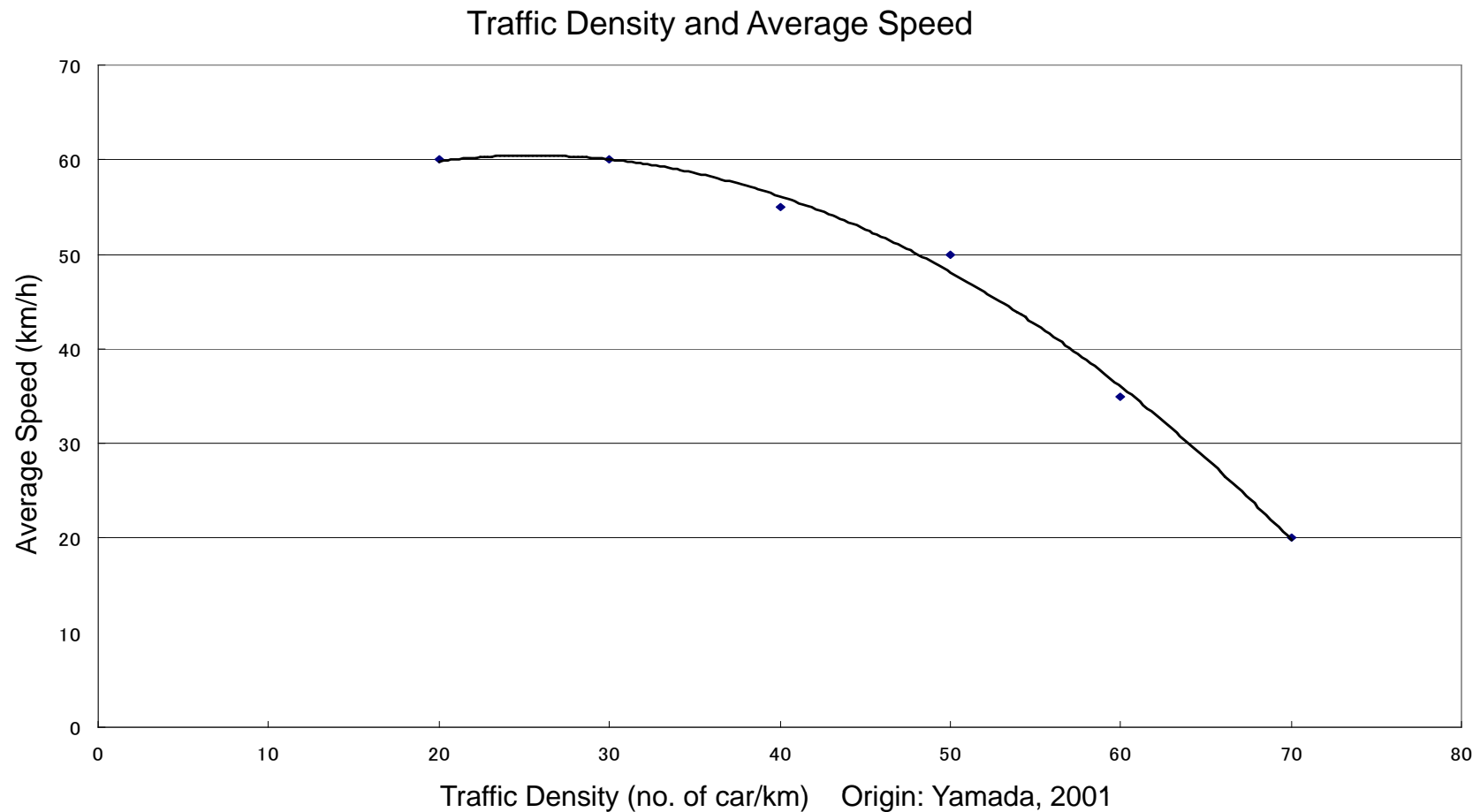
- Misunderstanding about “criticism of laissez-faire principles”
- ⇒Need of government intervention in “market failure”
- ⇒Consideration of comparison with “government failure”
- Peak load pricing for the purpose of easing congestion phenomena
- ⇒As to an act of additionally joining a packed train or congested road, a gap between its private benefit and social benefit
- ⇒“Internalization of external diseconomies” to be reflected on a market price
- To deepen understanding of corporations and individuals regarding social expenditure on global warming and such by means of an environmental tax and an emission trading system
- ⇒Significance of an efficient legal system for the sake of “market revision”

Because of the cars additionally coming in from a side road, there is a decrease in the average velocity of the whole cars on a main road.



Source : http://commons.wikimedia.org/wiki/File:Ujzadowskie_lampa.jpg

When the number of cars running in an interval of 1km (traffic density) becomes more than 30, there occurs a decrease in speed due to congestion.

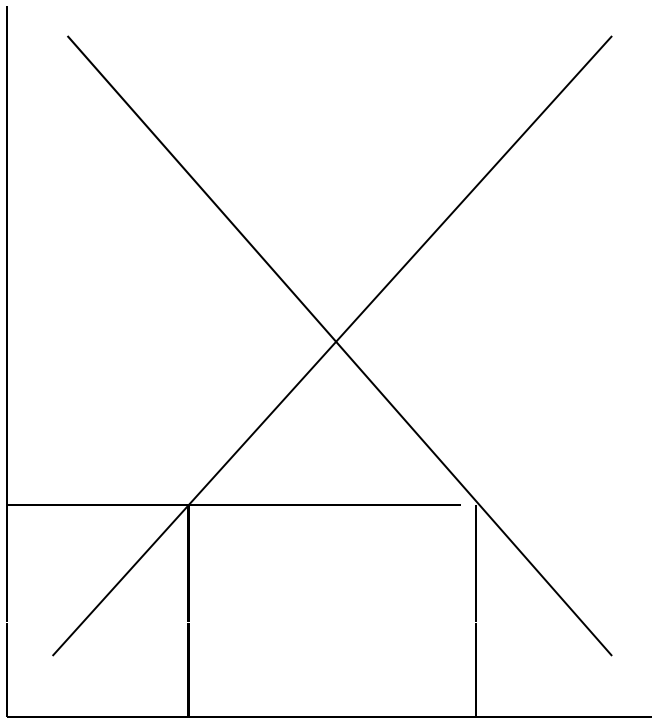


Problems with “Protection of the Weak” through Market

- With a low-price maintenance measure, a line forms as demand increases and supply decreases.
- ⇒Risk of a black market, black-market price (different with or without time to spare)
- Policy to protect “the weak” that puts a curb upon market competition
- ①A liquor license (to protect petty liquor stores?)
- ②Large-scale Retail Stores Law (to protect medium and small retailers?)
- ③Regulation on the number of taxi cars (to protect drivers’ income?)
- ④Maintenance of the rice price by acreage reduction (to protect petty farmers?)
- ⇒Sacrifice of consumer benefit, connection with political power
- The right course of action is to strengthen redistribution of wealth through social security.

Evil of Price-setting Apart from Equilibrium Point

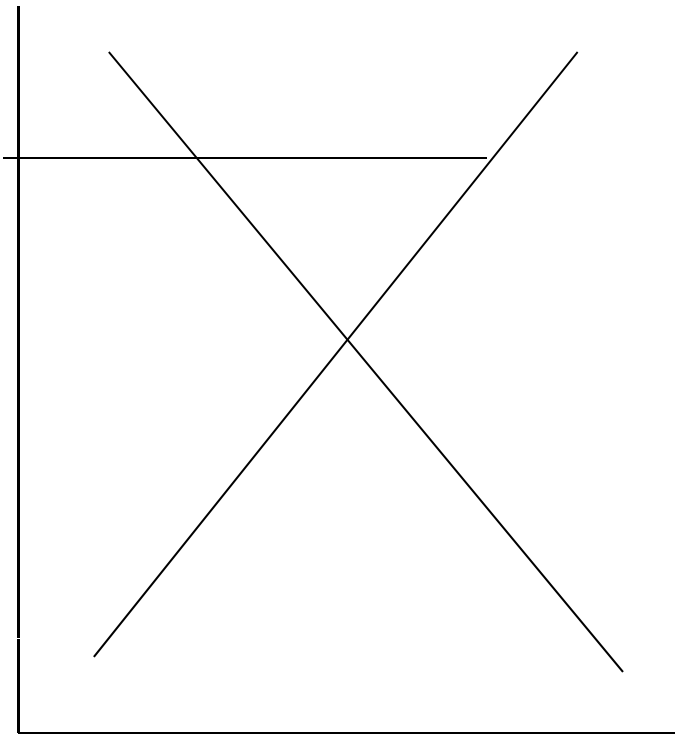
Price



Formation of line
due to excess
demand

Quantity

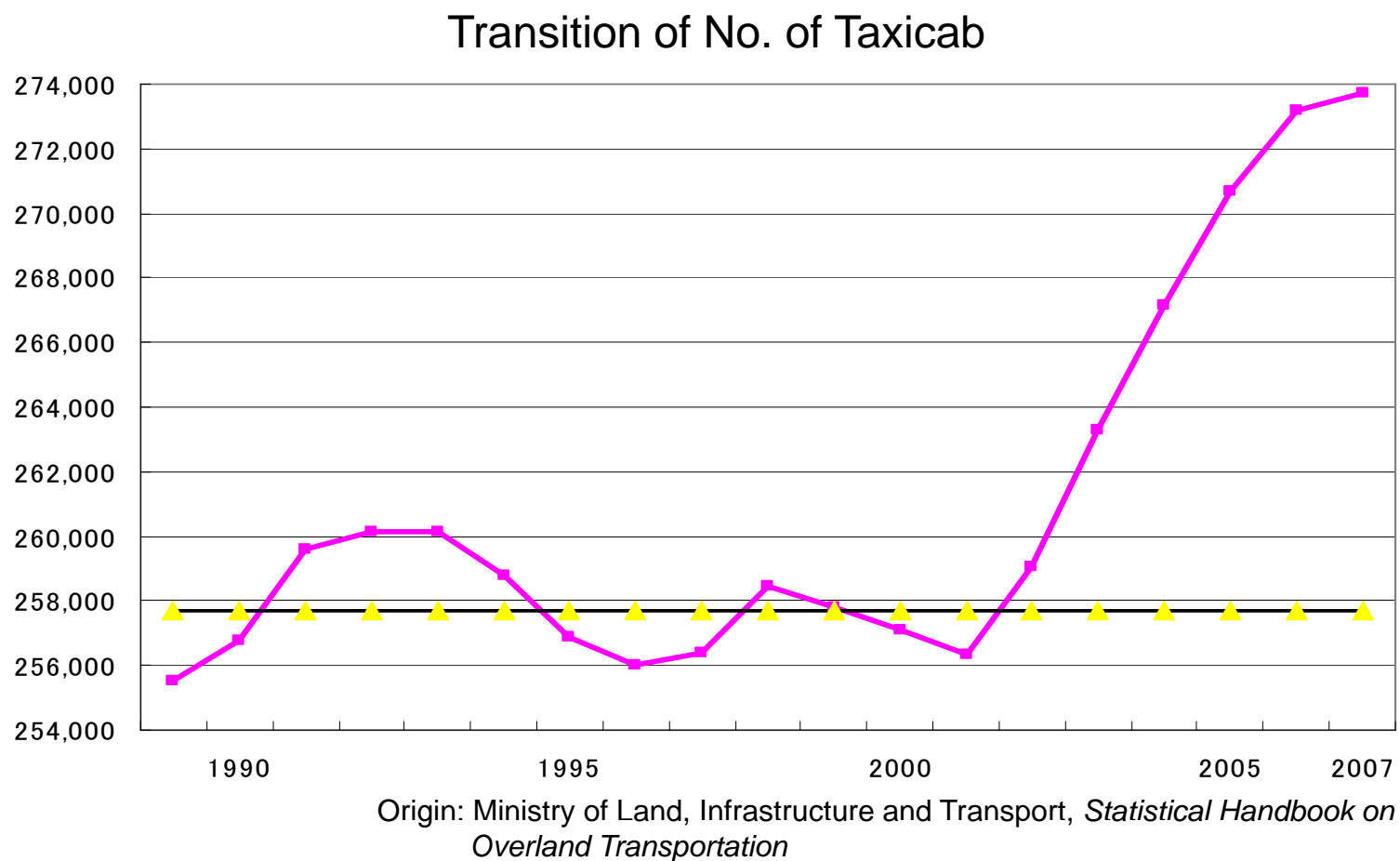
Price



Mountain of dead
inventory due to
excess supply

Quantity

Surge in Taxicabs with Amendment of Road Transportation Law (enforced in Feb. 2002)



Significance of Tenant Protection under Land Lease and House Lease Law

- Restriction on the cancellation of a contract after the expiration of a house lease contract
- ⇒A “right reason”: Consideration of comparisons with the state of affairs of a tenant
- Appropriateness of a notion: A landlord of a leased house = the strong, and a tenant = the weak
- Another aim to include the distribution of profits resulting from the rise in a house owner’s land prices in an appraisal standard for compensation for forced removal
- Protective policy for a tenant at the sacrifice of a house owner
- ⇒Practical substitution for the public housing executed under the governmental responsibility and a public rent-subsidy policy for the low-income group

Result of Protective Policy for the Weak Called “Tenant”

- A certain conclusion is required in a civil trial regarding a settlement of dispute at hand over a rented house.
- ⇒ Change in the act of rented-house suppliers due to the establishment of case law
- With a climb in the risk of house-lease management, the rent rises and the supply of rented houses falls off. (latent disadvantage to the tenant)
- It's necessary to enact laws taking account of corporations that evade regulation and of individuals who experience behavioral changes.(legal policy discussion)

Contradiction between Tenant Protection and Stable Supply of Rented House

- ① Emergence of distortion in the house lease market
 - House-leasing supply leant over one for unmarried persons
 - Shortage and low mobility of rented houses suitable for the family
 - Protection of current tenants' benefits through latent tenants' sacrifices
- ② Induction of undue demand for house ownership
 - Burden of an excessive housing mortgage relative to income
 - Induction of commuting congestion and long-distance commuting
 - Risks of disasters and depreciation in land prices

Nonequivalence between Rented House and Owned House

Disparity in Space per House (m²)

	Owned House	Rented House
USA	164.9	116.6
UK	109.0	94.0
Germany	112.7	69.2
France	101.4	68.3
Japan	91.9	45.1

Origin: Yamazaki, 1999

- Ratio of the rented house against total housing declined from 78% in 1941 to 46% in 1993 (the major 24 cities).
- In Japan, there are differences between the owned house and rented house; particularly a considerable disparity in the floor space.

Historical Background of Land Lease and House Lease Law

- Rent Control Act amid shortage of housing (1939)
- With the exception of key money on the occasion of a new contract, nonetheless
- ⇒ Origination of an incentive for the house owner to evict an existing tenant and have a new tenant move in
- Rightful ground: a protection measure in bar of forcing a tenant to vacate
- Even after Rent Control Act was abolished in the postwar period, the continued house rent has been restrained by judicial precedents.
⇒ Restraint over building new houses for lease
- In the U.S. a house lease is fundamentally a one-year contract,
- Which gets generally continued under a market-quotation rent.
- In Germany and France, termination of a contract is under restriction in a system of a perfect link to a market rent.

Estimation of Rent Function

- Rent can be estimated according to the rented house's time distance from the city center, distance from the nearest station, number of years after building, number of floors, regional dummy, etc.
- (Dummy is a variable letting the relevant region be 1 and others be 0.)
- Rent differential in the instance where the dummy variable is added to the houses for exclusive lease to corporations which are not covered by House Lease Law, and other conditions are set constant (the risk premium by Land Lease and House Lease Law)
- Finding: the depreciation in rents by 12% for independent houses and 8% for condos. (Yamazaki, 1999)

Effect of Adoption of Act on Terminal House Leasehold

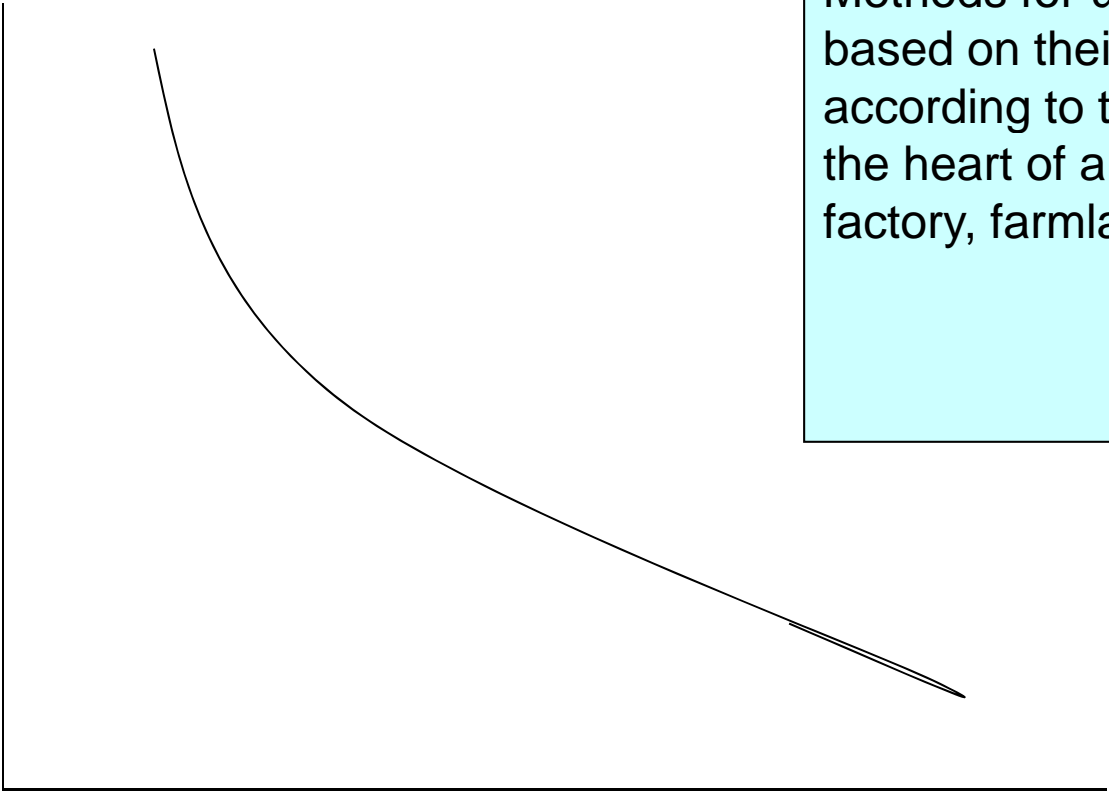
- Right of Terminal House Leasehold: “Act on Special Measures concerning Promotion of Supply of Good Rental Housings, etc.” (enforced on Mar.1, 2000)
- The term of a contract is free; liability for moving out with the expiration of the contract
- Prohibited for the time being are to change over from existing contracts and to conclude a terminal house leasehold after the annulment of a contract .
- High-quality houses were supplied as an effect of Act on Terminal House Leasehold.
- The rent lower than general rented houses, like a rented house with the floor space at 70m² by some 10%, and one at 100m² by 25%.
- Fumio Otake and Hisaki Yamaga (<http://www.iser.osaka-u.ac.jp/~ohtake/paper/dp0521.pdf>)

Restrictions by Building Standards Law

- Established the minimum standard for architecture's site, facilities, structure and use in order to protect a citizen's life, health, and estate
- Zoning restriction is aimed to prevent environmental deterioration by the mixture of zones of housing, industry, and commerce.
- Restriction on the designated floor-area ratio (the ratio of total floor area to site area) and the width of a front road
- Off-site shadow control (the right to sunlight), a setback regulation of a building, etc.
- ⇒ Consideration of the constraints of infrastructures like roads and railways
- Response to “existing nonconforming buildings (illegally constructed buildings due to revision of the law) “

Factors Obstructing Efficient Use of Land in Cities

Rent of Land



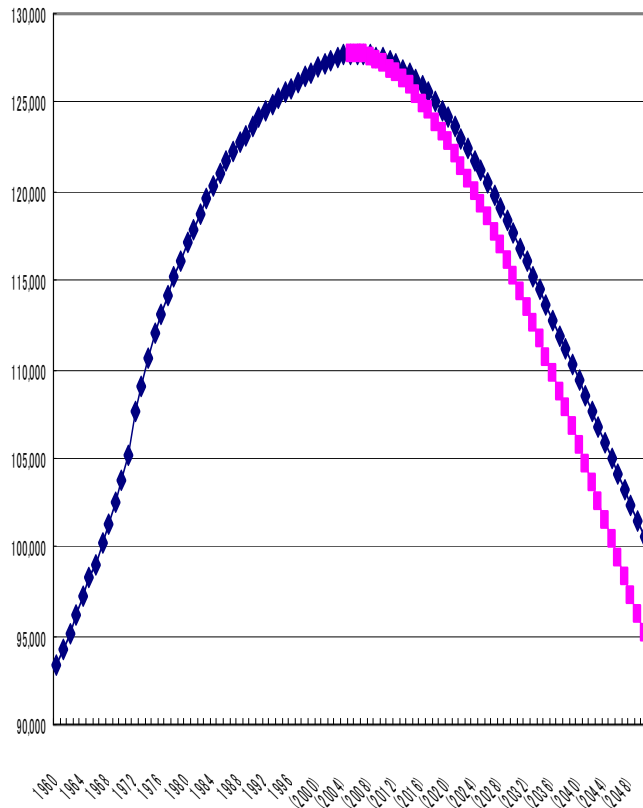
Methods for utilization of lands based on their productivity according to the distances from the heart of a city (office, housing, factory, farmland)

Distance from City Center

Significance of Floor-area Ratio Control

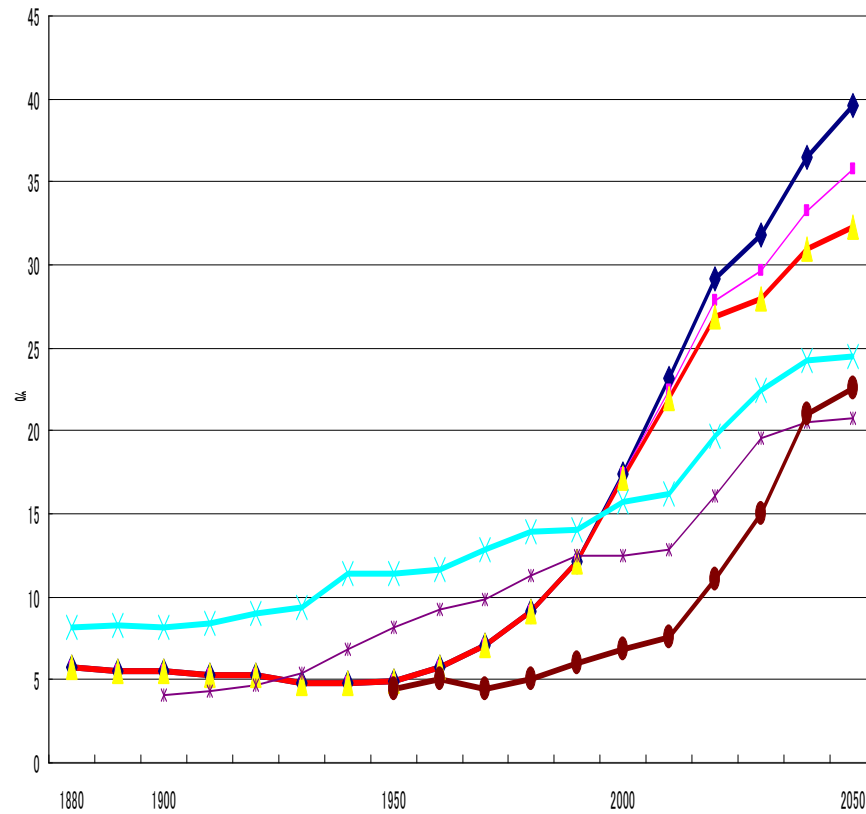
- Burden on a city infrastructure is inappropriate to housing.
- Reduction in a gap of population between the daytime and nighttime
- Theory of a “compact city”
- In a society of population decrease, a way of thinking becomes the reverse of the period of population growth.
- Efficient use of the heart of a city to the maximum as a public space
- ⇒A price-setting to urge the use of the most expensive space (municipal tax on real estate)
- Reconsideration of a commutation allowance = a subsidy for long-distance commuting

Turnabout to Society of Population Decrease and Accelerating Speed of Aging



◆ 2002年推計 ■ 2006年推計

International Comparison of the Ratio of the Elderly



Source: Population and Social Security Institute

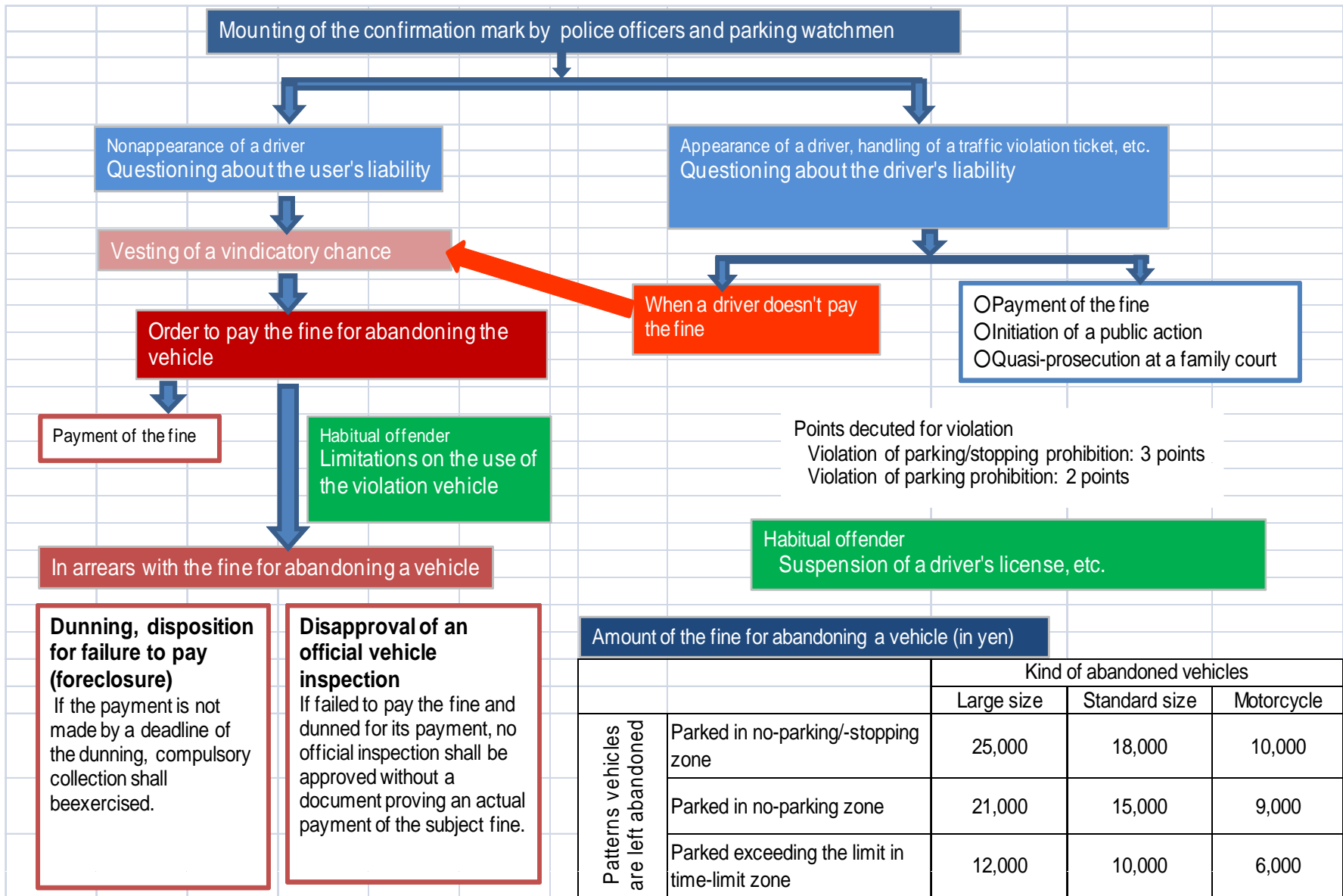
◆ Japan (2006) ■ Japan (2002) ▲ Japan (1997) × France * USA ● China

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Active Use of Private Sector for Crackdown on Parking Violation

- Parking violation is a factor of a traffic jam and accident. (external diseconomies)
- Penalty for illegal parking = a fine* probability of exposure
- ⇒ Is a large amount of fine “unfair”?
- The business to verify a abandoned vehicle and work to mount the mark came to be contracted out to privately-owned corporations (enforced in 2006) in the wake of an amendment of the Road Traffic Law (2004) accepting the report from Regulatory Reform Conference of 2002.
- Driver who violated parking ⇒ a fine (criminal liability)
- User of the vehicle that violated (registrant)
- ⇒ Fine for abandoning a vehicle (administrative penalty)



Dunning, disposition for failure to pay (foreclosure)
 If the payment is not made by a deadline of the dunning, compulsory collection shall be exercised.

Disapproval of an official vehicle inspection
 If failed to pay the fine and dunned for its payment, no official inspection shall be approved without a document proving an actual payment of the subject fine.

Amount of the fine for abandoning a vehicle (in yen)

		Kind of abandoned vehicles		
		Large size	Standard size	Motorcycle
Patterns vehicles are left abandoned	Parked in no-parking/-stopping zone	25,000	18,000	10,000
	Parked in no-parking zone	21,000	15,000	9,000
	Parked exceeding the limit in time-limit zone	12,000	10,000	6,000

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