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## POLITICAL FORCES AS A SUBSTITUTE FOR THE LAND MARKET\*

E. C. Pasour, Jr.

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The paper by Long, Infanger and Danielson [5] (hereafter referred to as LID) does a good job of presenting conventional rationale for an approach to land use planning. Survey results presented in the LID paper clearly identify the topics currently concentrated upon in land use research and educational programs. Identification of the specific nature of current educational programs in land use is a necessary first step in assessing the effectiveness of these programs. The primary objective of this paper is not to further review current research and extension activities but to take a fresh look at issues involved in land use planning, and point out areas where both rationale and approach of conventional research and extension land use efforts should be subjected to further scrutiny. Comments are not restricted to the LID paper only, but relate also to described land use research and educational programs.

### SHORTCOMINGS OF CURRENT APPROACHES

A major thesis of the LID paper is that land policy discussions have been dominated by the "how to do it" questions without adequate consideration of "what is to be done, how much is to be done, for whom it is to be done, by whom, why and when it is to be done, or should it be done at all" [5, p. 8]. It is fully agreed that the what, why, who, when and related questions have been given inadequate attention. It does not seem feasible, however, to consider these questions independently of the "how" question; all these questions are interdependent. Furthermore, it is shown below that there are innate

problems "in obtaining answers to these questions for enlightened public policy" even if land use educators had unlimited additional resources.

### The Nirvana Approach

The method of determining inefficient land use is one shortcoming of current educational programs. The conventional approach of identifying inefficient resource use has been described by Demsetz as the nirvana approach.<sup>1</sup> "In practice, those who adopt the nirvana viewpoint seek to discover discrepancies between the ideal and the real and, if discrepancies are found, they deduce that the real is inefficient" [1, p. 1].

Following statements from the LID paper illustrate the nirvana approach: First, "markets, in land are inefficient due to the spillover effects associated with land use." Second, "traditional institutions such as the market do not function well in dealing with externalities." A discrepancy in each case is noted between the ideal and the real; hence, the real is deduced to be inefficient. This conclusion, however, does not follow. The relevant choice is between real world institutional arrangements. The statement that current land markets are inefficient implies that an alternative attainable real world institutional arrangement is better able to cope with land allocation problems. But, as is known, all institutional arrangements, political as well as market, are imperfect. Whether current land markets are inefficient hinges on whether there is an alternative institutional arrangement better able to cope with problems associated with land use.

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E. C. Pasour, Jr. is Professor, Economics Department, N.C. State University.

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<sup>1</sup>The Nirvana Approach is not a conventional economic phase. Nirvana in the Hindu religion devotes freedom or emancipation from care, pain or external reality.

How are the preceding comments related to the LID paper? The authors explicitly recognize that market intervention may induce further inefficiencies: "there is no guarantee that a given non-market approach developed in the political arena will necessarily be more efficient than the free market approach" [5, p. 8]. This disclaimer appears at the end of a four page discussion entitled "Can We Rely Upon the Market?" in which the above statements concerning "market failure" appear. The land market as it actually operates is implicitly compared with a non-market or political institutional arrangement in which the shortcomings are not explicitly described. It is this author's thesis that the choice between market and non-market approaches to land use problems can be intelligently made only after the land market as it operates is compared with state imposed land use controls *as political institutions actually operate in the real world*. The political or non-market forces substituted for market forces must be analyzed and the probable outcome compared to the market solution before the conclusion can be drawn that current land markets are inefficient.<sup>2</sup>

### Problems of Regulation

The preceding discussion implies that a section was omitted from the LID paper which would logically follow the section "Can We Rely Upon the Market?" *viz*, "Can We Rely Upon Land Use Planners?" Answers to the "how to do it" and "should it be done at all" questions raised by LID can be answered by the public only after they understand the probable outcome of land use planning under both systems [8].

What information can land use educators provide concerning the effect or outcome of non-market approaches to land allocation? There is a small but increasing body of evidence concerning the effects of zoning, coastal zoning management, and other government regulations pertaining to land use [3, 12]. The results appear to be consistent with economic regulation in other areas. Many studies in recent years have demonstrated that government regulations at the

local, state and federal level frequently bring about a condition which, from the standpoint of advocates of regulation, is less desirable than the situation the regulations were designed to alter. This result is well documented in the case of the CAB, ICC and other federal regulatory agencies. These and other regulatory agencies in the words of Stigler have been "captured" by the interests being regulated [13]. This result is also frequently observed at the local and state levels for zoning boards, milk commissions, occupational licensing and other regulatory activities.

The outcome of economic regulation is to a large extent, predestined by the nature of the public planning process [13]. Although, public land use planning ostensibly is based on widespread citizen participation, land use planning in practice must be carried out by agents of the government bureaucracy.<sup>3</sup> These decisions are reached through a political process dominated by special interest groups with narrowly focused interests.<sup>4</sup> In the political arena, an individual must act as part of an organized pressure group to be effective on an issue affecting him (or her) with special force.

There is a great deal of evidence to support the contention that results of economic regulation are likely to be preverse [13]. It is incumbent upon us as economists to inform the public of economic regulation as it works through the real world political process. M. Bruce Johnson, after analyzing the effects of the California Coastal Plan, holds that such non-market controls relating to land use are "an anomaly at a time when major debate rages over how to deregulate—not further regulate—the activities of private citizens" [3, p. 189].

Insufficient attention to information problems constitutes a second shortcoming of current land use educational programs. The land use problem as LID suggest is a resource allocation problem. Information problems inherent in any system of administrative land use controls are not widely discussed, even by economists. These controls typically stress land classification using technical data such as soil type. Such data, however, are "trivial in magnitude and impor-

<sup>2</sup>"Let the following proposition be considered: there is not one single institution but sometimes brings results which we should, if we knew all facts, consider evil; and concerning each we agree that we must accept from it some evil for the sake of the net good it does. Who would dare maintain that justice is in every case aided by the right of *habeus corpus*, by freedom of the press, by jury trial, by the institution of marriage, by punishment of theft and homicide? Yet who would, on account of the certainty that these systems often yield bad results, advocate casual departure from the rule? . . . The shortcut to consensus is conceptually clear: let those who wish to depart from the market system propose carefully conceived sets of principles and encourage discussion and criticism of them" [9, pp. 459-464].

<sup>3</sup>Note the rhetoric concerning importance of widespread citizen participation in implementing the North Carolina Land Policy Act. "Citizen participation in local land use decision-making is often very limited . . . A vigorous effort should be made to involve the public in preparing proposed land classification maps statewide . . . The proposed state land resources commission should be responsible for ensuring that adequate public participation exists in all state land use related programs" [6, pp. 3-1 and 3-2]. Problems endemic in determining, coordinating and transmitting information through the political process are discussed below.

<sup>4</sup>"Thus it is not surprising that EPA would be dominated by Sierra Club interests, and the Civil Aeronautics Board by airline company interests" [3, p. 20].

tance when compared to the information required to carry out the ordinary processes of economic activity—knowledge of the particular circumstances of time and place” [3, p. 52].

The market has long been recognized as a way of coordinating and communicating information held by large numbers of people [2]. Knowledge about land (and other resources) never exists in concentrated form or in a single mind. This presents the basic economic problem facing society. How can we secure the best use of our land (and other) resources utilizing the knowledge of all members of society for ends whose relative importance only these individuals know? “Or, to put it briefly, it is a problem of the utilization of knowledge which is not given to anyone in its totality” [2, p. 78].

In the absence of externalities the market provides a dependable way of valuing land for alternative uses. Market prices provide the means of meshing the wants and information of all people in the market. Although the problem of external effects certainly exists, there is no strong *prima facie* reason to expect external effects to be reduced when land use decisions are made through the political process [3].

Land use planners have no way to determine and utilize the knowledge of all persons affected by land use decisions. Specifically, what criterion will be used in allocating land to different uses under non-market land use controls? If there are still economists not yet convinced that this is a problem I recommend a study of land use control legislation and regulations.

Administrative land use control regulations are permeated with vague and ambiguous language. Consider the following proposal developed by the N. C. Land Policy Council in implementing the North Carolina Land Policy Act of 1974. “It is state policy that naturally productive lands not be converted to non-agricultural uses where alternative lands are available” [6, p.2-3].<sup>5</sup> Who is to decide what “naturally productive lands are” and whether “alternative lands are available?” What are the implications of such a policy? Alternatives or substitutes are always available at some price. Demand curves aren’t perfectly inelastic for agricultural land or for any other resource.

The problem lies not with the particular language in the land use planning document cited, but is inherent in the process of allocating resources through the political mechanism. The basic problem in allocating any resource by non-market procedures is that alluded to above, *viz*, that of obtaining and utilizing knowledge of all affected members of society for ends whose relative importance only those individuals know. When one considers the vast amount of subjective information inherent in and affecting the typical market exchange, it is not surprising that land use planning documents stress soil types and other objective data. It is incumbent upon land use economists to point out the problems faced when land allocation decisions are made by non-market methods.

### WHAT CAN ECONOMISTS DO?

Another shortcoming for current land use research and extension activities is that our reach far exceeds our grasp. Economists have done a great deal of useful work as LID suggest in taxation, price analysis, public finance and other topics relating to land use. The economist, however, cannot do many of the things proposed. The LID paper suggests, for example, that with sufficient research a land use policy can be developed which meets “the public interest.” Yet, there is no way for us as economists to empirically determine the public interest in land policy (or in any other area). All political decisions confer benefits on some people and losses on others and we have no objective way to compare these benefits and losses. The public interest, in practice, tends to be the interest of those who speak in the name of the public.<sup>6</sup>

Knight contends that the function of economics is to guide, or at least illuminate, the making of ‘rules of the game,’ in the shape of law, for economic relationships [4, p. 174]. What does this imply about obtaining answers to the why, how, whom, where and how much type of questions related to land use? The major economic problem relating to land use is similar to that for any other resource, *viz*, that “of rapid adaption to changes in the particular circum-

<sup>5</sup>This is only one of many examples which could be cited from the same document. Consider another example: “Guidelines for local land classification plans should specifically require that only after a full consideration of the needs of the community and an exhaustive search for other suitable lands may productive land be planned for non-agricultural uses” [6, pp. 2-3].

<sup>6</sup>The North Carolina Land use planning document cites public interest as the criterion for making changes in land use. “Is land classification a one-shot inflexible plan? No, land classification plans once prepared will be updated and refined every five years. In addition land classification plans may be amended at any time if the petitioner, whether a unit of government or a private interest, can demonstrate that such a change to the plan would be in the public interest” [6, pp. 4-5]. When land may be used for widely different purposes, how could one establish that any change in land use is in the “public interest especially when the method of allocating land is arbitrary and imprecise?” The arbitrary nature of land classification in the North Carolina Land Policy Act is acknowledged in the same document: “Judgment will necessarily play a major role in assigning lands to one of the five land classes” [6, pp. 4-7].

stances of time and place . . ." [2, p. 83]. How is this related to the issue of market vs. non-market approaches to land use planning? Where knowledge of relevant facts about land is dispersed among many people, market prices act to coordinate separate actions of different people.

There is a consensus among economists that the market will efficiently allocate land (and other) resources when market prices reflect the correct social costs and benefits. If markets generate the wrong prices, we may get too much pollution, too little open space, etc. A major thrust of "land use planning" is to substitute centralized authority for the decentralized market in allocating land resources. The argument for substituting administrative land use controls implicitly assumes that the central authority will be able to discover, announce and enforce socially correct allocation of land [3, p. 190]. This raises another question in addition to the questions already cited concerning externalities associated with administrative land use controls. Why do land use regulations apply to all land and not just those involving significant spillovers?

Knight has characterized the social problem as that of establishing a social consensus on matters of policy [4, p. 174]. What role can the economist play in achieving this social consensus? Sir Dennis Robertson, in contending that the economist should suggest ways to minimize use of the scarce resource love, provides an insight:

"There exists in every human breast an inevitable state of tension between the aggressive and acquisitive instincts and the instincts of benevolence and self-sacrifice. . . . It is his (the economists') function to emit a warning bark if he sees courses of action being advocated or pursued which will increase unnecessarily the inevitable tension between self-interest and public duty; and to wag his tail in approval of courses of action which will tend to keep the tension low and tolerable" [11, pp. 148-149].

A comparison of the effects of market and non-market allocation procedures illustrates Robertson's point. Any voluntary market exchange

makes both parties better off. There is no conflict between self-interest and public duty associated with such exchange. When allocative decisions are made collectively, however, the situation is different. Then, as LID point out "every allocative decision must address the questions of what is to be allocated, to what uses, and who is to benefit and who is to lose" [5, p. 3]. An increased reliance on non-market allocation methods will inevitably increase tension between self-interest and public duty.<sup>7</sup> It is predictable that increasing the sphere of political activity, i.e., reducing private property rights in land use decisions, will increase land use conflicts.<sup>8</sup> The most obvious and extreme example occurs when private property rights are abolished and land is treated as a common property resource.

### IMPLICATIONS AND CONCLUSIONS

The crucial issue in land use conflicts, as LID suggest, is property rights. Why have property rights not received more attention by land use educators? The subject of property is complex and the relationship between property rights and internalizing spillovers is not fully understood even by economists. If land use educators are to help answer the how, what, who, why, when and related questions as suggested in the LID paper, more attention must be given to the property rights question.

Planning begins with information. Then what, why, who, when and related questions raised by LID cannot be separated from the how question. Data relevant to determining what land is used for, how much is used for particular purposes, who is to use it, and when it is to be used are closely related to how land use decisions are made. Knowledge problems are endemic in non-market allocation procedures. There is little or no evidence that knowledge of particular circumstances of time and place as related to land use can ever be determined and transmitted through the political process as effectively as through a decentralized market. We, as economists, have an obligation to point out imperfections and shortcomings of the collective choice process as a way of allocating land

<sup>7</sup>Price controls and wage-price guidelines are good examples. The decision-maker has no reliable basis upon which to base his actions when price signals are ignored regardless of whether the inattention to price signals is voluntary or legally mandated [7, 1973]. Consider the shortage created by price controls on natural gas during the winter of 1976-1977. How could the "socially concerned" homeowner decide whether to heat his home to 68°F or 55°F (or even lower)?

<sup>8</sup>Philbrook agrees with Robertson that the economist should attempt to economize love and sees the market as playing a central role in achieving that goal. ". . . free enterprise, bad as it is in comparison to our dreams, seems to offer possibilities of embodying more of the rule of love than we so far see how to embody in any different system . . . . Thus the thing to be guarded, even at tremendous cost if necessary, is freedom, in the common-sense meaning of freedom from arbitrary dictation to one soul by another . . . . We must not, then guide action by decisions made by uneasy (or even easy) compromise among the fifty-one percent and forced upon the forty-nine, except where there is simply no other way available. What the rule of love calls for above all surely is non-interference with the quest (for the good life). Decisions must stem from the tastes and ideals of men, freely developed and freely expressed. . . . The same set of institutions which permits conspicuous consumption assures that an Albert Schweitzer will not be deflected from his destiny by some administrator who believes that the morale of the people calls for Schweitzer's music" [9, pp. 464-466].

resources in the same way that we point out spillovers associated with current land markets.

Finally, a word on realism as it affects land use research and educational efforts. Land use economists sometimes feel constrained by realism considerations in pointing out problems inherent in non-market resource allocation procedures. It is easy to take the position that comprehensive land use planning is "an idea whose time has come" and that it is "unrealistic" not to accept this fact. Why waste time on suggestions which have little chance of acceptance? As Philbrook states: "The charge of 'unrealism' is used with telling effect to discredit policy recommendations without adequate consideration. It probably affects in no small degree the determination of what

types of work are respected and supported in universities" [10, p. 847]. What should be our posture toward realism as it influences land use policy proposals? To again quote Philbrook: "Only one type of serious defense of a policy is open to an economist or anyone else: he must maintain that the policy is good. True 'realism' is the same thing men have always meant by wisdom: to decide the immediate in the light of the ultimate. The economist must follow this ideal as best he can—in humility and in readiness to compare notions both of technical relations and of ultimate values" [10, p. 859]. In view of complexities in the land policy area, I fully concur with LID and Philbrook that land use specialists should proceed cautiously.

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