# What Drives Korean Land Use Regulations?

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Kyung-Hwan Kim
Department of Economics
Sogang University, Seoul, Korea

and
Department of Real Estate and Urban Land Economics
School of Business
University of Wisconsin-Maidson
kkim@bus.wisc.edu

Chung-Ho Kim
Center for Free Enterprise
Seoul, Korea
kch@cfe.org

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## I. Introduction

In his recent paper on urban growth control, Mills (2002) concluded that "I see no virtue in growth controls, whether by greenbelts or by conversion controls, but nor can I find coherent reason for their popularity: indeed, at least in the U.S., for their increasing popularity". Although more concrete data need to be provided on the number of communities that have adopted or are considering introducing some growth control measures, the wide spread use of such terms as "smart growth" in the press and public debate is remarkable. For example, one can find over one million entries that match with the key word from a search on Google[1].

One possible explanation of the popularity of growth control might be that the general public and media do not see the linkages between the growth controls and housing prices and its implications for social integration. The vested interest of resident homeowners who want to protect their property values might be at work (Brueckner and Lai 1996). Also, there is an extensive literature on regulatory capture theory based on rent-seeking and some promising new work is emerging on public choice of planning in the U.K. (Pennington 2000). However, none of these answers the question of why the growth controls are becoming much more popular in recent years[2].

Just like Professor Mills, we have been intrigued by the prevalence and persistence of apparently inefficient and/or inequitable policies in real estate in Korea. We have been trying to come up with an explanation of such phenomenon through a series of our work. For example, Kim, Kim and Ha (1994) documents how the perception about some key real estate policy issues held by the general public and newspaper editorial writers deviates from the economic way of thinking. Kim and Kim (1999) illustrate how such perception may have worked against removing the price control on new apartments. Kim and Kim (2000) point to the behavior of government officials who are risk averse and sensitive to the response of the media and recently of non-governmental organizations. And Kim and Kim (2002) analyze the determinants of whether or not some compensation is provided to regulatory takings.

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[1] Smart growth is supposed to prevent the negative consequences of "urban sprawl", another popular term. Although some urban economists criticize the term as being pejorative and call for replacing it with the neutral term, i.e. excessive suburbanization (Mills 2001, p.90), they seem to have lost the battle. The entries containing "sprawl" found from a Google search outnumber those containing "suburbanization" by a margin of about 148,000 to 15,900.

[2] The strong economy in the 1990s and the consequent pressure of urban growth might have raised the concern about "excessive" suburban development. This needs to be verified.

In this paper, we seek to explore the two alternative threads, rent-seeking and ideology in the real estate policy decision-making process in Korea. In section II, we provide a context of land use controls in Korea by documenting the evolution of recent trends of regulation and deregulation as well as introducing the views of outside experts. Section III investigates whether two key land use regulations can be explained by rent-seeking or an alternative model based on ideology. Section IV is concludes the paper and provides some comments about the relevance of the paper in understanding the political economy of similar policies in other countries.

**II. Evolution of Land-use Controls and Recent Trends of Deregulation.**

Korea is a highly dynamic nation. Although reaching a consensus on a major policy change often takes time, very long time in fact, things can change very fast once the balance tips over and momentum for the change builds up. One example would be abrupt increases in housing production since the late 1980s. The government campaign to build two million dwellings for the 1988-92 period resulted in a quantum leap in the average annual production of houses from 200,000 to 250,000 units to 500,000-600,000 in each year until the outbreak of the economic crisis in late 1997. In fact, the cumulated supply of new housing between 1988 and 1997 amounted to 55 % of the total stock at the end of 1997, a very unlikely result in a market economy. An outside observer might wonder why such policy change had not taken place earlier despite the chronic shortages of housing caused by rapid increases in demand. It is even more intriguing because the government had almost full control over housing supply by virtue of monopolizing the supply of developable land and keeping a lion's share in the supply of housing credit. The answer appears to be the political will to initiate such change.

The consequences of rigid government regulations in land and housing markets in Korea have been well documented by own work (Kim 1993, among others) as well as by some outside experts, most articulately by Bertrand Renaud (1993). Renaud said "Due to the cumulative long-term effects of piecemeal public regulations, …, Korean housing market distortions have become a serious burden on the economy and they hold the dubious distinction of being among the most severe market economies in the world." (p.291) He also argued "…housing policies have been incremental, relative to short-term issues, physically-oriented and lacking a coherent economic framework during the most critical phase of Korea's urbanization." (p.293) Then, based on international comparative studies, he points out that high house price to income ratios in Korea have an institutional and regulatory origin rather than being caused by a physical or permanent shortage of land (p.306). Noting that land policy and urban regulations play a very

important role in explaining surprisingly large differences in supply elasticities across countries, he argued that supply elasticities can be improved by policy changes (p.311). Commenting on the above mentioned two-million houses program, he correctly pointed out that "Unfortunately, these results are achieved by overriding the institutional problems of the sector, and not by addressing them directly through a program of institutional, regulatory, financial and fiscal reforms. In more technical terms, the government policy shifted the steep supply curve to the right, instead of making supply more responsive to price changes through deregulation.

In short, Renaud's conclusion was, "Improvements are needed in at least four areas: urban planning reforms and a streamlining of the process of producing residential land decentralized at the local level; financial sector liberalization which is neutral to housing; efficient and equitable taxation of land, housing and other forms of real estate; and genuine programs of direct assistance to low-income households, not middle-class programs" (p.326) He then added, "Given the necessary scope of such an alternative policy program, its political feasibility may be an important obstacle." (p. 325). Hence, the title, "Can Korean Policies Break with the Past?"[3]

Over about a decade since its publication, have Korean real estate policies broken with the past? The answer seems to be mixed. In the area of urban planning reforms, a new law entitled Comprehensive Planning and Land Use Act is to take effect in January 2003. This legislation emerged from a consensus among the policy makers, urban planners, the media and environmental activist groups on the need to coordinate infrastructure provision with urban development and to integrate planning in urban and rural areas. The punch line of the law is "no development without planning". One worry is that the law may place so much emphasis on "orderly development" as to make the supply of developable land in the suburbs even less elastic than now. In this sense, the policy change can be described as essentially an overkill of the problem of irregular developments created with the previous planning system. On the issue of decentralizing planning functions to local government, the low trust in local government is a real constraint. A majority view has it that myopic behavior of elected mayors and country heads is responsible for those development projects that are detrimental to the environment.

[3] Another paper by Green et al (1994) written at about the same point in time agreed that Korea has performed relatively poorly in the provision of high quality at reasonable prices (p.330) and shared Renaud's pessimistic prediction about the future. They said, "Little has been done to change the fundamentals, particularly the regulatory environment and the housing finance system; rather a political decision has been taken to increase production in response to rising prices"(p. 351).

On the other hand, important progress has been made towards financial reform in relation to the real estate sector. We are witnessing real competition in the primary mortgage market, greater diversity in loan products available, and an expansion of the volume of loan origination. Secondary mortgage market has been created and is up and running though on a small scale. There is also a sign of demise of chonsei, which is a unique but inefficient form of housing finance (Renaud 1988, Kim 1990).

On the subject of taxation of real estate, many experts have proposed to lower transactions taxes and raise holding taxes for various reasons. But it has not been possible because the two types of taxes are collected at different levels of government and the switch has a serious implication for the overall tax revenue and its distribution among local governments. In any case, it is difficult to say that the tax system is neutral to the real estate sector. Earlier this year, the government has decided to raise the effective burden of property taxes in an effort to control demand for real estate which they think is responsible for the most recent run-up of housing prices in Seoul[4].

Finally, some efforts have been made to improve the targeting of assistance for low-income groups. Seoul Metropolitan Government prepared a minimum housing standard in 1997 and the Ministry of Construction and Transport promulgated a national standard in 2000. The government plans to identify the number of households below the minimum standard from the Population and Housing Census of 2000. It is well established that a cash subsidy such as housing allowance is more efficient than a price subsidy. Although housing allowance has been proposed as a means of reaching the poor, the main emphasis of government policy for low-income households is placed on supporting the production of rental units through National Housing Funds.

Taking a different cut, one can point to some significant changes that have taken place to major regulations known as three taboos within the Ministry of Construction for many years. They are green belts, the price control on new apartments, and containment of growth of the National Capital Region. Out of the three, green belts in medium-sized cities were lifted in 1999 while those in the Capital Region and six other large metropolitan areas are in the process of being reviewed for partial releases. The policy reform was initiated by the current President Kim in his 1997 election pledge to the landowners and residents of greenbelts rather than by a deliberate attempt to promote more efficient utilization of land. Although it may appear to be a big change

[4] Property taxes are levied separately on land and buildings. They are formally local taxes, but practically under central government control.

in land policy to urban planners and environmental activist groups, it is not likely to have a fundamental impact on land and housing markets. The reason is that it is not targeted at the Capital Region, where the demand pressure and hence the impact of deregulation would be the largest. Next, the price control on new apartments and its spin-off regulation on their size distribution have also been repelled. But the latter was reinstated in 2001 and the latest housing hike rekindled an interest in the price regulation. On the other hand, controlling the growth of the Capital Region remains a top-priority policy in the Ministry and the government as a whole. Although not included in the three taboos, real estate market has been closed to foreign investors until quite recently. Real estate markets were opened to foreigners in 1998, and purchases of some prime properties by foreign investors did not draw as heavy attention as they could have prior to the economic crisis.

## III. Driving Forces Behind Korean Land Use Regulation

### 1. Political Economy of Lukewarm Deregulation: Rent-seeking or Ideology?

Despite the progress described in the previous section, the process of deregulation has been slow and piecemeal, except the unusual moved made towards deregulation in the aftermath of the economic crisis. And even that exception turned out to be short-lived as the government went back to the old arsenal when the housing price shot up after the crisis had been over. To an economist, the resilience and the legacy of bad policies might deem incomprehensible as well as frustrating. But an underlying basic fact is that the level of trust in land and housing markets by government officials and the general public remains low. In order to make more fundamental changes towards a market-friendly system of land use, therefore, it is essential to understand the reasons for the lukewarm attitude towards accepting the market mechanism. We explore two alternative explanations; that based on the theory of rent-seeking and that based on ideology and irrational beliefs.

Stigler's theory of rent-seeking builds on the premise that virtually all economically relevant political behavior can be explained by economic self-interest. It is a natural extension of standard microeconomic theory to political behavior. In this theory, a special interest generates substantial personal benefits for a limited number of identifiable constituents, while imposing a small individual cost on a large number of unidentified members of the public. The majority faces the collective action problem in that an individual's contribution to the achievement of a common interest is unlikely to have a sufficient impact on the advancement of that interest to

warrant the costs of political engagement. In this situation, a well-organized minority interest will be able to have their way. Economists, who suppose every economic agent to be guided by rational behavior, must have liked this hypothesis for reasons related both to their own self-interest and to ideology (Rubin 2001).

Stigler (1971) denied a role for ideology and Peltzman (1984) also made the same point. However, the theory has been challenged on empirical grounds, as many studies demonstrated that ideology does matter in political behavior (Kau and Rubin 1979, 1981; Kau, Keenan and Rubin, 1982; Kalt and Zupan 1984; Pool and Rosenthal 1997) If ideology matters, the next question is whose ideology matters; the ideology of the constituents or representatives' own ideology. Lott and Davis(1992) and Bender and Lott(1996) lend support to the former, while the work of Wittman(1983) and Kau and Rubin(1993), Kalt and Zupan(1990) suggests that there is a principal-agent problem and that the representatives promote their own ideology, or shirk.

We feel that the economics profession might have taken a wrong approach of resorting to the capture theory and shying away from tackling ideology. We believe that public choice theory incorporating the role of public perception and ideology might offer a convincing account of some regulations. Each of the Korean regulations in real estate mentioned above was politically so sensitive that government officials would rather not touch them. Such reluctance to change is understandable in that bureaucrats are risk-averse, and makes even more sense in Korea where the tenure in any particular post is very short (Kim and Kim 2000). We also conjecture that ideology plays an important role in shaping a consensus on important policy issues. Government is often observed to present rationale for a regulation that is consistent with public perception or popular opinion but is not well grounded in economic theory. Such regulations could be understood as emerging from the interaction of demand for and supply of regulations, whereby bureaucrats cater to the demand for policy by the general public that is driven by ideology, defined in this paper as liking or disliking not based on real economic benefits or costs. The outcome could have negative welfare consequences for the society.

This conjecture can be elaborated as follows. The first point is that pubic opinion has a major influence in public policy decisions but that the vast majority of the general public does not understand the basic market principles. For example, a Washington Post survey indicates that only 28 percent of the Americans surveyed agreed that price increases are mainly due to the laws of demand and supply, whereas 69 per cent put the blame on companies trying to manipulate prices (Blendon et al 1997, p. 105 and p.116). The general public also seems to have trouble with the economics of land use regulations. For example, very few people in Korea

seem to understand that restriction on urban development through green belts or urban growth boundaries in a growing urban area raises housing prices. Many people, especially in Korea, think that speculation is a major cause of real estate price increases, but fail to understand that the scarcity of developable urban land is the fundamental cause of the problem which is aggravated by increases in demand, speculative or otherwise.

The second point is that an ordinary person can subscribe to an ideology quite easily. For example, environmentalists can convince the pubic that green belts are an essential policy to safeguard the environment for both the current and future generations. The debate over of urban sprawl and smart growth in the U.S. seems to be another example. Beyond referring to growth that can change the undesirable impacts of urban sprawl, different people mean different things by the same term. But people do not seem to look for better alternatives to dealing with the problems of excessive suburbanization[5]. Likewise, recycling is accepted as an effective way to save the Earth, and very few bother to ask whether it can be justified on social costs and benefits (Lansburg 1993)[6]. Speculators are pictured as being responsible for housing price hike, and counter-speculation measures top of the list of policy intervention to stabilize housing prices in Korea.

Thirdly, it is fair to say that the media sometimes validate or propagate irrational beliefs if not initiating them[7]. News coverage tends to over-emphasize the cases that suggest the linkages between speculation and real estate price increases, and editorials are usually sympathetic with the public perception.

The final point is that beliefs formed this way tend to persist because people have no incentive to change them. An ordinary person does not gain a thing by understanding the impact of land use regulation. Bureaucrats have little incentive to make policy decisions that go against the public beliefs. The media try to maximize their audience and hence do not want to upset them by pointing to the irrational beliefs held by them. In short, we argue that the lukewarm approach to deregulation can be understood as a consequence of interaction among key players in the policy decision-making process in which ideology can play an important role.

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[5] One of the features of smart growth is decrease in automobile dependence, which is deemed good for the environment. Mills (1999) points out that getting the gasoline price right is a more effective way of achieving the same goal than attempting to change the pattern of urban growth.

[6] US environmental protection legislation also calls for the improvement of the quality of air and water at any cost. See Hahn (1990).

[7] See Shiller(2000: 71) suggests that the news media plays an important role both in setting the stage of market moves and instigating the moves themselves.

## 2. Explaining Selected Korean Land Use Regulations

There are more than 100 regulations regarding land use in Korea and they can be grouped into three categories; regulations on the conversion of non-urban land into urban use, those on the use of land already in urban use, and those on the use of non-urban land into non-urban use. In this section, we focus our attention on a couple of regulations belonging to the first category; green belts, and the growth control of the Capital Region. We compare the political dynamics implied by the rent seeking behavior and compare that with the actual outcome of the policy decision process, and explain why they can be better understood using an argument based on the role ideology plays in the process.

### Green Belts

Green belts were designated around major Korean cities between 1971 and 1977 according to the provision of the Urban Planning Act of 1971. The boundaries were determined entirely by the central government without any consultation with local governments or their residents. Green belts were expected to serve the functions of preventing "irregular" physical expansion of cities, protecting the environment, and securing national defense. The total land area inside the green belts is 5,397.1 square kilometers or 5.4 % of total land area of Korea. 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. As for the composition of land inside green belts, forest comprises 61.2 %, followed by paddy fields taking up 24.5 %. The rest consists of development land (1.2 % of total), public facilities and others. It is interesting to note that the share of 'green' land in green belts is smaller than that of the national territory, which is 66 %. The vast majority of green belt land is privately owned and only 20.4 % belongs to national local governments. The Urban Planning Act and its accompanying decrees prohibit land-use conversions, land sub-divisions, and construction activities other than rebuilding or altering existing structures inside the green belts without prior approval from the relevant government offices. The types and the extent of acceptable land-use are specified in the decrees. Implementing the regulations and monitoring the land use and development activities inside green belts is a responsibility of local governments.

Whootential interest groups concerning the green belts regulation? The owners of urban land that is not designated as green belts are winners, because the regulation effectively reduces the developable urban land and creates additional value for developable land. It is not clear though how many of these landlords understand this fact. On the other hand, the owners of green belt land are clearly the victims of the regulation. The renters of properties also suffer from the

regulation although their suffering is likely to be reflected in lower rents. Urban renters are important losers because the artificial scarcity of developable land caused by the regulation limit the supply of housing. But probably most of them do not think that high rents are attributable to green belts.

Let us now identify the advocates and the critic of the regulation. Among the professionals, urban planners and the environmental activists are the strongest supporters of green belts. The planners believe that it is crucial to contain the growth of large cities and to keep neighboring towns from merging, although they seldom explain why. For the environmentalists, green belts represent an essential policy tool for promoting sustainable development and preserving the environment for future generations[8]. Some environmental activists refer to green belts as 'lungs of cities' or 'the last defense line against environmental degradation'. The media serves the role of propagating the sentiments against any revision to green belt policy. Numerous editorials have been written to criticize the activities that violate the green belt regulations, especially by the rich. Whenever government relaxed building regulations to alleviate the hardships of the landowners and residents, the media criticizes the government for allowing environmental degradation and instigating speculation. The public sector is also blamed for constructing buildings for their own use or accommodating facilities unwanted by residents, such as incinerators and garages for buses or trains. It is interesting to note that they claim that the public sector is leading the way to damage green belts to fulfill their own needs, but ask it to purchase green belt land and undertake the role of safeguarding it. The ordinary citizens acknowledge the inconveniences imposed upon the residents in their daily lives caused by the ban on development, and to a lesser degree the sufferings in the form of the depressed property value. Most people tend to think that green belts are literally 'green' and make a substantial contribution to the environment. But in general they are not willing to pay for the benefits or compensation to those who suffer. They also believe that any amendment to green belt policy will provide opportunities for speculation. Who oppose to the regulation then? Owners and residents of green belt land are the most obvious opponents. The members of national assembly representing the political jurisdictions substantial shares of which are designated as green belt would like to see the regulation lifted. But these groups of people are much smaller in numbers than the supporters of the regulation.

Now let us ask which of the two theories provides a more convincing explanation for the long-lived regulation. If the Stigler's theory of rent seeking were correct, the opponents of the regulation would have succeeded in repelling it because they have larger individual interests, are

[8] A study of U.S. (Popp 2001) found evidence of weak altruism in the sense that people are concerned with both self-interest and the interest of future generations.

smaller in numbers and better organized. However, it never happened. Ideology could be the answer. The vast majority of people think that green belts do no harm and are good for the environment. Opinion polls and media coverage show enormous support to the green belt regulation. It is interesting to note, however, that the willingness to pay to protect the green belts is very small as we will elaborate later. Despite such small value attached to green belts by individual residents of the metropolitan area, the perceived aggregate value of green belts had been large enough to completely block the attempts by the victims of the regulation to remove it until 1998. And the ongoing deregulation is not going to affect the greenbelt land that is located in around the largest cities and hence is most valuable.

Growth Control of the Capital Region

The Seoul Capital Region consists of the city of Seoul, the city of Incheon, and the Kyong-gi Province surrounding the two cities. The region covers about 11% of the national territory but currently accommodates 46 % of the nation's population. Location of new factories, universities, and governmental offices is discouraged or banned altogether in the Capital Region. Conversion of agricultural and forestland is not allowed for large-scale residential and industrial developments[9].

Who are the potential interest groups benefiting from this regulation? Actually, it is not clear to us who the winners are. But it is argued that the residents and industries located in the other regions benefit from the regulation because the regulation channels capital away from the Capital Region to elsewhere within the country. The losers in the game are the residents, business corporations, investors and students in the Capital Region. They suffer from high housing costs, the decrease in productivity and high costs of doing business, and insufficient options, respectively.

Who are in favor of the regulation and who are against? Politicians from and residents of all other regions than the Capital Region, environmental activists, planners, the media and the general public support the regulation. Environmental groups argue that the level of environmental quality is directly related to the size of population in the Capital Region. Planners claim that the Capital Region is too large and population and industries need to be dispersed away from the region to promote balanced development of the national territory. These views are endorsed and further strengthened by the media. The major opposition to the regulations comes from politicians representing the Kyong-gi Province that are most seriously hurt by the regulations. On the other hand, the city of Seoul seldom takes side with the Kyong-gi province

[9] See Kim (2001) for a detailed description of spatial policies towards the Capital Region.

because it is concerned about the overspill of traffic due to further developments in the Province that surrounds the city. Although some economists are against the regulations, they do not comprise the majority even within their own profession. In fact, a 2001 survey conducted by the Korea Development Institute and the Korean Economic Association reveals no significant difference in the attitude towards the spatial policies towards the Capital Region between economists and other expert groups. Our interpretation of this somewhat intriguing finding is that economists might not look at all policy issues from the viewpoint of market principles. Many economists appear to share the majority opinion that large cities are too large to be left operate according to market mechanisms and that balanced regional development is desirable.

If Stigler were right, the elected Governor and the members of the national assembly representing the Kyung-Gi Province would have succeeded in eliminating the regulation through organized action including lobbying. But their efforts did not bear fruit. A relatively moderate proposal to amend the Capital Region Management Act made by the members of the National Assembly representing the Province was blocked by the members of representing other regions. The proposal was to eliminate a regulation that controls the total floor space occupied by industries within quotas annually allocated to each city and country belonging to the Region, and to raise the level of charges on new industrial and commercial premises and use the revenue to assist the other regions. This package was not well received by the media and the opinion leaders. Just as it was the case with green belts, the main reason that the regulation survived occasional challenges by the victims and some economists was its popularity. And the popularity is based on the majority view that Seoul and the Capital Region are too large, and that economic prosperity of the other regions is in conflict with that of the Capital Region. In fact, several proposals to introduce a special law to promote development of the other regions have been submitted to the National Assembly over the past few years, and they have been consolidated into a single legislation, which awaits a review.

## 3. A Simple Economic Model of Ideology-driven Regulation

In this section, we present a simple model capable of explaining both rent-seeking and ideology-driven regulation. The model builds on the following premises. First, some people feel psychological satisfaction from the existence of a regulation itself regardless of the economic benefit that they derive from the regulation. Green belts could be an example. Except for those who live close enough to green belts to enjoy the openness and the better amenity, the benefit to

a typical resident may be just an option value arising from its very existence or sense of relief that the nature is protected and will be able to be enjoyed by future generations.

Secondly, such benefit is likely to be small at the individual level, and is roughly constant regardless of the number of people being affected by it. This is represented by horizontal line B in the figure. For example, a survey on the public's willingness to make financial contribution to compensate the property owners affected by green belts is very small. According to a 1998 survey conducted by the Korea Land Corporation on a sample of about 1,000 persons living in the green belt areas, 1,000 persons living elsewhere, and 280 experts, about 95 % of the first two categories agreed that some compensation should be paid to the owners of land designated as green belts, while about 65 % of the experts agreed. Despite the consensus on the need to pay compensation to the victims of the regulation, the willingness to pay turned out very small. 37 % of the non-experts said that they are not willing to pay any, 31% said that they are willing to pay less than 10,000 won ($8), and 20% indicated willingness to pay between 10,000 and 30,000 won ($25). The percentages among the expert group were 34%, 29% and 25 %, respectively.

Thirdly, the total willingness to pay for the continuation of the regulation can become large as the number of such people increases. It is similar to a network externality[10] whereby individual benefit from joining a network increases with the size of the membership using the network. The total willingness to pay by all individuals concerned is represented by line C in the figure that emanates from the origin. It is constructed by multiplying individual benefit B by the number of people involved n, and hence has a slope equal to B.

Next, those who support the regulation would like an advocacy such as a news media that endorses it through editorials. The cost of establishing such a media is costly but independent of the number of the subscribers. This relationship is represented by horizontal line D. Those who would like to have the regulation removed need to take action such as lobbying. The cost involved in such activities is also likely to be independent of the number of stakeholders. For the sake of simplifying the exposition, this cost is assumed to equal D. Finally, the total willingness to pay for such organized activities falls as the number of those affected by the regulation increases as formulated by Stigler. This happens because of the collective-action problem (Pennington 2000).

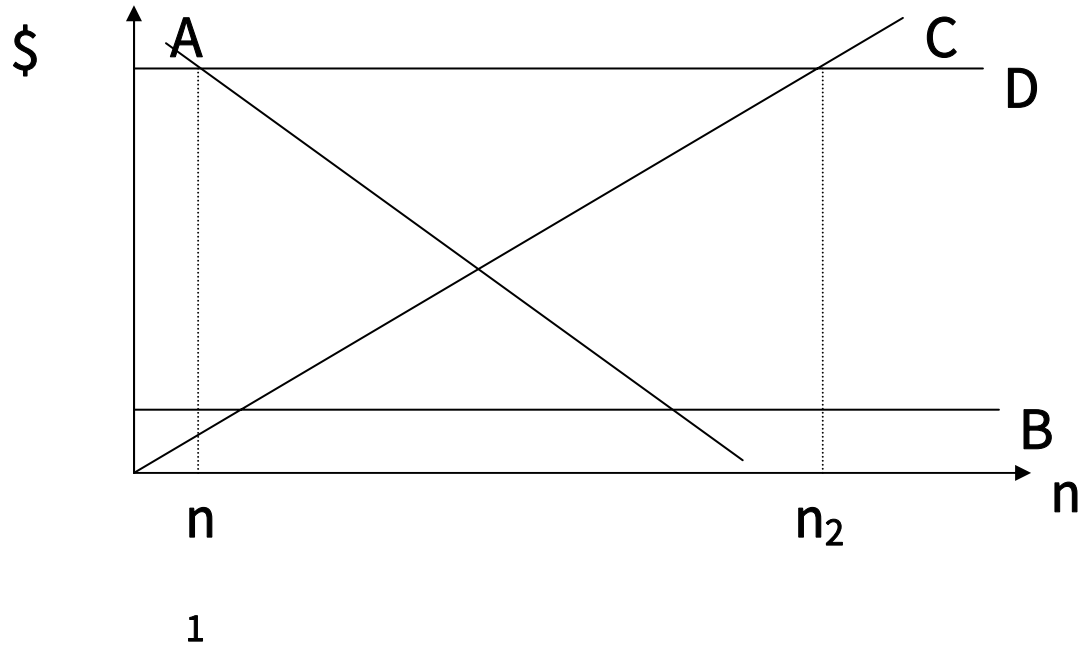
Using this framework, we can show that two types of equilibrium can emerge. Suppose first that

[10] See Shy(2001) for a discussion of network externality.

there is no ideology behind a regulation. If the number of the people affected by the regulation is small, then the aggregate willingness-to-pay for activities that enable them to realize the economic benefit may exceed the cost of the activities, such as joining a trade association or supporting lobby groups. In other words, a relatively small number of stakeholders will contribute to organized activities in a rent-seeking attempt to have the regulation removed. This Stiglerian equilibrium takes place when $n < n_1$.

Suppose now that ideology is at work. When the number of those who subscribe to the ideology reaches a certain threshold level, the total willingness to pay for the regulation may exceed the cost of organized action, such as subscribing to a newspaper that promotes the view their endorse or supporting NGOs or political parties to their likings. When $n_2 < n$, the ideology-driven regulation will prevail. The general public which has dispersed and small individual stakes but is large in numbers can win over the victims of the regulation who have large but concentrated individual stakes. This is contrasting to the prediction of Stigler.

Figure : Economics of Ideology-driven regulation




III. Implications and Concluding Remarks

In this paper we have tried to demonstrate that some of the key land use regulations in Korea are driven by ideology or misguided beliefs such as that green is good, small is beautiful, and the

growth of large cities should be controlled[11]. Some of these regulations are inefficient and inequitable, but continue to exist. What would then take it to change the situation? Is there a self-correcting mechanism? Yes, to some extent. When it becomes evident that a regulation is the result of rent seeking by the interest groups against the welfare of the general public, the regulation is likely to be struck down[12]. On the other hand, such correcting mechanism may not work for regulations driven by ideology because there is an inherent support for them. People may have irrational beliefs but they are happy with them, and will not see benefit of changing their beliefs. Regulations supported by motivational errors as opposed to cognitive errors are not likely to be self-defeating[13].

At least two things could be done so as to change the situation; to educate the public and to require compensation. A regulation per se may not be good or bad, and the overall desirability of the regulation must be judged by a careful analysis of costs and benefits (Bertaud and Malpezzi 2001). In order to promote a better-informed decision, it is necessary to educate the media and the general public about the costs and benefits as well as who gain and who suffer from a regulation[14]. Compensation for regulatory takings could be a remedy for the inefficient and excessive regulations (Kim and Kim 2002). Faced with compensation requirements, bureaucrats will become more cautious about adopting excessive regulations, and the general public may give second thought before endorsing them if they can no longer free-ride and are made to pay their share to mobilize funds for compensation.

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[11] Concern about the excessive concentration in the Seoul Capital Region constrains government policy options on encouraging the supply of new houses. One of the most influential NGOs has consistently opposed to the government proposal to construct additional new towns in the Capital Region to cope with the recent price hikes in Seoul.

[12] An example is the regulation that guarantees a 50% share of the local market for the manufacturer of soju (a Korean hard liquor) based in the local area. This regulation was introduced in 1996 but was judged unconstitutional by the Constitutional Court within one year of implementation (Jun 2002).

[13] See Kim, Kim and Ha (1994) and the references cited therein.

[14] See Economist (1996) for the criticisms about economists by the media and vice versa. Caplan (2001) suggests that people think more like economists if they are well-educated, if they are male, and if their real income rose.

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