
Governmental structure, fiscal
incentives, and land use policies:
consequences for development patterns

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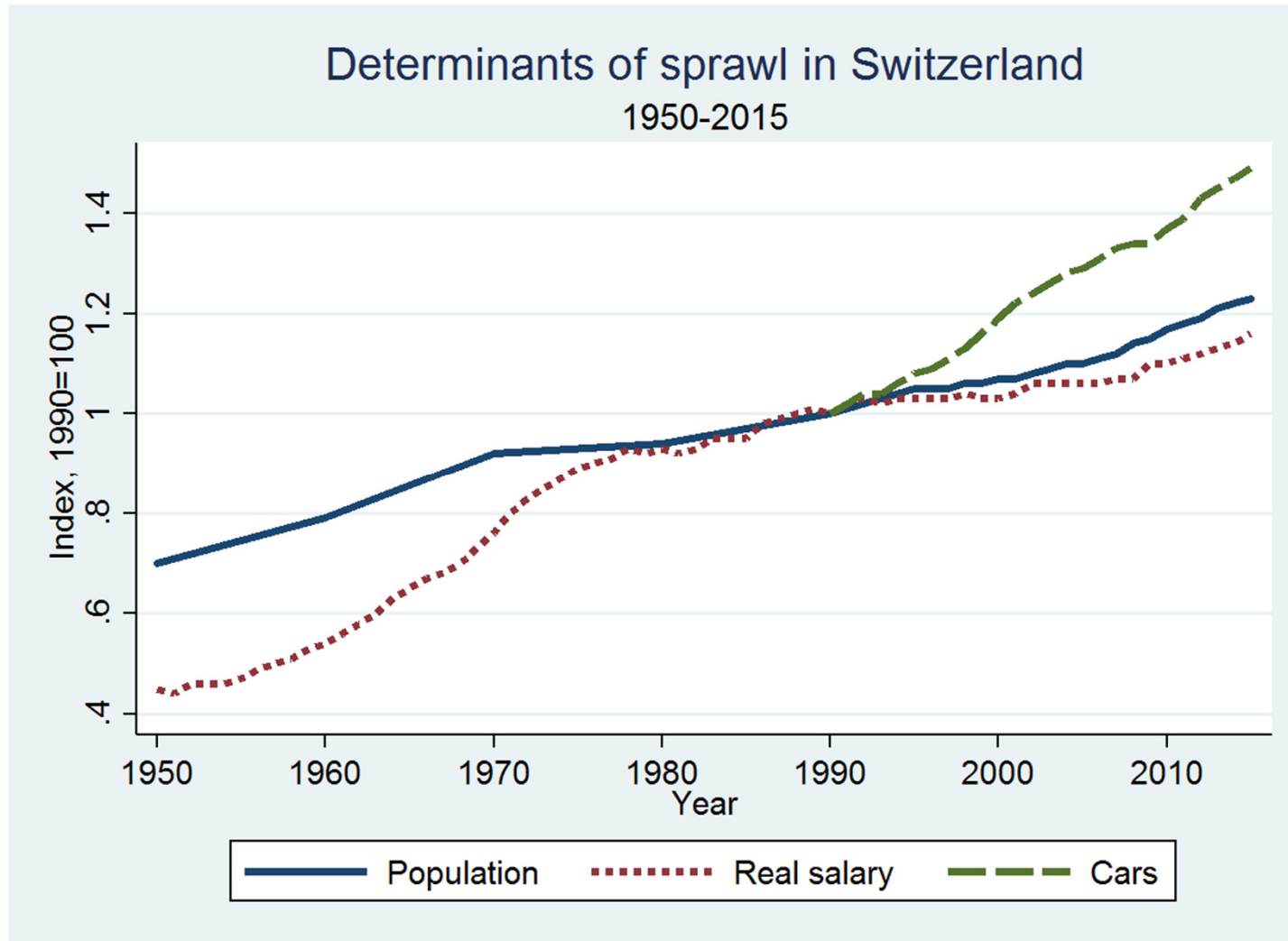
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What causes sprawl?

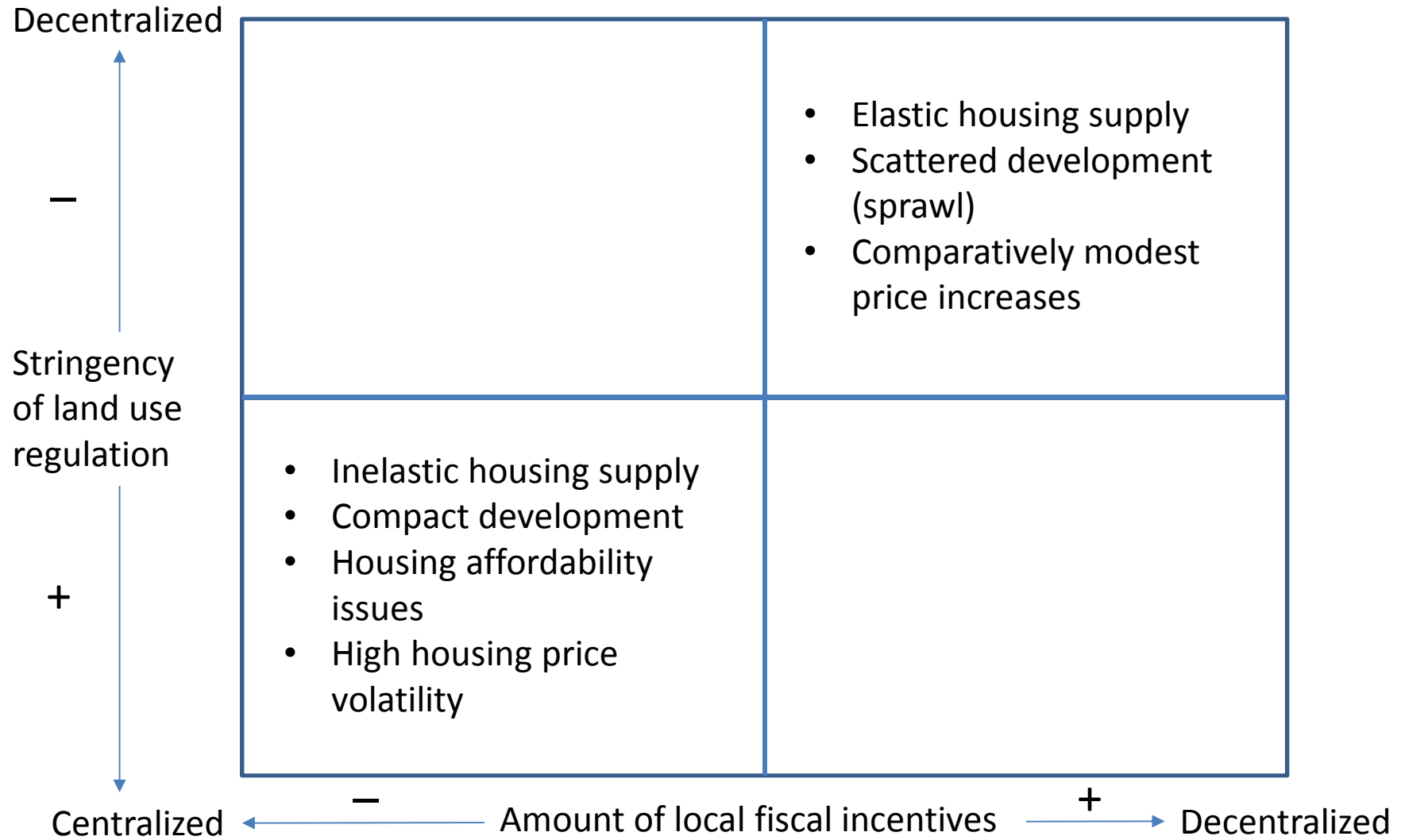
- During the last century staggering suburbanization (US, EU, China,...)
- Two main drivers:
 - Developments in transportation technologies → consume land further away from central areas
 - Rising incomes → consume more land per capita
- However: marked differences in development patterns across countries (UK vs. CH, for example)
- Why this heterogeneity? Importance of institutional setting for
 - Land use policies
 - Fiscal incentives } affect development patterns

What causes sprawl?



Data source: Bundesamt für Statistik (BFS)

The importance of governmental structures



Decentralization and sprawl

Decentralized governments are more likely to create low-density development:

1. System of local governments → each government takes **autonomous decisions** with regard to land supply
Land developers and households can easily avoid growth control restrictions by moving to another jurisdiction → ‘leapfrog’ patterns (mobile agents)
2. Local residents are empowered → maximize their utility (especially homeowners)

Fiscal zoning: creation of exclusive “clubs” sharing similar social background → new residents as fiscal asset (and not burden), low density development

Decentralization and sprawl

3. Households (and firms) react to local fiscal incentives and → choose to locate in jurisdictions with best package of tax-public services → more development at the outskirts
4. Local jurisdictions have fiscal incentives to attract new (wealthy) residents

A case study: UK vs. Switzerland

Characteristics of the United Kingdom

- Highly centralized country
- Rigid planning system: urban containment throughout the country (greenbelts, view corridors, etc.)
- Discretionary development control: every planning application subject to review (NIMBY residents)
- Very few fiscal incentives to local authorities to permit new development (taxes levied centrally)

Observed effects

- Hilber and Vermeulen (2016) find that 2008 house prices would have been about 35% lower in the absence of regulatory constraints.
- Compact development

A case study: UK vs. Switzerland

Characteristics of Switzerland

- Highly decentralized country
- Rule-based planning system: automatic right to develop if you follow the rules
- Important fiscal incentives (local income taxes)

Observed effects

Comparative study of Hilber and Schöni (forthcoming) shows that

- Price (rent) increases are comparatively modest
- Development is scattered

SNF-ESRC project (work in progress)

Urban Sprawl: The Role of Land-Use Regulation and Fiscal Competition

Cooperation between the University of Bern (**Prof. Maximilian von Ehrlich**) and the London School of Economics (**Prof. Christian Hilber**)

Aim: better understand the strategic interaction of regulatory and fiscal policies and their effects on sprawl

Recent OECD working paper Hilber et al. (2016) offering a literature review on the impact of land use and fiscal policies on development patterns.

Suggestions for Switzerland

Approaches to reduce sprawling development in Switzerland:

- Decrease the autonomy of municipalities in deciding land use policies:
 - Coordinated urban containment, growth controls, etc.
 - Limit/remove existing instruments leading to fiscal zoning (for example, increase lower bound Ausnützungsziffer)
- Introduce new fiscal (dis)incentives for households (but not for municipalities)
 - Impact fees/ development fees collected by the federal government or cantons.
- Increase redistribution

Open questions

- What's really going on in Switzerland?
 - Fiscal zoning and/or NIMBY? Can municipalities really oppose new development on the extensive margin?
 - Who decides about the amount of new land made available for development? Who owns undeveloped land?
- Do we really want to regulate land and housing markets more tightly? Keep in mind the UK experience: inelastic housing supply → skyrocketing prices → housing affordability crisis

Thank you for your attention!

References

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Hilber, C.A.L. and W. Vermeulen. 2016. The Impact of Supply Constraints on House Prices in England. Economic Journal. 126(591): 358-405.