



Book review

Cities and the Urban Land Premium. Henri L.F. de Groot, Gerard Marlet, Coen Teulings and Wouter Vermeulen. Cheltenham: Edward Elgar, 2015. 144 pages. £65. ISBN 9781784717438.

De Groot, Marlet, Teulings and Vermeulen have written a compelling book on the economics of cities, land values, and their interconnection within a greater urban system. As their title promises, the authors keep land values at the forefront: arguably, the range between urban and agricultural values – which in the Netherlands varies by a factor of 200 – is the pecuniary marker of ‘civilization’, taken literally. Land prices encapsulate the value of location. The urban land premium arises from the tremendous opportunities that cities offer.

While theoretically rigorous, and quantitatively illustrated, the book manages to convey its lessons without burdening readers with algebra. This makes the book rather accessible to planners and policy-makers who are interested in what sensible economists think about land and urbanization. It has just enough economic theory to make it a textbook, but without a single equation, rendering it suitable for a non-specialist course. It also provides a clean summary of take-aways at the end of each chapter, although it does not provide any kind of review questions.

The book covers most of the important broad themes of urban public finance, and does a remarkable job of explaining them intuitively and succinctly to a general audience. At the same time, it offers specialists not only a useful synthesis of knowledge, but perhaps a few insights they may not have fully enunciated. For example, when dealing with a system of cities, the benefits from agglomeration by adding population to one city may come at the cost of another. There may even be cause to tax the formation of new cities, as there is a tendency for excess entry without it. Furthermore, we are left with the predicament, that because of important spatial externalities, the market may be under-providing us with local drinking establishments.

The key insight of urban economics imparted here is that a municipal bureaucrat attempting to maximize the value of land in his locale may do every bit as good a job at providing value to his countrymen, than a benevolent planner or a profit-maximizing developer. An important catch is that such a bureaucrat should have a ‘Goldilocks’ jurisdiction: not too small to ignore important spillovers to neighbour communities; not too big to suffer from transactions costs, such as hold up problems from trying to get other to fit the bill. To implement the best of all possible worlds, the bureaucrat should have the ability to tax the value of land, but not the improvements on top of it.

The book echoes lessons from two of the oldest heroes in urban public finance. First, is David Ricardo, who believed land was the most desirable target of taxation. Second, is Paul Samuelson, who delineated how to add the social benefits of a project – such as a city wall – together, and to weigh them against their opportunity costs in private consumption. When enough people are mobile, it turns out that the correct subsidy of public benefits should equal the revenues from a land tax, after its opportunity cost in alternative uses (e.g. agricultural or open space) is deducted. I should add, however, that these ideas operate perfectly only under the condition that cities are homogenous, which runs counter to the idea that cities should play

to their strengths. Cities that have absolute advantages over their rivals, should in fact be ‘over-sized’ in the sense that their land values exceed the value of their non-rival benefits from public good investments.

Paradoxically, problems with theory of land taxation apply the most to the Netherlands, as it has the most ‘elastic’ supply of land of any other country. If land had been taxed at 100%, would the medieval Dutch have ever bothered reclaiming the land Amsterdam was eventually built on? Is there any way that property rights to the sea could be assigned and then taxed in a way that would eliminate this disincentive?

The authors take time to gently, but justifiably, make some remarks regarding the pitfalls planners make in trying to over-diversify every city. The revered Jane Jacobs was wise to emphasize the benefits of urban diversity. Yet, this has emboldened some of her apostles to argue that each city should be so diverse as to be a microcosm of the entire world, much like the atoms posited by Anaximenes in Ancient Greece. The authors endorse cities *à la* Democritus, with each city embracing its distinct identity and playing to its strengths. In this salad bowl of cities, each city provides to others the benefits of its specialization, much like the workers in Adam Smith’s pin factory. Planners should be sceptical of those trying to groom each city into a specious archetype of diversity, and be aware of the emergent properties that arise in urban networks that display diversity across cities instead of merely within them.

Besides the core material, the historical introduction was quite enjoyable. As it turns out, the Flemish-Dutch speaking corner of Europe was the most urbanized on the continent. Over time, its axis moved northwards over the sixteenth and seventeenth centuries, until Amsterdam became the centre of world trade, a position later taken by London. This made the Dutch context of the book not seem so esoteric. Meanwhile, there were moments in chapter 4 where my superficial understanding of the Netherlands frustrated my reading. While I am familiar enough with the Ranstadt or even the Brabant triangle due to my recent travels, I had to look up Gelene/Sittard, and it is possible some Dutch readers may have too. It would have helped if the authors could have labelled their maps and graphs more, and provided more context for many of this urban examples, especially as it is written in English.

While the book is short on equations, it is not shy on simulations. While illuminating, it is never wise to take such numerical illustrations purely on faith. The authors would do well to provide an appendix to aid the more sceptical or analytically minded. It would also be great to provide data to the readers online, especially the land values the authors work with.

Overall, the book makes a strong case that cities matter. This fact is particularly acute in a country that is heavily urbanized, where roughly half the population is an hour away from their central airport. The authors are correct in asserting that the 200-fold difference in land values they observe between Amsterdam and its rivals is an understatement. They also could have discussed some issues with land values and construction but perhaps they could save it for another book.

I would certainly recommend this book to economists, although it may be even more valuable to those less familiar with economic intuitions about cities. The book stands out for being particularly efficient or ‘economical’ in its length and delivers an impressive number of lessons per letter, or shall we say ‘LPLs’? Its tight exposition should make it interesting for almost anyone genuinely interested in the mechanics of cities and why, after decades of derivation, cities are on the rise again even in the distance-free internet age. I would encourage the authors to write a less parochial, enhanced version for more general European, American, and possibly even Asian and African audiences.

David Albouy

Department of Economics, University of Illinois
Urbana, IL, USA