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# USE VALUE, EXCHANGE VALUE, AND THE NEED FOR PUBLIC LAND-USE PLANNING

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Why should the government be in the business of influencing how our society uses urban and rural land? The answer to this question is important to professional city and regional planners wishing to justify their programs, and to land-use theorists seeking to understand the forces behind land-use patterns.

The allocation of land can be conducted by either public planning or by the private market. Both methods have their drawbacks and advantages. While it is necessary to understand both systems, as they work alone and together, this essay will focus on the market approach. Many would like to see the market used as the primary system for allocating land. In response to this position, this essay will present a critique of the land market and a justification for land-use planning by examining the nature of land as a commodity in market economies.

What will become evident is that the market approach to land allocation generates a number of problems. Because land is treated as a source of profit in market economies, serious social conflicts, inefficiencies, and inequities arise. Public policies are available that can correct these problems. To the extent that one wishes to correct these problems, public intervention into the land allocation arena is justified.

Before proceeding, one caveat is needed. Although this essay constructs a justification for city and regional land-use planning upon the failures and deficiencies of the market, this should not be construed as the only justification for planning. Planning should not necessarily be employed only where the market fails. Human rights, fairness, ecological balance, and other valid purposes can also justify government involvement in land allocation.

Land is a commodity in contemporary capitalist economies (Harvey, 1973). As a commodity, land has two kinds of value—use value and exchange value (Walker, 1981).

When land is allocated by a market system, its exchange value often is emphasized at the expense of its use value. This can occur when the market is operating perfectly or when it is failing. By analyzing this imbalance, one can construct a powerful critique of the market approach to land allocation and a valid justification for public intervention into the land allocation arena.

## **The Use Value Side of Land**

“A commodity is, in the first place, an object outside us, a thing that by its properties satisfies human wants of some sort or another” (Marx, 1906).

In contemporary literature, the use value of a commodity is thought of as the direct utility that one receives from its consumption. “It has reference to the needs which the properties of a

commodity as a physical artifact can be employed to cater to” (Giddens, 1971).

The use value of a commodity depends on the needs and wants of the people who consume it. “Use value may be defined as the value of a property for a *specific* use or to a *specific* user, reflecting the extent to which the property contributes to the utility or profitability of an enterprise” (emphasis added) (American Institute of Real Estate Appraisers, 1978). As such, it is a relative concept. “Each individual and group will determine use value differently” (Harvey, 1973). In the context of land, it is not simply the physical site attributes of the land, such as its slope, or the locational attributes, such as its proximity to a transit stop, that contribute to its use value, but the ability of the land to help satisfy the needs of a land user. A parcel might be used by a family for a homesite or by a dentist for an office site. In each case the use value of the property would differ.

The use value of a site accrues to the user of the site, but modern writers also discuss use value “in potential form” (Marx, 1973). For example, Walker has observed that “the main body of ‘location theory’ conceives of the organization of space purely in terms of use values, or the demand for space” (Walker, 1981). The process of competition for land then becomes the competition for the right to consume use values, and the price a potential user bids for a property is seen as a reflection of the use value he expects to receive from its use.

Land is a mixed public and private good, with positive and negative spillovers resulting from its use (Steiner, 1977), so the use value of urban and rural land does not only accrue to the land’s occupants. Other people also “use” the land. The vineyards of Napa Valley, for example, are a land-use that provides use values to their owners as well as to the citizens of the Bay Area who enjoy their aesthetic and landmark properties.

Contemporary planning ideals suggest that any land allocation system ought to be concerned with use values in at least two ways. On the one hand, it should protect the use values that are being enjoyed by existing land users. For example, it should protect residential areas from invasion by incompatible land uses. On the other hand, the system should seek an optimal arrangement of land-uses (Harris, 1974). That is, it should encourage a pattern of land-use that allows the land to generate its greatest possible use value. Of course these two goals may be mutually exclusive, and the ability to make trade-offs among them is another necessary component of a land allocation system.

### **The Exchange Value Side of Land**

Land also has exchange value. This is the value realized when a commodity is sold or rented. It is the price that it fetches when traded on the open market (Clark, 1982).

In contrast to use value which is generated by the capacity of a commodity to produce actual utility through consumption, and which is pursued by those interested in enjoying the benefit from its consumption, exchange value is generated by the capacity of a property to produce a return on an investment and is pursued by those interested in these returns. In the case of land, homeowners, realtors, landlords, developers, and financial institutions are parties in pursuit of exchange values (Harvey, 1973).

In a competitive market a landowner will be able to gain a price from a potential land use that is equal to the difference between the profit that would be generated by the land use on the site and the profit generated on the least productive site where the same use could occur. This difference is known as differential rent. Differentials arise because the price paid for the good that would be produced on the site is set by the cost of production (including normal profit) on the least productive site. They are the "surplus profits equivalent to the difference between individual price of production (on the site) and the ruling price of production" (Massey and Catalano, 1978).

Monopoly rent arises when property is sold under monopoly conditions (Walker, 1974). Under these conditions, a parcel's exchange value is higher than when differential rents set the parcel's value. Lack of choice makes some land users prone to being squeezed by monopolistic practices. One can picture land parcels being allocated in much the same way that seats are occupied in an empty theater: each person who enters the market has fewer choices than those who came before him. If those who do enter do so in order of their bidding power, then those with the highest incomes have the greatest choice while the low income people take up whatever space is left (Harvey, 1973). Racial minorities, students, and others may be so limited in the availability of residences that they are forced to pay rents which are above the price they would pay under conditions where differential rent would prevail. Moreover, in these days of generally limited housing supplies, or in situations where uniquely attractive or prestigious locations are in short supply, even well-off individuals may find themselves paying monopoly rents.

Absolute rent, which also pushes the price above the level of differential rent, arises not on specific sites with localized scarcities, but over the entire property market when the investment in property is prevented by the general class of land and property owners. These barriers to investment can have a number of sources including general speculation, strict growth controls, and high interest rates (Edel, 1976).

The pursuit of exchange value in a market system of land allocation creates a number of problems. These problems are serious enough to bring into question a land allocation system that relies solely on the market and to suggest the need for some form of

public presence in the land-use arena.

### **Problems Created by the Market System of Land Allocation Under Imperfect Competition**

Proponents of the market approach to land allocation argue that the goal of profit maximization manifested in the pursuit of exchange values by land owners will generate the greatest level of benefit, utility, or use values. This argument is based on the fact that in a perfectly functioning market, the pursuit of maximum exchange value by a land owner will cause him to sell or rent the property to the user who can derive the greatest possible use value from the site. This is because the consumer who can potentially derive the greatest marginal utility from using the property will offer the highest bid.

The use that extracts the greatest return from a given site will be the successful bidder. The outgrowth of this market process of competitive bidding for sites among the potential users of land is an orderly pattern of land use that is spatially organized to perform most efficiently the economic functions that characterize urban life (Ratcliffe, 1949).

But as we have seen, the land market is not perfectly competitive, so the pursuit of exchange values may not result in the efficient production of use values.

When the market is operating imperfectly exchange values can be pursued under conditions of monopoly or absolute rent. In this situation land and property is no longer allocated to the user who can extract the greatest return from the site but rather to the user who can absorb these costs and can afford to pay the high rents. As Harvey puts it, instead of use determining value, value determines use. "Hence arises the paradox that some of the most unproductive activity in society is found on land which is supposedly of the greatest marginal productivity by virtue of its location" (Harvey, 1973).

As long as the exchange value of land is based on competitive bidding and differential rents, an argument can be made that the exchange value reflects the use value that can be gained by the winning bidder. But monopoly and absolute rents can also arise which cause the exchange value to exceed the use value of the land, and the pursuit of exchange value no longer serves to maximize the production of use values.

### **Problems Created Under the Market System of Land Allocation Under Perfect Competition**

In addition to the case where the market system of land allocation does not maximize use values because of imperfect competition, the pursuit of exchange values will also generate a number of problems even when the market is operating perfectly.

1. *Maximizing Use Values Causes the Displacement of Use Values*

In the interest of exchange values, a landowner will offer the use of his land to whoever can offer the highest bid price. According to Edel,

workers are expelled from housing to allow the realization of differential rent. The realization of this differential rent requires direct conflict between potential users . . . and residents occupying the site prior to the creation of new demands. The realization of land values is in effect the capturing of land by one group of users from another” (Edel, 1976).

Condominium conversions are a perfect example of this process. Old renters often are displaced from their homes in order to make way for condominium buyers. The use value for the renters is replaced by use value for the new owners, and the landlord enjoys a substantial gain of exchange value.

Another example is the case of farmland conversion to urban uses. A farm owner’s interest in capturing exchange values might lead him to sell the land to a developer or a speculator who can offer a higher price for the land than it would be worth if it was kept in agriculture. The use of the property as agricultural land and open space becomes permanently lost for the farmer and for the citizens who derived use value from the original use.

So, even in a competitive market, where the exchange value of a parcel equals the use value that can be obtained by the highest bidder, the creation of the new use values is born from the destruction of other use values. As Marx observed, “capitalist production is in itself indifferent to the particular use values it produces . . . It is only concerned with producing surplus value” (Marx, 1973).

2. *There is a Lack of Incentive to Maintain Use Values*

Another type of conflict caused by the separate pursuit of use and exchange values in a competitive market occurs when a land owner cannot justify maintaining a site because of its low exchange value, even though the maintenance would be justifiable in terms of the land’s use values. This is common when an absentee landowner refuses to provide adequate erosion control measures in rural areas because he will not receive an acceptable return on his investment, or when an inner city rental housing owner defers maintenance because of the property’s low resale value. “as a consequence, we are throwing away use value because we cannot establish exchange value” (Harvey, 1973).

3. *Effective Demand May Not Reflect True Demand Because of Current Distribution of Wealth*

Another problem is that the market model assumes the current distribution of wealth. “The key point is that there is no single ‘efficient’ allocation of the economy’s resources, instead there is an efficient allocation corresponding to each initial distribution of

resources” (Weisbrod, 1977). An individual apportions money to land and other purchases within their budget limitations. The market model assumes that individuals will bid a price for land that is based on the marginal revenue or benefit that they expect to derive from using the land in their contemplated use. For a bidder who plans to use a parcel for a commercial or industrial use, this marginal revenue is derived in pecuniary terms and can be converted directly into effective demand. But for a bidder wishing to use a parcel for housing, marginal revenue accrues in non-pecuniary terms. “If income and wealth are not distributed in accordance with equity, individual preferences are not properly weighted” (Thurow, 1973). A poor person may not have the income to offer a bid that represents the use value that he would derive from using a site. The result is that “the rich command space, but the poor are trapped in it” (Harvey, 1973). Consequently, the market in equilibrium may not necessarily reflect the real demand for use values and will therefore not bring about an efficient land-use pattern where the land resource is producing the greatest possible use value.

#### 4. *Social Traps Prevent Some Use Values from Entering the Market*

“Social traps,” where rational individual behavior does not produce socially optimal outcomes, even when people would unanimously prefer the socially optimal outcome (Shelling, 1971), is another case where the competitive land-market will not provide the greatest possible level of use values. An example would be the encroachment of office development in an old ethnic community whose existence enriches the lives of its visitors and residents alike. The bid price that any single resident of the community would be willing to offer would not reflect the use value of maintaining a critical mass of community members. The resident would only offer a price up to the value that he enjoys by living in the community. The fact that he is an important contributor to the stability of the whole neighborhood’s character would not be reflected in his bid. The result is that a diffused yet important use value, the neighborhood character, would not find a voice in the bidding process.

#### 5. *The Market May Not Optimize Use Values Across Generations*

The problem of intergenerational equity also makes it difficult for the market to allocate land in a manner that creates the greatest level of use values. Bid prices reflect the time preferences of the bidder. The future use values of a site are not as valuable to a bidder as are those which can be consumed in the near future. Moreover, future generations have no way of competing with bids made by the current generation. As a result, a competitive market may not allocate land in a way which maximizes the production of use values across generations.

#### 6. *Externalities are not Considered by Those Bidding for Use Values*

Finally, the use values that are reflected in individuals’ bids do not include the positive or negative externalities that their use may

generate. A polluting cement company, for example, should include the negative environmental impacts it has on other users of the site (e.g., its neighbors) in its calculation of the utility it would derive from using the site for a cement plant. By doing so, its bid price would be lower and it may be outbid by a use which generates greater use values when all of the social costs are considered.

These criticisms invalidate the assumption of the market model of land allocation that the pursuit of exchange values will generate the greatest production of use values and that the efficient creation of use values is a smooth process without social conflicts. The problems of monopoly and absolute rent, displacement of current uses, ineffective demand, social traps, bias against future generations, and externalities all work to create situations where exchange values are acquired at the expense of use values. A theoretical perspective is necessary that recognizes the importance of exchange values and how their pursuit may interfere with the production of use values.

If one's goals include the protection of existing use values and the efficient production of new use values, then an alternative to the market system of land allocation must be employed. One alternative is public land-use planning and policy. The final section of this essay will review some of the policies that are available for achieving these goals.

### **Public Policies for Reconciling Use Values and Exchange Values**

For each of the problems presented above, a brief review of the public policies that could respond to them will be presented. What should be remembered, though, is that the policies themselves may generate new problems and should be managed to minimize this possibility.

#### *1. Displacement*

The problem of displacement of people who are enjoying use values so that a higher bidder can take their place, can be addressed by land-use controls, fiscal measures, or the public purchase of private land. Zoning, development permits, relocation permits, and subdivision regulations can be used to prevent a potential user from displacing current use values. Tax measures, that tax away any increment in the value of land caused by the transition to a new user, or rent controls, that prevent a landlord from gaining additional exchange value from land conversions, would remove the incentive for a landowner to turn a parcel over to a higher bidder. Direct public ownership of property could also be used to remove the incentive to pursue exchange value to the detriment of the use values being enjoyed by an existing land user.

#### *2. Monopoly and Absolute Rents*

Policies to avoid monopoly or absolute rents would cause exchange values to be consistent with the use value that the winning bidder would receive from the use of a parcel. They can be directly attacked, through the use of price and rent controls, or



indirectly attacked, by addressing their causes. When monopoly rents are caused by a group of users being trapped in a limited area with constrained choices, measures that increase their access to financing, that prohibit discriminatory practices, and that improve transit in order to give them greater freedom to live in other locations would be helpful. Absolute rent can be fought by measures that increase new construction, such as state subsidies and lower interest rates; anti-speculation measures, such as taxation of capital gains as income, abolishment of snob-zoning; and investment in public infrastructure in order to make new land available for development.

### 3. *Lack of Incentive*

When use values are lost because they offer no exchange value, as in the case of disinvestment in inner-city housing, policies can be focused on the landlord or the land user. The enforcement of building and housing codes can be used to force landlords to maintain their property. Policies can also be used that help occupants maintain their homes or shops. Incomes policy or maintenance vouchers could give tenants the ability to maintain the use values of their homes. Unmaintained structures could also be removed from the market through public acquisitions so that the rents that the tenants can afford to pay will go into maintaining the usefulness of the building.

### 4. *Distribution of Wealth*

When it is apparent that the market is not producing use values efficiently because of an inequitable distribution of wealth, the government can undertake an incomes or voucher policy that would make it profitable to provide basic needs for all. Zoning and other land-use controls could also be used to create a pattern of land-use that would theoretically result from a more equitable distribution of wealth. Public housing and commercial space projects might also be undertaken to replicate the pattern of use values that would be generated under more equitable conditions.

### 5. *Social Traps*

Social traps, where the rational behavior of individuals does not lead to a socially optimal production of use values, arise in a variety of situations; thus, specific measures cannot be prescribed. However, the general goal of policies in this area would be to protect the use values that are being enjoyed by a large number of people, but are not being protected by individual actions aimed at consuming private use values or acquiring exchange values.

### 6. *Externalities*

Negative externalities could be internalized into the cost of doing business through the use of performance standards or pollution charges. Complying with these regulations would reduce the use value that a polluter would derive from locating in a given area. The maximum bid price that a firm could offer for a site would reflect its use value to the firm minus social costs. As a result, less

polluting firms might outbid the polluter.

Where a firm would create positive externalities, the government could subsidize its rent in order to allow it to offer a higher bid. Alternatively, the public could use zoning and other land-use controls to replicate the land-use pattern that would occur had the bid price of the firm incorporated the use values it would generate for third parties.

Obviously, a number of policies are available to reconcile use and exchange values. But the use of these policies is not without risks. Governance itself is plagued by its own set of problems (Wolf, 1979). Zoning and other restrictions on land-use can constrain the supply of land and cause prices to increase. This could result in monopoly or absolute rents being conferred on some landowners. Rent controls could reduce the incentive for investment and create scarcity rents. Even public ownership of land is no panacea, for competition in the public sector over the best way to use public lands is no less fierce than in the private market, and it may not necessarily result in the production of the greatest level of use values. One need only observe the battles over land-use on the public lands to be convinced of this. Thus, while policies do appear to be available that can reconcile use value and exchange value, the repercussions of their use must not be ignored.

### **Conclusion**

The market system of land allocation, that relies on the pursuit of exchange values as a means to secure the production of use values, has been shown to not always produce the greatest level of use values on urban and rural land. In contrast to the assumptions imbedded in the market system, that competition among land users determines how land will be used, and that the result is the production of the greatest possible level of utility, it has been shown that, under conditions of monopoly or absolute rents, the pursuit of exchange value will rule the allocation of land. Even when the market is competitive, it will displace existing use values, ignore the distribution of wealth, forget about externalities, and be hampered by other problems.

An alternative is public land-use planning and policy. But planners will be faced with other problems, like balancing the pressures to convert a parcel to a use that will produce a higher level of use values against the desire to preserve the values currently being generated by the site. But, at least, the choice is available under a planned system. Under the market approach, the eventual conversion to the use that offers the higher price is almost inevitable. In this area, planning seems to give society greater flexibility.

Proponents of the planning and market approaches generally agree that a primary criterion for the allocation of land should be its potential for the production of use values. What the market proponents have forgotten, however, is that land owners are not passive but rather active participants in the land market. Their pursuit

of exchange value often does not result in land being allocated to the use that can produce the most use value. On the other hand, what the planning proponents have forgotten, is that land in any use is already producing use values, and that its conversion to a use that will produce a greater use value may result in a more efficient system overall, but will cause the destruction of use values for certain groups and individuals.

In the end, any system based on the production of use values cannot avoid the Gordian knot of comparing the utility levels enjoyed by various individuals. Any method used for cutting the knot will be debatable. So while a land allocation system geared toward producing use values is preferable to one in which exchange values "so penetrate every aspect of social and private life that it exerts an almost tyrannical control over the life support system in which use values are embedded" (Harvey, 1973), it must be recognized that a system based on use values will be faced with enormously difficult problems in determining the best land-use pattern. Perhaps we should be looking down other avenues besides utility for ways of judging the goodness of a land-use pattern, such as ethics, human rights, negotiation, and fairness.

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