The Israel Land Authority: relic or necessity?  

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Abstract

More than 93\% of all land in Israel is owned by the state or by public bodies and managed and administered by the Israel Land Authority (ILA). During the last decade, there has been increasing pressure to privatize the holdings suitable for development. The paper considers the central issues raised by the demand to curtail public land ownership in Israel. We first briefly summarize the main arguments for and against this kind of land ownership system. The next sections focus on the background of the existing regime and describe current land market policies of the ILA. The final section examines the claims about the shortage of developable land and discusses the factors and processes, which seem to explain the current demand to privatize the ILA. © 1999 Elsevier Science Ltd. All rights reserved.

1. The problem

For a developed market economy Israel has an unusual land ownership structure, as more than 93\% of all land is owned by the state or by public bodies and managed and administered by the Israel Land Authority (ILA). During the last decade pressure has been mounting to privatize ILAs more attractive holdings. Yet, many of Israel’s most impressive achievements, such as the successful absorption of mass immigration and the building of 30 new towns, would not have been possible without large publicly owned land. So why the current demand to retrench public land ownership? At first sight, there seem to be two likely reasons. Proponents of privatization argue that the virtual monopoly of the ILA is to be blamed for the high land and housing prices plaguing the Israel economy which are the result of an inadequate supply of land for development (Eckstein, 1997). We doubt that this argument is valid and shall return to it later. On the other hand, a central motivation is certainly the capital gains expected by investors and speculators if the sale of large amounts of developable land were to reduce prices below their long-run equilibrium level. There are additional factors, which may explain the increasing pressure to privatize publicly owned land. The worldwide fascination with deregulation and privatization, is affecting the political discourse and public policy also in Israel. The current demand for privatization may thus just be a symptom of the transition from a socialist, centralized land ownership regime to the decentralized and private structure typical of market economies. The concluding discussion suggests that there is a combination of factors: the changing ideological consensus, the economics of privatization, and political considerations.

The purpose of this paper is to clarify some of the questions raised by the demand for privatization of the ILA and to interpret the underlying changes in Israel’s land ownership regime. The discussion focuses on two sets of issues: the theoretical case for or against a dominant role of the state in land ownership, and the changing role of the ILA. The following section first summarizes the main arguments for and against public land ownership. We continue with a brief digest of the most pertinent facts about Israel and about the existing land ownership regime. Next we consider recent modifications in the ILA’s land policy. The final section examines the main claims regarding the shortage of developable land and discusses the factors and processes, which seem to explain the current demand for the release of the ILA’s holdings.

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2. Public land ownership – the theoretical background

In most western countries, public land ownership does not seem to be a major issue, even though everywhere a significant proportion of urban land is owned by municipalities and is used for public purposes such as roads, parks, public housing, schools, etc. During the seventies and early 1980s, however, the idea attracted significant attention. It was discussed in numerous articles, books and conferences, which examined and expounded the importance of public land ownership for effective planning and equitable development (e.g.: Flechher, 1974; Kehoe et al., 1976; Dunkerley, 1977; Roberts, 1977; Denman, 1980; Lichfield and Darin-Drabkin, 1980). However, with the rise of neo-liberalism and the growing political support for deregulation and privatization, interest in public land ownership per se has all but disappeared.

In recent years, academic discourse has thus by and large been limited to three topics, which are of peripheral importance for this paper: land reform in less developed countries (see, e.g.: Mueller et al., 1994; De Walt, 1994; Roe, 1993); reprivatization of real estate in former communist nations (see, e.g.: Brooks and Lerman, 1995; Lai, 1995); and demands to privatize natural resource areas in the USA (Lehman, 1995; Nelson, 1989). A complete summary of the debate of the 1970s and 1980s about the desirability of public land ownership would exceed the available space. The following review is thus limited to three issues which underlie any debate of the problem: (a) the role of the state in land ownership; (b) the rational for public land ownership; and (c) and the main arguments against it.

2.1. The role of the state in land ownership

From the economic point of view, the main justification for the intervention by the state in urban development is the inherent failure of competitive markets to achieve a socially efficient and desirable allocation. Such failures are typically the result of characteristics such as externalities, public goods, indivisibilities, monopolies, and transaction costs (Krutilla et al., 1983; Whitehead, 1983). Not less important as rationale are, of course, social and political goals such as equity and national security, which can be attained only by collective action. In the context of urban and regional development, there are four types of policy instruments that are commonly used to achieve these ends: land use controls, fiscal measures, development by the state or its agents and, of course, public land ownership. They vary widely with regard to their ability to achieve specific objectives, the cost of implementation, and the risk of avoidance. Different instruments may thus be appropriate for the pursuit of distinct goals and may be suitable in diverse political and economic environments. This paper is concerned only with public land ownership. No attempt is made to make a thorough comparison with all options, which would exceed the frame of this paper and add little to the central focus of the discussion.

There are not many market economies, besides Israel, which have a land ownership regime based almost exclusively on permanent public ownership. Examples are Singapore, Hongkong, and Canberra (Wang, 1986; Bourassa et al., 1996, 1997; Yeh, 1994). In each case, the formal title remains with the authorities, while developers, farmers or residents acquire leases permitting them to develop and use the land and to sell these rights under specified conditions. As a result, the public owner retains full control only until the land is developed. The implied division of ownership rights between public bodies and private leaseholders creates, however, incentives for the latter to change their legal status to their advantage (Ordway, 1998). Indeed this seems to be what is currently happening in Israel.

2.2. Why public land ownership?

Public land ownership has been advocated for various reasons (see, e.g., Kehoe et al., 1976; Roberts, 1977; Dunkerley, 1977; Whitehead, 1983; Krutilla et al., 1983). The most pertinent functions, mentioned also in the public discourse in Israel, are: the production of public goods, preservation of land reserves for future needs, prevention of ‘uneared’ profits, improved control of urban development, timing of development, and the preclusion of the takeover of real estate by foreigners. Given the extensive literature on the subject a brief summary of the main arguments for each function will suffice.

2.2.1. Production of public goods

The most obvious example of an activity is the production of public goods for which public land ownership is all but inevitable. By their very nature, land intensive public goods, such as roads and national parks, cannot be adequately provided by the competitive market (Krutilla et al., 1983). Their public character prevents charging any price at all or charging a price, which reflects their marginal social utility. If the land used for their production were leased from private owners, payment would have to be made according to its potential development value. Any increase in this value will then result in mounting pressure by the owners to put their property to a more profitable use. Public ownership remains thus the only way to insure in the long run their continuous and socially efficient provision.

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1 The alternative is temporary public ownership, in which municipalities acquire land at use cost and market it after planning and servicing. This land supply policy is characteristic for the regime in the Netherlands and Sweden.
2.2.2. Preservation of land reserves for large-scale development

The maintenance of land reserves for projects of national importance, such as airports and new towns, is one of the more difficult problems faced by fast-growing nations. Without an adequate supply of suitable land, indispensible schemes have to be postponed or abandoned. Legal procedures for expropriation, however, tend to be lengthy, cumbersome and very costly, especially if compensation includes the development potential created by the project for which the land is to be acquired. It is, of course, the blatant inadequacies of the legal instruments for expropriation which are the real cause of the problem. Yet, the opposition by vested interests to far-reaching legal reform almost precludes solving the problem of large-scale land reserves within a private property framework and makes some form of public land ownership almost indispensable.

2.2.3. Unearned profits

Unearned profits are capital gains resulting from public investment or public efforts, but not from actions of the landowner whose only contribution is the speculative holding of his property. The concept is related to the theories of Henry George (Andelson et al., 1995), who suggested that any increase in wealth accrues to the owners of land, because of the rigidity of its supply. Hence his proposal to rely on a tax on land as the only source of income of the state. Processes, programs and projects creating unearned profits typically include demographic and economic growth, the development of infrastructure, the provision of local services, and changes is permitted land uses. While the public as a whole bear their costs, landowners may reap enormous profits without paying for them. In contrast to market failure, the result is not an inefficient allocation but an inequitable distribution of wealth or income. Moreover, the asymmetry in costs and benefits creates incentives for rent seeking and manipulation of the decision-making process by interested parties, which distorts the outcome even further from the socially desirable allocation. Taxes, planning gains and betterment fees provide only a partial solution to the problem, because of the difficulty to distinguish between unearned betterment and compensation for developer's risk and the danger of manipulation and rent seeking. Public land ownership can reduce these difficulties, provided that the land is leased or sold at its market value after the planning process is completed.

2.2.4. Improved control of urban development

Private land owners and developers tend to ignore externalities and the social costs of profit-oriented land-use decisions. The obvious remedies, land-use regulation and taxation are, however, susceptible to rent seeking, manipulation and to strong opposition by those likely to be negatively affected. By including conditions in the lease about the kind and intensity of use permitted, public ownership of developable land can facilitate control of urban development. Any change then requires approval by both the lessor and the planning authority. Yet, it also lengthens the bureaucratic obstacle course of the developer and thus increases the costs of development. On the other hand, the direct involvement of the management of public land in the planning process may create conflicts of interest between its role as landowner and its role as participant in the planning process. These conflicts are themselves likely to be a source of inefficiency in the allocation of scarce resources.

2.2.5. Timing of development

The initiative for development rests in a private land ownership regimes with the owner, who ignores the social costs of his decision, unless he is forced to do act otherwise. While statutory land use regulation permits considerable control of the use and intensity of urban development, the control of the timing is more difficult to achieve. Hence, the pervasive complaint, e.g., about leapfrogging and haphazard conversion of rural land to urban use. One of the advantages of public land ownership, whether it is permanent or temporary, is its ability to insure development, when and where it is needed from the public point of view. Alternative instruments, such as taxation and joint ventures, can and have been used to achieve the same objective, though with limited success and the latter usually involving considerable transaction costs.

2.2.6. Preventing the takeover of real estate by foreigners

The identity of land owners is one of the more sensitive issues in land policy, especially in Israel. Because of the necessity of land for any human activity and the finiteness of its supply, land ownership is widely perceived to be a zero-sum game. Land acquired by foreign investors, especially if it is for non-productive purposes, is no longer available to local residents. Large-scale takeovers may thus aggravate inflation, cause pecuniary externalities to those who depend on that resource as employees or leaseholders, and even price out the local population from housing and their livelihood. Hence the fear of large-scale investment in real estate by foreign nationals and the call for legal measures against it. Switzerland, e.g., in which there is no significant public ownership of

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2 By law there is a representative of the ILA in every District Planning Commission. These statutory bodies deal with appeals against decision of Local Planning Authorities, are responsible for the formulation of District Plans, and must approve larger planning applications. There have been persistent though anecdotal reports about such conflicts of interest.

3 The various studies which examine the efficiency of leapfrogging tend to ignore the main argument against it, the social cost of inefficient infrastructure development (see, e.g., Ohls and Pines, 1975; Pines and Werczberger, 1982).
developable land, has in the past experimented with legal controls on foreign takeover of real estate, though with limited success (Lex Furgler).

2.3. The argument against public land ownership

Objections raised by economists against public land ownership are typically based on two arguments: that monopolies are inherently inefficient compared with competitive markets and that public administration and decision-making are inevitably less efficient than private profit making organizations.

The first type of argument about the intrinsic advantage of competitive markets should not need any elaboration in this context. The concentration of the ownership of a factor of production such as land by the state is a monopoly, and as such leads to lower supply and higher prices than expected if there were many profit-maximizing owners. However, land markets abound in market failures and result in allocations which are far from Pareto optimum. Any attempt to improve the outcome consequently requires some kind of public intervention in the market. The question is therefore not whether there is a role for the state in urban development, but whether public land ownership is an effective, equitable and efficient tool for that purpose. We believe that a market economy is not antagonistic to public ownership of land. On the contrary, we think that public ownership of land — particularly undeveloped land — can be a very efficient and equitable arrangement in a market economy. Well-documented examples are public land ownership regimes, as in Singapore or Canberra, or temporary public ownership as in municipal ‘land banking’ arrangements, widely used in the Netherlands, Sweden and France (see: Flechner, 1974; Lichfield, 1980; Needham et al., 1993; Lichfield, 1980). Indeed, some authors, as e.g. Barlow and Duncan (1995), claim that massive public intervention in the land and housing market, as in Sweden, have in every respect performed better than neo-liberal regimes, which limit the role of the state to the minimum.

The second type of argument against public land ownership concentrates on government failure, bureaucratic inefficiency, rent seeking, and corruption (Denman, 1980; Eckstein, 1997).

2.3.1. The notion of government failure

Governments suffer from inherent difficulties to achieve efficient and equitable policies. Reasons for this failure are the consequence of basic characteristics of the political system, such as the ability of elected and appointed officials to intervene in the decision-making process for reasons unrelated to the issue at hand. They do this, e.g., in order to rally political support or to create coalitions for often unrelated projects. The ability to influence and to distort the decision-making process and thus to make large profits in turn creates incentives for rent seeking by vested interests. As a consequence, public land ownership, intended to reduce inefficiencies created by market failures, may in itself be the cause of other inefficiencies.

2.3.2. Bureaucratic failure

Bureaucratic failure is due to the fact that the public bureaucracy is subject to rules and criteria different from commercial organizations. Lacking a single accepted standard of performance, such as profit, public officials must use alternative criteria, like effectiveness, legitimacy, political feasibility, and loyalty to one’s superiors. Moreover, employment itself is subject to tenure and the result of patronage. What appears to be inefficient and irrational behavior may be highly sensible in a bureaucratic context, especially when multiple objectives must be served. As a consequence, bureaucrats often prefer to play by the rule, to rely on red tape and to avoid taking responsibility and initiative altogether. The result is likely to be a lack of responsiveness to changing needs and opportunities leading to a slow and inefficient supply of land despite of sudden surges in demand.

3. The context

3.1. Some basic facts about Israel

The State of Israel was founded about 50 years ago. Since then, its population has grown dramatically by almost 560% from about 805 000 in 1948 to more than 5 759 000 inhabitants at the end of 1997 (Israel, Central Bureau of Statistics, 1997). With a total land area of 21 500 km$^2$ (excluding the Occupied Territories) overall population density amounts now to 261 persons/km$^2$. If the mostly uninhabitable Negev desert is excluded, the density approaches 560 persons/km$^2$, more than that of the Netherlands, the most densely populated country in Europe. Long-run projections predict persisting demographic growth (Werczberger, 1994), so that land prices can be expected to continue their current upward trend.

About half of this demographic development has been due to immigration (Werczberger, 1994). The two most important waves took place between 1948 and 1952, when the number of inhabitants doubled, and in the early 1990s with the recent influx of almost 800 000 immigrants, mainly from the former USSR (Israel, Central Bureau of Statistics, 1997). Because of the continuing commitment of the state to Zionist ideology, the absorption of new immigrants has remained a central political goal of all governments. Major efforts have been and are still being made to supply newcomers with at least a minimum standard of shelter, employment and services. Immigration thus provided an unparalleled challenge and opportunity for physical and social development, witness...
some 30 New Towns and hundreds of new settlements (Spiegel, 1967; Werczberger, 1979). For these achievements public land ownership has been critical if not indispensable.

Despite the economic burden caused by the absorption of mass immigration and the continuing and real threat of war, the Israeli economy has experienced an impressive overall growth rate. Between 1950 and 1996, the gross domestic product (GDP) per capita at constant prices rose by about 430%. In 1994 it amounted to 13,880 US Dollars, slightly less than those of Ireland ($14,060) and Spain ($13,120), but still significantly less than, e.g., that of France. ($18,670) (World Almanac, 1997). One of the consequences of this economic growth has been inflation, reaching at times three digits. Together with immigration it has been one of the driving forces for rising land and housing prices. Not less important as a consequence, on the other hand, is now the rapidly increasing social inequality, which threatens to undermine the very basis of social and political solidarity.6

3.2. The physical planning system

The current Israeli planning system is based on the 1965 Law of Planning and Construction. A direct descendant of the British planning system of the 1930s it shares its emphasis on ‘negative’ planning controls and physical plans. Similar to the French system or American zoning, statutory plans create development rights for the owner. Planning application which conform to their specification can generally not be rejected. Formally, the planning system involves a strict hierarchy of plans and planning committees which are responsible for formulating and approving plans and reviewing appeals against lower level planning committee decisions. However, because of the exclusive emphasis on land-use controls, planning authorities are all but unable to control the timing of development, a significant shortcoming in view of the recurring waves of large-scale immigration.5

The primary responsibility for local planning lies with local planning authorities. Competition for development (and development fees) between municipalities thus tends to distort decisions away from the socially desirable pattern. District Planning Authorities, in which Government representatives have a majority, have only limited success in preventing excesses because of the important role played by representatives of local authorities.

Furthermore, every change from agricultural to urban use must be approved by the Commission for the Preservation of Farm Land, which by its charter is supposed to consider only the suitability of the land for agriculture. The coastal zone contains both the most fertile agricultural land and the major urban centers. Obtaining approval for conversion of agricultural land to urban use in the center was thus in the past often all but impossible to obtain and required in any case years for processing and approval. One of the major changes during the past decade has been reversal of this policy. This shift has been instrumental in the current wave of suburban development and in the mounting pressure to privatize ILA’s holdings.6

3.3. Fiscal land policies

On the face of it, a large proportion of development gains and betterment is taxed by three types of real estate taxes, thus reducing the importance of unearned profits. Owners of vacant urban land pay a 2.5% property tax. In addition, a capital gains tax is levied on the real increase in value of land. The rate depends, among other things, also on the duration of ownership, so that the tax reduces the supply of private land for development (Evans, 1983). In addition, a municipal betterment tax of 50% is charged on the value added by planning decisions. However, the rates are in reality open to appeals, negotiation and litigation, so that taxes actually paid are usually far below the official rates and do little to prevent developers from making huge and rather excessive profits.

3.4. Housing and land prices

Current pressures for privatizing the ILA are, at least in part, also the result of the resurgence of housing price inflation in the early 1990s. This is not a new problem. During the past 30 years real housing prices have been rising at an average annual rate of 2.5% and land values at a rate of 5% (Eckstein, 1997). The average dwelling unit costs now about eight times the mean yearly income before taxes. Several factors seem to be responsible for the high cost of housing and land in Israel: high overall population density, continuing population growth and the long history of inflation, which only very recently has declined to single digit rates. Contributing are also an inadequate road network and low quality public transportation which limit the effective supply of urban land to a relatively short distance from the main centers.7

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4 The average income of the upper decile is now nine times the average of the poorest decile.
5 Provisions in statutory town plans regarding permitted uses and density (floor area ratio) become part of the property rights bundle of the owner and can only be changed or repealed in return for full compensation of capital gains foregone. Currently, there is no way to limit the duration of plans, as in G.B. or Germany.
6 An additional feature of the planning system is of interest in this context. When the permitted use is changed from agriculture to urban land, the local authority is required to expropriate, without compensation, 40% of the land for public purposes, such as roads, schools and open areas.
7 Inadequate urban and suburban transportation facilities have resulted in a steep rent gradient and have thus exacerbated high land prices in the center. Eckstein (1997) reports a decline in quality-adjusted housing prices of 12% for every km increase in distance from the center of Tel-Aviv. This estimate is in our opinion excessively high, but it does point to a structural problem, unrelated to the issue of land ownership.
4. The Israel Land Authority

4.1. Legal foundations and goals

The ILA was established in 1959. It is based on four laws enacted during the early 1960s. These define to this date its goals, its administrative structure as well as the basic conditions for the transfer of land. The objectives of the ILA defined in the Statute of the 2/5/1965 have remained largely unchanged, despite a number of attempts to reevaluate and reformulate goals and policies [see, e.g., the report by the Weitz Committee, 1963; the report by the Goldenberg Committee, 1985 and Borukhov (1995)]. Accordingly, the overall goal of the ILA is to guarantee sufficient land for the construction necessary for the development of the country and the absorption of immigrants, and to contribute to the preservation of agricultural land and national security.

The relative importance of these goals has remained vague, providing opportunity for policy adjustment according to the changing political agenda of subsequent governments. Additional, partly contradictory, objectives mentioned in the past include protection of open areas, implementation of the government’s population dispersal policy, reduction of the cost of land for development, provision of housing for new immigrants, and preservation of nature reserves. With the transfer of the responsibility for the ILA from the Ministry of Agriculture to the Ministry of Construction and Housing in 1992, the central emphasis has shifted to the provision of land for urban development and housing, in particular, for new immigrants and other target groups. In the absence of an overall policy, however, timing and location of the release of land are usually the result of ad hoc decisions by the government and of pressures by interest groups such as, in particular, developers.

4.2. The source of the land

Land administered by the ILA includes real property obtained from three main sources: (1) the Israel National Fund (INF), which had started purchasing agricultural land for Jewish settlements well before the foundation of the State of Israel; (2) vacant land left to the State of Israel by the British High Commissioner, who with the conquest of Palestine had inherited it as the legal successor of the Ottoman Sultan; (3) the Development Authority in charge of administering the land of the Arab Refugees, who had fled the country in 1948 during the War of Independence. The distinction between these three sources of the land is of little importance for this discussion and can safely be ignored.

4.3. The spatial distribution of ILA owned land

For historical reasons, the share of land owned by the ILA differs significantly between regions. Most of the

### Table 1

<table>
<thead>
<tr>
<th>District</th>
<th>Area in km²</th>
<th>ILA owned</th>
<th>Private ownership</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jerusalem</td>
<td>1693</td>
<td>1586</td>
<td>108</td>
</tr>
<tr>
<td>North</td>
<td>4503</td>
<td>3947</td>
<td>556</td>
</tr>
<tr>
<td>Haifa</td>
<td>932</td>
<td>640</td>
<td>292</td>
</tr>
<tr>
<td>Center</td>
<td>1296</td>
<td>1061</td>
<td>234</td>
</tr>
<tr>
<td>Tel-Aviv</td>
<td>170</td>
<td>90</td>
<td>80</td>
</tr>
<tr>
<td>South</td>
<td>12015</td>
<td>11973</td>
<td>42</td>
</tr>
<tr>
<td>Total</td>
<td>20609</td>
<td>19297</td>
<td>1312</td>
</tr>
</tbody>
</table>

*The Division into Districts used by the ILA differs from the division employed by the Israel Statistical Office and the Ministry of Interior.

developable land in the large agglomerations — Tel-Aviv, Jerusalem and Haifa — is privately owned (see Table 1). The property suitable for urban development held by the ILA is concentrated in rural areas, the desert and the peripheral parts of the country. As a consequence, the ILA is extremely limited in its ability to directly affect the supply of land in the center, where demand and prices are highest.

5. Land policy of the ILA

5.1. Basic principles

The basic principle governing land policy by the ILA is that land cannot be sold. It can only be leased, regardless whether the user is a private person, a business, or a public body (Israel Land Law; Israel, 1960). Following biblical tradition, the duration of the standard lease has been set at 49 years with a renewal option for the same period.

Following the recommendations of the Weitz Committee (1963), a number of rules were instituted regarding urban land, which have governed ILA’s management policy until now. In order to limit the opportunity for unearned excessive profits, the value of the lease is to be based on its market value, and land can only be leased after completion of the planning process and after approval of the permissible use. Moreover, 91% of the value of the property must be prepaid, which is then considered as full payment of the rent payable until the end of the lease.

5.2. Recent changes

The transfer of the responsibility for the ILA from the Ministry of Agriculture to the Ministry of Construction

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8 Note that the figures in Table 1 refer to Districts which are considerably larger than the cities whose name they share.
9 The use of tenders has become mandatory for determining land values. Nevertheless, in Development Areas and for land to be used for public purposes, land continues to be conveyed without tender and at below market prices.
and Housing in 1991 led to several critical policy changes. In particular, efforts have been made to reduce the need for contact and thus friction between the ILA and the leaseholders. Until the 1990s lessees had to obtain permission from the ILA for every change in land use and density, even for the extension of existing buildings. Approval was conditional on a payment for the expected betterment (approval fee). A change in use from agricultural land to non-agricultural purposes required, in addition, the annulment of the lease and the return of the property to the ILA. Since leaseholders were compensated only for their investment, but not for the expected betterment, very little agricultural land became available for development. According to current regulations, leaseholders in urban areas, which have paid up their lease, do not require approval of changes in use. As a consequence, urban land, though formally still the property of the ILA, has for all practical purposes been privatized, especially since leases are now renewed automatically without any further payment.

After the last wave of immigration from the former USSR in the early 1990s, the Government started experimenting with additional policies intended to increase the supply of agricultural land for residential development (see, e.g., decisions 533, 611, 666, 727 of the ILA). The latest decision of the ILA Council (# 727) allows farmers and agricultural settlements to initiate the change in permitted use and to retain 27% of the betterment (29% in high priority development areas), provided the change in use is approved by both the ILA and the planning authorities.10 Until now, the results of these measures have been limited.11 Nevertheless, legislation is in preparation, which would make these regulations permanent. The result will be the transfer without payment of close to a third of the development value to agricultural leaseholders, without insuring that this land will in the foreseeable future be used for development. We observe thus a progressive erosion of the power of the Government to control urban development, and the transfer of the initiative for development and of development gains to lessees. What seems to be taking place is a step-by-step reduction of the governments role in development and concomitant privatization of developable agricultural land.

5.3. Proposals for privatization

During recent years, officials and lobbyists have made a variety of proposals for the privatization of the developable land owned by the ILA. These ideas such as wholesale transfer of all property rights to private investors or to the agricultural settlement leasing the land, conveyance of ownership to public corporations (whose shares would be distributed among the population), and the assignment to local authorities of the responsibility for marketing and/or managing the land within their jurisdiction (Eckstein, 1997). The professed objective of these proposals is to strengthen competition in the land market and to expand the release of land to developers. Marketization is thus expected to result in a significant decline in prices in greater efficiency in the allocation of land.

Since the basic charter of the ILA prohibits the sale of the land as freeholds, any form of privatization will have to keep the formal title with the ILA.12 Privatization therefore means only the transfer of development rights to leaseholders. These obtain thus the right to use and develop the land at will (but subject to approval by the planning authority), and to sell these rights, although they may be required to share some of the development gains with the ILA. While this is not a freehold in the full sense of the word, its economic implications are practically the same.

By clearly separating between the planning function and land management privatization is, in addition, thought to speed up the planning process and to reduce the time required to make the land available for development. Proponents thus expect to eliminate conflicts of interest between the management role of the ILA and its role as active member in the District Planning Committees. There is no empirical evidence supporting this claim.

6. Discussion

Most of the current discussion about the future of the ILA focuses on the question, whether there is a shortage of land for development. This concluding section returns to this problem and then examines the social and political context of the ongoing change in the land ownership regime in Israel.

6.1. Is there a shortage of land for development?

Current pressure for privatization began developing when the new government elected in 1992 put a complete stop to public construction leaving the initiative for building to private developers. The government’s role in promoting housing construction was thus limited to supplying — through the ILA — developable land for new housing, in particular, of new immigrants. The ensuing

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10 Policy is constantly changing. While recent applicant are entitled to retain only 20% of the betterment, there is currently talk about increasing the share of agricultural leaseholder to 51%.

11 The recent decline in land and housing prices has clearly been due to a general recession, and not to an excess supply.

12 In theory, of course, legislation might be passed which would allow the actual sale, but this seems at this stage extremely unlikely.
rapid rise in housing prices during the years 1993–1994 was then blamed on the failure of the ILA to release enough land to meet those needs.

We think, however, that there has never been a true shortage in land for construction. Rough estimates must suffice to demonstrate our assertion since there is no reliable up-to-date data available on the subject, neither from the ILA nor from any other authority. Consider the four major sources of land for development. (a) During the years 1990–1991 the ILA transferred planned land sufficient for the construction of 87 500 dwelling units to the Ministry of Housing.\(^{13}\) (b) Moreover, the ILA marketed between 1992 and 1994 land for some 117 000 dwellings to commercial builders (Borukhov, 1997). (c) At the same time, builders already owned land with planning permits, which would have permitted the construction of almost 300 000 dwelling units in and around the three major metropolitan centers (The Annual Report of the State Comptroller’s Office, 1994). (d) Finally, a change to urban use had been approved by the Commission for the Preservation of Farm Land of land sufficient for more than half a million dwelling units (18 000 h). At the beginning of 1995, there was thus a supply of developable land for almost one million dwelling units, half of which had already received planning permits. On the demand side, the Ministry of Housing estimates that 50 000 dwelling units should annually be built to meet current needs.\(^{14}\) Nevertheless, builders started during the years 1992–1994 construction of only some 125 000 dwellings, slightly more than 40 000 units per year. Supply of developable land in 1994 thus does not seem to be the kind of land shortage likely to be responsible for a rapid increase in land prices.\(^{15}\)

After the onset of the recession in 1996, the ILA continued to market the requisite amount of land; but a large proportion of the tenders offered by the ILA was never concluded. This typically occurs, when bids submitted are less than half of the minimum price set by the Government Appraiser.\(^{16}\) Therefore, it seems to us that many builders and developers intended to purchase the land as speculative investment and not for building housing in the immediate future. Supply of land for development is generally quite inelastic. Thus both the discontinuation of the policy of setting minimum prices and the privatization of the ILA are unlikely to result in reduced land prices (Wiltshaw, 1985; Evans, 1983).

6.2. The demand for privatization of the ILA

Demand for privatization of the ILA can thus not be explained as response to an acute shortage in the supply of developable land. Why does there then seem to be significant, though mostly tacit, political support for the privatization of the ILA? Three complementary explanations are here suggested, which focus, respectively, on the changing ideological consensus, the economics of privatization, and political considerations.

Dominant social values in Israel have significantly changed during the last 20 to 30 years. When the ILA was incorporated in 1959, its charter was influenced by a peculiar combination of ideas derived from three sources (Borukhov, 1980). It was influenced by biblical tradition (According to Leviticus 25: 23 “The land shall not be sold in perpetuity”), socialist economic doctrine (“Land as factor of production should not be privately owned”), and Zionist ideology (“The land must not be sold since it belonged to the Jewish people which had redeemed it”). However, during the past decades, a number of demographic, social and economic changes have weakened the ideological consensus on which the role and the mode of operation of the ILA were originally based.

One of the factors for the ideological change has been immigration. Most of the immigrants from Middle Eastern and more recently Eastern European countries did not share the social–democratic tradition of the labor party which ruled Israel until the 1970s and its belief in the importance of public land ownership. Their social and political integration into Israeli society has inevitably changed the political climate and diminished support for public land ownership. Equally important has been Israel’s development from a relatively poor industrializing nation to a post-industrial high-tech economy. This transition has severely weakened the unique political status of agriculture, for which land together with water was the main limiting factor. While the advancement of agricultural settlement had originally been one of the main objectives, the ILA is now mainly concerned with promoting urban and industrial development.

Demographic, social and economic changes have in the course of time eroded the previous national consensus, which emphasized collective values, such as Zionism, social solidarity and immigrant absorption, and readily accepted central government control and government initiative. The resulting normalization of the Israeli society meant an increasing emphasis on individualistic values such as self-actualization, private initiative, and profit making. Privatization has consequently become one of the popular catch phrases in the political discourse. As a result, the ILA is increasingly perceived as a bureaucratic nuisance, if not obstacle, for developers and leaseholders alike. Indeed the recent initiatives to privatize the ILA have hardly met with any opposition.

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\(^{13}\) The release of this land enabled the Ministry to initiate the construction of some 81 000 dwelling units.

\(^{14}\) Since some of the land purchased inevitably serves as speculative investment, the Treasury recommends to release every year enough land for about 65 000 dwelling units.

\(^{15}\) Indeed during the past two years land and property prices have sharply declined as a result of the current recession and its effect on housing demand.

\(^{16}\) Minimum prices are based on valuations derived from average housing prices in the area and building costs, but are unknown to bidders.
by the media and even by the labor party, which had been instrumental in its establishment.

The main reason for the current interest in the release of the developable land by the ILA is, of course, the expectation of large capital gains. When long-term leases are prepaid (or not updated), increasing real estate values generate a widening gap between the current use value (and rent) and the potential value of the land if fully developed. Especially as the end of the lease approaches, lessees have a growing incentive to obtain a change in ownership arrangements (Ordway, 1998). Indeed, in a number of areas, e.g., in Japan, Hawaii and Canberra, leaseholders have successfully used political pressure to acquire formal title to privately owned property they lease. In Israel, there is an additional group of actors, developers, who actively participate in the struggle for lease. In Israel, there is an additional group of actors, developers, who actively participate in the struggle for a change in ownership structure. Expecting to share in the reallocation of development values they have become central players in the efforts to privatize or rather release undeveloped land at below long-run equilibrium prices.

Politicians and public officials are the third group of stakeholder contributing to the process of privatization. If land is publicly owned, the temptation is difficult to resist using its release to solve political problems, especially if a handsome profit can be made at the same time. Privatization is particularly attractive, since it does not involve direct costs to the budget and may even produce considerable revenues for the Treasury. This is indeed what happened after 1985 when most agricultural cooperatives (‘Moshavim’ and ‘Kibbutzim’) could not repay their debts because of a combination of very high interest rates (following the ‘stabilization policy’ to curb three-digit inflation) and continuing losses resulting from a decline in the profitability of the agricultural sector. These debts threatened the very existence of a small but politically powerful sector of the population. The major banks (owned at that time by the government) and the Ministry of Finance eventually agreed to a solution which set a highly problematic precedent. It involved the sale of development rights of some of the agricultural land held by the settlements to private developers and to use the settlement’s share of the receipts to pay those debts (Barshishat and Feitelson, 1997).

The effects of these developments for the real estate market are ambiguous. Ha’aretz, the most important Israeli daily newspaper, recently reported (January 24, 1999) that approval has already been given to about 480 agricultural settlements for the release of agricultural land, which would allow the construction of 50 000 dwelling units. In the meantime, however, housing and land prices have hardly been affected.\(^{17}\) In particular, it is not clear how much construction will result from the large-scale release of agricultural land for urban development. The immediate effect thus seems to be mainly the further erosion of public control over the location and over the timing of development.

6.3. What next?

The ongoing process of the de facto privatization of the ILA appears at this stage to be almost unstoppable. Pressure by speculators, leaseholders and developers, political expediency and a lack of popular support have been eroding the political basis of public land ownership. Yet, little, or rather nothing has been done so far to find alternatives for essential roles the ILA has fulfilled in the past (see Section 2). Any reduction in the role of the state must provide solutions to these needs currently met by the ILA. This is especially urgent in a dynamic country as Israel, which anticipates an increase in population of another 65% to a total of 10 000 000 by the year 2020 (Werczberger, 1995). The challenge will have to be met by strengthening land policy instruments such as land use controls, expropriation procedures, compensation and more effective taxation of development gains. Yet, at this stage there is no inclination by legislators and the planning establishment to meet the problems created by current privatization trends.

References


\(^{17}\)The recent decline in land prices seems to be primarily the result of the current economic down-turn.