

MARKET vs. PLANNING: The old controversy revisited.

Vasilis Patsilaras

Urban & Regional Planner

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Introduction.

Urban planning is all about land utilization and spatial order. Land is used by private and public entities within the confines of the prevalent mixed economy, modified by the rules and regulations established by the state with regards to the type and extent of land uses and structures allowed and the legal rules dictating institutional and fiduciary relationships. Public intervention in the form of such rules and regulations has been quite extensive and more or less arbitrary based on prescriptive rules reflective of dominant ideologies and interests. City and regional plans developed under these circumstances have for the most part faltered or at best rarely ever fully implemented, eventually revised by market forces. This is in part because planners and other decision makers are inherently incapable of comprehending the multitude of individual subjective value judgments which materialize and shape urban realities mainly through the operation of the market. The market's significant advantage over centrally planned action is that it signals, quite accurately, through the pricing mechanism the desires and needs of the people in a timely fashion. But it is severely handicapped when it comes to dealing with whatever does not go through the market; namely public goods and externalities. This is where the market signaling mechanism collapses. As a result and for all its advantages the market fails to deliver some of the most crucial elements that make up the basic infrastructure of a well functioning city (public goods). It also fails in dealing with undesirable and often catastrophic side-effects of otherwise legitimate functions (negative externalities). Markets are notorious for failing to deal with those two aspects of economic activity. In the end spatial order and land utilization are greatly affected by such failures. Malfunctioning markets lead to misallocation of resources (allocative inefficiencies) and to other inefficiencies, including often increased inequalities.

Here then lies the predicament of modern planning practice. Government planning action has not been able to deal effectively with the dynamic nature of urban and regional development problems, often misguiding action, while on the other hand the market is inherently incapable by itself of providing some of the basic elements of communal well being.

In the past few decades heavy handed planning practices gave rise to criticism of over-planning and of not allowing enough private choices to materialize. Frequent failure of such plans increased the legitimacy of this kind of criticism. Lack of planning or minimal planning on the other hand was criticized for lacking the ability to provide adequate physical and social infrastructure.

It seems then that the solution lies in a well organized partnership between the two sides, where the public and the private sector will share the responsibility of shaping functional cities and regions. This partnership should be built on a robust set of rules and regulations that reflect the workings of the market and the true role of public authorities. For that purpose a brief analysis of the operation of the market in an urban spatial setting is necessary in order to isolate its main features and to identify critical public intervention vehicles that can mitigate market failure and facilitate the provision of public goods, which is the essence of the dual role of the public sector.

Property rights assignment and enforcement.

Land utilization depends very much on the definition and assignment of property rights enjoyed by individuals and organizations as they seek to pursue their own interests, be that wealth maximization or advancement of some other stated or undeclared purpose. Property rights relevant to urban development are many and varied and they differ from place to place and from time to time. The mix of rights' bundle changes over time following evolution of perceived needs, ideological swings or technological improvements.

The exercise of any given right is not without a cost. The enforcement of a bundle of property rights depends in every case on the cost of policing the consistent application of that right, otherwise also known as 'transaction costs'. The following expresses the relationship between perceived value of any given right and the cost of its enforcement:

Value of right \leq Cost of assigning, applying and enforcement (transaction costs)

Any particular right is then exercised only if its perceived value is higher than the transaction costs associated with its realization and enforcement. For as long as the perceived value of the property right is lower than the cost of its assignment and enforcement, the right is not exercised and the related good or service is not available for enjoyment by all who desire it. The left hand side of the equation above represents in simple economic parlance demand and the right hand side represents supply. If the supply cost is higher than the price the public is willing to pay, then there is no market for the good or service associated with the particular right. For example, for as long as leisure and vacationing by the sea site during the summer was not perceived (as it happened in the 1950s) to be such an important or affordable necessity (as it is perceived to be now) there was no demand for sea site properties and their value was low, since the land near the sea is typically of poor agricultural value. As the need for vacation became more apparent and stronger, the "right" to vacation and to a second (vacation) house by the sea became bigger and the value attached to this type of activity and the properties near the sea started increasing rapidly. As a result the relevant market became operational, despite constantly increasing costs. The cost estimates here are not limited to the provision of adequate infrastructure but includes all other related costs such as the cost of legalizing the activity, which may be the cost of developing a town plan and it goes so far as to include by-passing the legal restrictions and building illegally (common practice in Greece). Cumbersome planning efforts lack behind market directives and they are typically slow in meeting the current needs of the people. The case of illegal housing (mostly second homes) in Greece is in fact a clear case where planning has completely failed to meet the real needs of the people.

It is interesting then to examine the supply conditions of the relationship above, in view of the ever changing demand. The supply conditions of private goods are straightforward

and they don't have to be examined here. What complicates the analysis of the supply side is the presence of urban externalities and public goods, whose treatment has been inadequate both in theory and practice and which deserve further investigation.

Public goods.

Public goods are characterized by two main features. They are non-excludable and they are not rival, so that they are subject to overuse if not abuse by free riders. Undersupplied and overused, public goods are subject to congestion becoming eventually rival.

Subsequent state intervention using regulatory power or private / institutional arrangements can introduce certain amount of excludability easing out the rivalry. In the end, depending on technology available, these goods may even become private goods, namely rival and excludable at the same time. This dynamic progression is shown below.

GOODS.

Feature	EXCLUDABLE	NO-EXCLUDABLE
RIVAL	Private Goods (4)	Congested Goods (transitional state) (2)
NO-RIVAL	Club Goods (3)	Public Goods (1)

(Adopted from: Webster, Chris "Property Rights, Planning & Markets")

The main urban public goods are easily identifiable and defined. In the absence of pricing mechanism there is an inherent difficulty in estimating the real value of these goods or services, as real preferences are not revealed by the free-rider attitude of the public. Monitoring of use can improve information availability but it is typically quite costly and unlikely to be undertaken in a systematic way by local governments. Decisions regarding the treatment of public goods are in most cases "political" reflective of ideological underpinnings and/or of the power of influential special interests. The form and the format under which these goods are supplied may change over time following demand volumes, technological innovations and / or shifts in the prevailing ideological paradigm. A brief reference here is made to an example familiar to the Greek audience. In the early 1980's when the socialist party got in power, bus rides in the large Greek cities were free until 8:00 in the morning, ostensibly for the working class to get to go work at no cost. This experiment was short lived. Today at the time of extreme privatization, monthly passes on the same bus systems are at the same cost level with the normal single one-way ticket.

In practice, the provision of congested public goods can be safeguarded and continued if it is rationalized either with the application of land use or other type of regulations, introducing fiscal measures, or with the creation of "clubs" and club-like institutions by either the private or the public sector. Clubs introduce a certain amount of exclusivity that decreases rivalry to tolerable levels but they raise issues that have to do with equity, redistribution and rent seeking (self-interest promoting) behavior from the part of the decision makers.

Local authorities should establish well thought off mechanisms and procedures in order to:

- a) identify in a timely fashion congested public good,
- b) reveal to the extent possible real public preferences, and then
- c) choose the appropriate form of action, be that regulatory, fiscal or market oriented.

In any case certain rights may have to be redefined or expanded.

Externalities.

Externalities as side-effects of regular, sanctioned activities have always been a very significant factor in shaping urban realm. In general, negative side-effects such as traffic jams, noise and high levels of air pollution – to mention only the most common and prevalent – tend to work as deterrents to activity concentration, while positive ones tend to work the opposite way, increasing concentration of activities. The range of external effects both positive and negative is too wide and varied, and a large number of them become evident after a certain level of overall activity concentration and / or intensity has been achieved. This may very well be a reason why their contribution to urban form has not been duly recognized.

The main characteristic of externalities is that they escape the market and that the individual activity that causes side effects is typically under-priced (or overpriced in the case of positive externalities). In many cases the same activity may cause at the same time both positive and negative side-effects, which by nature are difficult to measure and compare. Take for example high density development in the form of multistory building, such as the ones allowed in the majority of Greek cities. Such dense development has the advantage of rendering the operation of mass-transit systems financially viable and of increasing overall accessibility to good and services, but on the other hand it creates among other things severe parking, congestion and pollution problems. In the end, the question is: is high overall density good for the city and if so how much of it? How, then, can the density limits be decided upon? How much activity integration or separation is desirable?

Master plans and other forms of blue-print development guides usually dictate a certain amount of density and a particular kind of mix of various activities and often attempt to isolate activities from one another through the use of exclusionary zoning. The latter is a pronounced practice in the US in the form of activity (Euclidian) zoning, where large tracks of land are dedicated exclusively to one or very few closely related and very well specified activities, like single family detached housing, retail centers, etc. Zoning is a cruel form of direct regulation attempting to cut down negative side effect of one activity on another, invented originally to protect property values. But direct regulations such as this that isolate activities, eliminate many positive impacts along with the negative ones. Increasing attacks on Euclidian zoning, even within the U.S. in the last twenty years or so, are an indication of strong dissatisfaction with this form of traditional planning

practice. Is there a better way to limit negative impacts without harming the positive ones? Can there be an effective and efficient way of coordinating the action and desires of the myriad of people living in a big city to the benefit of all, increasing total welfare? What is the best way to develop physical form and land uses that conform with and support social and economic relations without doing much harm? Fiscal measures such as taxes or subsidies, often used to internalizing external impacts, are for the most part issue-directed and narrowly focused with uncontrolled impacts on other areas.

Clubs.

Forming voluntary or involuntary associations is an alternative method used to reduce information costs and uncertainty in the land market and it involves re-examination of ill-defined property rights. These associations are typically formed to deal with certain coexistence problems and they are quite common at the local level either in the form of clubs or as homeowners associations, compulsory or voluntary. The simplest form of this kind of arrangement is the condominium regulations governing the behavior of everyone sharing the same building facility, be that in downtown Manhattan or on a beach in Florida. In Greece this kind of arrangement is very widespread in the form of “regulations of operation” prepared by law for every multistory building. These regulations dictate certain basic aspects of communal living, excluding certain uses, dictating behavior and imposing the costs of coexistence in a prescribed fashion. In essence the regulations governing the association limit and re-assign property rights to protect the common good of civil coexistence, easing out transaction cost at the same time. Some of the regulations included in these agreements are imposed by law and some of them are voluntary.

Integration of approaches.

The same way building regulations handle externalities within the building, building-block and neighborhood-wide regulations can handle externalities pertinent to the building-block or to the neighborhood. In fact, some of the city-wide problems can be more effectively dealt with at the local level. Take again the example of high density. One of the biggest problems associated with high density development relates to the use of automobile causing parking and traffic congestion. This problem can be dealt with in a more effective way by drawing block-wide or neighborhood-wide rules and regulations that in essence re-assign some of the property right regarding the use of automobiles. The simplest way to move the social cost on the individual causing the problem is to force the provision of at least one parking space in situ for each apartment or office built. If such simple regulation is strictly enforced, even in the absence of density regulations, it is doubtful that high rise buildings will be built outside the center due to the high cost of providing the necessary extra parking space. Central areas where property values are higher due to the presence of positive externalities, are more likely to contain high rises because contractors can afford to build costly underground parking and pass the cost to the apartment or office. The farther away from the center, the lower the density will be.

In the absence of strict building-height or density regulations tall buildings will be built in the center and single family ones near the edge of the city; a pattern resembling Alonso's bid-rent function.

The same property rights reassignment logic can be utilized in many different circumstances, as in the case of protecting the character of a neighborhood, historic buildings, landmarks, etc. using neighborhood wide regulations. Often a combination of fiscal, regulatory and club type arrangements may be considered necessary to deal with specific problems. When a building is declared to be of historic value and has to be preserved in the common interest, the beneficiaries (the neighbors and society as a whole) have to pay for it. If the cost of preservation falls solely on the owner of the building then the most certain outcome will be the opposite of what is intended, and historical evidence proves this to be the case. In Greece where typically regulations punish the owner of the historic property, very few of the old preservable buildings survived, despite the very strict laws dictating preservation of such buildings. Most of these buildings are left to be destroyed by nature or destroyed intentionally. In the end, most of the "protected" buildings of exceptional aesthetic and historic value are gone.

In fact the neighbors and society at large should compensate the owner for two reasons: because the building itself contributes to everyone's welfare, and also because by being smaller than what it can otherwise be if rebuilt, contributes much less to traffic, parking and other problems. A set of regulations transferring to the preserved building some of the increased value captured by the neighboring properties when developed, as a compensation for the two reasons mentioned above, would facilitate both overall development along with preservation. These rules may include regulatory action by the state as well as financial measures that would make the right to develop one's own land conditional on the proper compensation of the owner of the piece of land which cannot be developed. If this kind of regulations had been adopted in Greece forty or fifty years ago, with the same building ratio we have today, in the end the same overall floor space could have been built in most downtowns, with one substantial difference. Most of the beautiful buildings of the past would still be in place and the newer buildings probably would have been taller with the overall city-wide density being the same.

This is just a simple example of the application of the proposed approach, which can guide city development in a different way leading to different physical and social outcomes.

Conclusions.

Cities aren't just physical forms but rich and dynamic complexes of social and economic relations among people. Cities do not operate by fiat. They are living, dynamic organisms obeying the prevalent social and economic forces. Cumbersome, slow moving and non-responsive planning practices distort organic growth. To increase effectiveness, urban planning has to successfully and in timely fashion reflect real needs. Market signaling is

one of the most efficient ways to read social and individual needs and the market, properly guided, can be a very important planning instrument. Strict master plan type regulations have to be limited to bare essentials and increasingly be replaced by dynamic arrangements controlling relationships between activities, rather than absolute values. Planning and markets have to work in harmony and this assumes inevitably realignment of property rights in order to take care of two of the main manifestations of market failure: public goods and externalities. Ignoring or side stepping the public goods and externality issues is to bestow rights to all sorts of polluters and to those who take advantage of a poorly managed and thus defend-less society.