Rethinking Rationale for Planning

Gill-Chin Lim*

〈Contents〉

Recent years have witnessed a noticeable rise in anti-planning sentiment. Conservative thinkers such as George Guilder wrote about the supremacy of market mechanism and argued for futileness of public intervention. In the real world of politics and policy making Ronald Reagan championed this trend by slashing various domestic programs and supporting privatization of government services. The emphasis on private market approach has been extended to other nations as well. The Reagan government has actively pursued the idea of privatization abroad through its foreign aid system U.S.A.I.D. While their intention to reduce waste in the public sector is noble, a blinded opposition to planing and public intervention in a market democracy is misleading and possibly dysfunctional. The approach could seriously hurt the overall welfare of the people.

In an age of reactions, planners need to be strongly equipped with the fundamental rationale for planning. In this article I will present the most essential reasons why even the most democratic and free society is in need of planning for social welfare.

I. A Historical Reflection

Why is planning necessary in a market democracy? Why don't we leave all the decisions to individuals and let the invisible hand work out to benefit all and as a result the entire society. Adam Smith, the most revered thinker of free markets, wrote in 1776:

* Professor Department of Urban and Regional Planning University of Illinois at Urbana-Champaign

[Individual] intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse for the society that it was no part of. By pursuing his own interest he frequently promotes that of society more effectually than when he really intends to promote it.[1]

Common goods would be best attained by untrammelled individual private interests. Therefore, it would be most desirable for the government to minimize its intervention into the affairs of private individuals. The United States, England and some other European nations as a laissez-faire economy indeed accumulated substantial wealth through the 19th century. However, toward the turn of the century the ills of the unfettered laissez-faire became an evident picture of industrial cities. Need for remedies and intervention arose, and collective provision of services was called for. It was under these circumstances that the movement to professionalize the effort to attack the problems of the laissez-faire started.

The First National Conference on City Planning convened in Washington, D.C. in 1909. The major themes discussed in the conference included tenement housing laws, industrial and residential zoning, provision of parks and playgrounds, hospitals, relief of congestion, transportation facilities, and poor living conditions. None of the participants in the conference advanced abstract theories to justify what they were calling for in response to the ills of cities in the rapidly urbanizing society.[2] But they were acutely aware of the problems of imperfect markets; a need for collective provision of certain services; pollution and congestion; unequal destribution; and institutional issues in managing cities. They harbingered professional effort to design public intervention in the market economy. This tradition of interventionism has been well preserved throughout the history of planning in the United States.

The American City Planning Institute—the first professional organization of planners in the United States was organized in 1917 during the Ninth National Conference on City Planning. The constitution of the Institute was revised a few times. A major revision

(1) Adam Smith, *The Wealth of Nations*, New York, NY: Random House, 1937, Book 4, Chapter 2, p. 423.

(2) Norman Johnston, "A Preface to the Institute," *Journal of the American Institute of Planners*, Vol. XXXI, No. 3, August 1965, pp. 198-209; Also, Mel Scott, *American City Planning Since 1890*, Berkeley and Los Angeles, California: University of California Press, 1971, pp. 95-100.

too place in 1934-5. Later in 1939 the organization changed its name to American Institute of Planners in order to embody broader purposes.

The 1960 constitution specified the purpose of the institute as follows:

> The purpose of the Association shall be to study and advance the art and science of city, regional, and national planning: …Its particular sphere of concern shall be the planning of the unified development of urban communities and their environs of states, regions, and the nation as expressed through determination of the comprehensive arrangement of land uses and land occupancy and the regulation thereof.(3)

In 1979 the American Institute of Planners became American Planning Association by consolidation with the American Society of Planning Officials.

II. Why Planning in a Market Democracy: A Theoretical Reconstruction

While planners may be credited to their pioneering role to design and implement public intervention to deal with the problems of the markets, they have not been equally devoted to theoretical work towards justifying what they do.(4) The lack of rigorous theoretical justifications often leaves planners defenseless when they face antagonists of planning. Only recently a few studies attempted to offer rationale for planning in theoretical terms. I will propose five theoretical reasons for planning in a market democracy. These five reasons have their roots in the emergence and the evolution of the planning profession. I will reconstruct them from a theoretical standpoint by freely borrowing from related disciplines. As we noted, historically there have been five spheres of concern for practicing planners. They can be discussed under the following headings:

1. market imperfection.
2. public goods.
3. externalities.
4. distributional justice.

(3) Constitution of the American Planning Association.

(4) It may not be totally fair to blame the profession for their lack of theoretical work, given that the profession is not an academic discipline. But, the constitution of the American Planning Association states that its activities "include the continued development of a body of knowledge appropriate to its field of interest".

5. institutional change

III. Market Imperfection

Ideally, a market system should function in a manner which allocates resources optimally —a perfect working of the invisible hand. However, the invisible hand would work beautifully for all members of the society, only under certain conditions of the free market—the conditions of perfect competition. Below are the conditions for the perfectly competitive market structure under which resource would be allocated in the most desirable way: 1. A large number of buyers and sellers: There must be a sufficiently large number of atomistic economic agents in the market and their share of the market must be so insubstantial that none of them as an individual can affect the market.

2. No collusion: The individual buyers and sellers will make decisions separately without a collusive behavior which can influence the market.

3. Homogeneity of product and identical production process: The firms must produce homogeneous products by means of an identical process of production.

4. Perfect information: Individuals in the market possess complete knowledge and foresight about the range of prices at present and in the future as well as the location of goods and services available.

5. Free entry and exit: Consumers can enter and exit the market freely—there should be no artificial barriers to buying and selling. The firms can enter and exit the market—start producing and withdraw from the market if they want without incurring any cost in the longrun.

6. Rational behavior: Consumers are utility maximizing and producers are profit maximizing.

7. Transferable commodity: The ownership of goods and services can be transferred freely. They should also have perfect mobility—to be moved around without restriction and cost.

If any of the conditions above is violated, the market is imperfect: it does not function in such a way that allocates resources in an optimal manner. Violation of the conditions for perfect markets results in the loss of welfare of individuals as well as the society as a whole. Contemporary planners are concerned with provision of certain goods and services which do not satisfy some of these conditions. Housing is a good example. It

is an extremely heterogeneous commodity—it comes in a variety of sizes,, qualities, and styles. Individual consumers do not have all the information about the price, characteristics, and location of houses. Some people cannot enter the housing market freely, because of discrimination based on race, age, sex, and other individual traits. And housing units can not be moved around.

IV. Public Goods

The problem of the free market is not confined to its imperfection. A market may satisfy all the conditions for perfect competition described above, but still can fail to provide certain goods and services at all or at the optimal level. This is a market failure. There are two types of market failures commonly observed: public goods and externalities.

The problem of public goods arises because of non-excludability and joint consumption of a good. Non-excludability means that it is extremely costly or impossible to exclude one member of the society from receiving the benefit of certain goods. Consider that a nation attempts to exclude just one of its members from receiving the benefit of its national defence system. Doing so would be very expensive or practically impossible. In such a case, a selfish individual may argue that he does not need the public good and still enjoy it without due payment, as long as the society provides it. This situation will lead to either insufficient or non-optimal provision of goods.

Joint consumption is sometimes called non-rival consumption. It means that consumption of a good by one person does not prevent its consumption by another person. The additional cost—marginal cost—of providing the good to an additional person is zero. For example, once a bridge is built, it can serve, up to a certain point, as many people without additional cost.

Theoretically the two concepts discussed here—non-excludability and joint consumption—lead to classification of goods into four types. The pure public goods meet both the non-excludability and the joint consumption criteria. Close examples of pure public goods are national defence and pest control. If a good does not satisfy the both criteria—it is possible to exclude one member of the society from receiving the benefit of the good, and the cost of providing an additional unit of the good is positive—the good is called a private good. Most of what we buy and sell through the market in our daily life are private goods. The remaining two types are public goods which meets only one of the

two criteria. When a good or a service can be jointly consumed, and exclusion is possible, the good qualifies as a public good. An example is an uncongested bridge. Some goods cannot be jointly consumed, but the cost of excluding a particular person could be very costly. For example, consider the streets in downtown metropolitan areas during rush hours. They cannot be jointly consumed, but the cost of enforcing exclusion of certain vehicles would be enormous.

The free market system under perfect competition is capable of providing private goods, but fails to provide public goods in a socially desirable manner. Adam Smith himself noted the inability of the invisible hand in three areas: national defence, the administration of justice, and establishment and operation of certain public works and institutions. The emergence and evolution of the planning profession is closely tied to the provision of public goods—community service facilities, parks, bridges, roads, etc.

V. Externalities

Another type of market failure is externalities. When a person's economic activity affects another's, the market fails to allocate resources optimally. The problem of externalities arises both in consumption and production. If consumption of a good by one person affects consumption of other people, there exist consumption externalities. For example, a person's smoking creates unpleasant effects on non-smokers—a case of negative consumption externalities. A different example: a well-kept garden of a person may increase the property value of the immediate neighbor. The neighbor is the beneficiary of positive consumption externalities. Negative and positive externalities are detected in production processes as well. Smoke coming out of a blacksmith's factory can ruin the business of a laundry company nearby. A fishery can be seriously damaged by toxic wastewater from chemical plants. On the other hand, a beekeeper can benefit from an orchard he does not own. The external effects are also seen between producers of goods and the general consumers. An example: industrial pollution reduces greatly the level of consumer utilities.

The existence of externalities is another rationale for public intervention into the market. Zoning and land use planning—one of the most important traditional domain of the planning profession—is addressed to the issue of externalities. It attempts to reduce externalities by regulating spatial arrangement of economic activities.

VI. Distributional Justice

The problems of the market associated with public goods and externalities are essentially concerned with the efficiency question—the question about use of resources in the most productive way. They have little to do with the equity issue. Even a very efficient market system could be highly inequitable. Some people tried to extend the public goods concept to discuss the equity issue. In this attempt, distributional justice is considered a kind of public goods: fairness in income distribution is a desirable social characteristics that can be consumed jointly by all members of the society. Others looked at the interdependent nature of individual utility function. If a person's happiness is affected by the state of well-being of others, he will be interested in a more equitable distribution of income.

There are two other approaches to support public intervention into the market on the ground of equity. First, Rawls argues that each person in our society possesses "an inviolability founded on justice that even the welfare of society as a whole cannot override." (5) Therefore, he suggests that a just society can not allow political bargaining or social welfare calculus to overwhelm individual right for justice. In his view, income inequality is justified only if less equal distribution of income for the society as a whole leads to an improvement of the economic status of the least advantaged.

The other approach is based on the concept of basic human needs. It is contended that the society has the responsibility to provide the minimum amount of material goods required for all of its members to meet the basic needs of human life. The proponents of the basic needs concept argue that since the market system is blind to human needs, the public sector bears the responsibility to provide goods and service at the need level.

VII. Institutional Change

The four concepts discussed above as rationale for planning—imperfect markets, public goods, externalities, and distributional justice—have been defined theoretically not by planners but by economists, philosophers, and other social scientists. In particular, economists' contribution to refinement of these concepts and relevant empirical testing have provided useful knowledge for planners. It is noteworthy that almost all schools of

(5) John Rawls, *A Theory of Justice*, Cambridge, Mass.: Harvard University, 1971.

planning now include economic analysis as their core area of professional training.[6]

There is an additional rationale for planning which guides the practice of planning. A unique aspect of professional mentality of planners is the desire to restructure the institutional system in which problems arise. Historically, the modern planning has evolved in close connection with the reform movement. The reform in urban governments serves a good evidence to support this point. More recent evidence includes institutionalization of advocacy and citizen participation and mandates for impact assessment at various levels of governments. Unlike other professionals who tend to solve problems as they are, planners are inclined to alter the fundamental institutional system. The tendency is best represented by the radical planning theorists.

(6) Association of Collegiate Schools of Planning includes economic analysis as core area to be taught by schools which seek its accreditation. The theoretical rigor of the rationale for planning may depend heavily on the works of related disciplines. However, it should be clearly noted that planners had been using these concepts in their professional practice long before scholars of other disciplines presented them formally and made them a part of the recognized domain of professional knowledge. To prove this point, it is necessary to have a historical reflection on the evolution of the profession in relation to the development of the concepts in the scholarly circle. Formal presentation of the public good problem was made by Samuelson in 1954, while one of the most notable and widely circulated scholarly works on externalities was presented by Coase in 1960. Rawls wrote his book on justice in 1971, and the emergence of the basic need concept is post 1970's phenomenon.