

TOWN PLANNING

In the last issue I explained that town planning was, if not corrupting local government, then causing it to be accused of corruption. My argument was that an authority which abandons ex-ante rules for ex-post discrimination between competing entrepreneurs is accused inevitably of favouritism. What is more ex-post discrimination places its officers and committees in the way of more temptation than is safe. In short, town planning as we know it is not compatible with the sort of government most of us want.

It cannot be made economically efficient either. Like most regulations town plans are poor at allocating resources to most efficient uses. They affect so much of the economy that they probably do as much to reduce living standards as the trade union monopolies, tariffs and transport regulations which have had far more attention from economists.

Development regulation has a proper role. When costs (such as traffic congestion) or benefits (such as beautiful surroundings) are not born by the buyers and sellers of property these will be under or over supplied and the whole community will be less well off than it could be if all resources were optimally employed. This 'market failure' may justify regulation---but only if the consequent 'regulation failure' is less sub-optimal than the market failure. Theory alone will not tell us whether market failure or regulation failure will be more serious; each case must be judged on its merits. But we do know principles which can minimise both.

Town planners rarely limit themselves to rectifying *identified* market failures; in fact they rarely specify which market failure is in need of remedy before imposing non-market outcomes. Instead they try to fashion development to a pattern established by a Utopian dream---the city plan---which was committed to paper years before. The economic affects of 'the plan' are as we would rationally expect them to be:

Since not everyone shares the planners' view of the ideal city, even the goals are not accepted by everyone. At best a majority view is forced on the minority, but as planners have considerable faith in their own expertise, it is often a minority view that is forced on the majority. In some of the more extreme cases of planning hubris, town councils have cleared slums, breaking up families and communities, to replace them with tower blocks.

The cost of doing anything is the reward foregone from not doing something else. More parks necessarily mean dearer housing. They may be worth the added price that householders must pay but the question is seldom asked. Indeed without a free market it is almost impossible to answer. Town plans do not specify opportunity cost so the town councilors regulate and mould in the shape of their latest fad or fancy with no idea of the costs they inflict on members of the community. It is to reduce this

problem with Federal regulation that the Hawke Government is requiring new regulations to be accompanied by economic impact statements.

Since town planners can never know everyone's preferences, try as they might, they cannot draft zones and by-laws to provide exactly the right land for every need.

Since plans allow inadequately for the things that were not thought of at the time they were written they are a recipes for stagnation. Town plans have hobbled many potentially vibrant small businesses

Only when plan-failure becomes too obviously ridiculous do councils make exceptions to them. The exceptions are concessions to efficiency but then the councils are accused of favouritism.

Many people who say laws should be minimal, simple and certain nonetheless insist that specialists must plan and regulate the growth of cities. The market forces that provide us with our food and clothing cannot be trusted to provide us with our cities.

Some people say there are values---aesthetic or historical for instance---that the mere public will not adequately respect and therefore must have imposed upon them. Others point out the many cases of market failure.

An instance of the latter might be an historic building which gives a little pleasure to many people who cannot be charged for its use. None has sufficient interest to raise the money to save it from whatever. Further, each of the small beneficiaries hopes for a 'free ride' when someone else saves the building.

The free rider problem is not peculiar to markets. In fact they often favour regulations which simply ban development because then the whole cost is forced onto the owner (and the owner has only one vote against their many.)

If the cost is not higher than the sum of the many small benefits, the building should be saved. Getting the equation wrong either way will reduce total welfare and is therefore an economic cost. However, there are better alternatives than bulldozing the building or prohibiting changes. A free and perfect market would find them but the market is neither free nor perfect.

They say that the knowledge that you are to be hung in the morning clarifies the mind. New Zealanders know they are deep in economic trouble and are looking hard for its causes. The Lange Government has the Town and Country Planning Act in its sights.

The New Zealand Business Round Table (the equivalent of our Business Council), has produced a stinging indictment of the Act. They say zoning has meaningless goals and ridiculously imprecise terminology. It imposes unmeasured and largely unconsidered costs on other activities, such as housing. Inflexible authority is allocating the nation's land resources among countless alternate economic uses, freezing

economic patterns and giving little place to new activities and so on.

The Round Table's answer to the problem of the historic building is 'Tradeable Development Rights' (TDRs). At present the owner's freehold rights are attenuated by laws and by-laws and precedent. He may do only certain things with his land and he never knows when the council is going to change his rights.

If the rights to use the building, the air space above it, the right to cast a shadow and much more are separable rights and clearly defined then they may be exchanged until the optimal combination is achieved.

Say a land owner has rights to the land downwards but not to extract minerals, the building, and three quarters of the air space above the block to a height of fifty feet---a not unusual by-law situation. The Historical Society wants to preserve the whole building but can raise only \$100,000 with which it purchases an agreement that the facade and three rooms will be saved. The land-owner purchases from the council another twenty feet of airspace and pays the down-sun property owner compensation for the twenty feet of shadow. The development rights have been traded until an approximately optimal resource allocation was achieved and everyone got what he was prepared to pay for. Either of the extreme alternatives would have left the community poorer.

Town Planning reform offers many opportunities to improve economic efficiency which will raise living standards and generate wealth to pay our serious foreign debts.