Original Article

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The Practice and Principle of City Planning in Contemporary China

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Abstract: The goal of governments is to maintain a competitive environment, allowing prices to allocate resources and for the reduction of transaction costs. Governments aim to facilitate market operation and thus increase the rent value of various resources. City planning is a function of governments in the rapid process of urbanization; they take responsibility for land use and aim at increasing land rent. Western countries attempt to reduce negative externalities mainly by means of development controls, with the aim of maximizing the land rent. While city development in China is chiefly a product of master planning, the government leases land to the market and internalizes externalities in the form of contracts, making regulatory plans unnecessary. These differences between planning in China and foreign countries are determined by differences in the land property rights systems, stages of city development, and tax systems.

Keywords: government, firm, land rent value, master plan, regulatory plan, externality

1 Introduction

The situation in which theory lags behind practice is especially obvious in the field of city planning. Most city planning professionals are uninterested in the nature of the government and the exact goal of planning and seek only to demonstrate the legitimacy of planning based on the theory of market failure. For this reason, the theory of city planning has been controversial from the very beginning. In China, city planning has the reputation of “first-rate practice, second-hand theory” because professional planners are less interested in theory and have followed the planning means first applied in developed countries. The Chinese government

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implements a pragmatic growth policy rather than following inappropriate theories that take no account of local institutional constraints and, if applied in China, would cause incalculable losses. However, planning dogmas have become more pervasive in the professional community in recent years, and city planning in practice in China has been changing from “first-rate practice” to “second-rate.” This paper traces the origins of planning logic in order to clarify misunderstandings concerning government action on the subject and present a “first-hand planning theory” for China.

2 Government as a Firm

The world where there is more than one person is the society. We can state, with certainty, that most resources in society are scarce and that people, therefore, have to compete for them. A variety of means and criteria determine the winners and losers of such competition, including force, seniority, rank, privilege, interpersonal relationships, first-come-first-served, market price, and so on. Of these criteria, market price is the only one that will not cause rent to be absorbed by the cost of competition, a phenomenon known as rent dissipation (Cheung 2014a). Competitive markets encourage people to increase production to meet their needs, either from their own output or by purchasing the output supplied by others, both of which represent a contribution to society. It is undoubtedly productive to exchange one's own contribution to society for others' contributions, and the exchange rate for such transactions is the market price. In a competitive market economy, insofar as self-interest operates and people aim to maximize, the price system's invisible hand will ensure that participants' contribution to society is maximized without any conscious thought on their part.

If markets are efficient, why are there so many different planning paradigms? In fact, there are many transaction costs in the real world of markets, such as measurement costs, information costs, bargaining, and safeguard commitment costs. When transaction costs are prohibitive, people cannot easily find the price of many goods and services. Then, the organization supersedes the market with its own plans in order to reduce the cost of pricing directly, and the firms are typically the planners (Coase 1937). Within a firm, there are almost no price guidelines; therefore, the production of accessories and repairs as well as decisions about the quality and quantity of production is subject to the command of the top manager(s). Employees receive a wage in exchange for the time that they are working, during which they surrender their liberty and obey their bosses' orders. There is no bargaining.

The emergence of the government is similar to that of the firm in that it exists to reduce the costs of pricing by planning, including the prices of defining and ensuring implementing private property rights and some prices involving the decision-making of the public interests, which markets and other organizations cannot do. From the organizational point of view, there are no essential differences between the government and the firm. As Coase has brilliantly remarked, the government is, in a sense, a super-firm (of a very special kind) since it is able to influence the use of factors of production by administrative decisions (Coase 1960).

3 The Goal of City Planning

The nature of government determines that all of its planning activities are aimed at reducing transaction costs or avoiding rent dissipation, so as to increase the resource rent and national wealth.¹ As a function of the government, city planning must eventually be implemented on land. Likewise, the goal of the planner is, of course, to make every effort to maximize the city's land rent as a whole, subject to certain constraints.

Objectively, most production factors have market prices, and their returns are determined by their marginal productivity. Land is a production factor for all wealth. As with the "Solow residual" of the production function, the rent value of land is a residual value after deducting the remuneration of other inputs, which are determined basically by the nature of the production activities. An increase in the rent of any other resource will be reflected in the land value. It is noteworthy that in the process of income distribution, the worker receives a salary, the investor receives the interest, the manager receives the reward for entrepreneurial ability, the patent owner receives the patent rent, and the incomes from those knowledge assets without patent protection are embodied in the rent value of land, since land is the warehouse of wealth accumulation (Cheung 2014a).

Subjectively speaking, there are substantial differences in people's tastes and preferences, and not all people value the results of planning similarly, such that valuation debates regarding planning schemes tend to be endless and meaningless. Successful planning depends on people's choices. Other things being equal, a change in a planning scheme will lead people to change their assessment of its

¹ The wealth of the entire society can be divided into two parts: the rent value of resources and the dissipated rent value due to the abandonment of price criteria. Rent dissipation and the administrative cost of maintaining price criteria are also transaction costs. Therefore, the activity boundary between the government and the market shifts dynamically according to transaction costs.

value. The agglomeration or dispersion of people voting with their feet is the reason for the changes in land rent. Many factors determine where people choose to live, including ecological balance, a livable environment, convenient transportation, economic development, social harmony, progress of science and technology, cultural heritage, and the personal value judgments of planners. The closeness of these objectives to realization ultimately determines the “consumer willingness” of people to live in that location; this consumer willingness will inevitably be reflected in the land value.

Therefore, the municipal government’s overall goals of avoiding rent dissipation and increasing national wealth can be decomposed and somewhat transformed into the goals of city planning and laid upon the physical environment, with the land rent value playing the mediating role as the means of transformation. In other words, the land rent value is a simple, comprehensive, alternative, and reliable planning system control index or indicator, and it is even sustainable in a market economy, which can generate testable implications.

4 City Planning Methods

In order to increase the rent value of land as much as possible, modern city planning mainly employs two means: the master plan at the macro level and the regulatory plan at the micro level. Owing to their different historical backgrounds, land property systems, and tax systems, the methods adopted by China, on the one hand, and western countries, on the other, are quite different.

4.1 The Western Experience

From the 12th century, owing to the growing population of western European countries, the returns to labor decreased, while the value of land increased. Thus, the property rights of land, including the right to its use, to derive income from it, and transfer it, were gradually redefined (Demsetz 1967). The Enclosure movement in England in the 13th century was essentially a process of limiting land property rights. After the French Revolution of 1789, land was freely traded in France. From 1808, land could be used to repay debts in Germany; therefore, it thereafter became a privately-owned resource. During this period, whether in cities or rural areas, the property rights of the landholder were gradually defined and subdivided, and people tried their best to manage their land to improve its value (Linklater 2015).

For much of history, society was defined by interpersonal relationships and contracts between people. Many disputes, such as those that occurred when

people conducted their affairs at the expense of their neighbors, were resolved by voluntary and mutual restrictive covenants between private individuals or by the rules set by civil organizations. Compared with judicial settlement, such arrangements are often superior because they save a fair amount of information and legal expenses. However, the Industrial Revolution saw a break with this tradition. The main feature of industrialization is the use of heavy machinery and the introduction of factories and assembly lines for mass production. Since specialization and the cooperation of laborers can significantly reduce the cost of production and raise labor productivity, the factory as a producing unit will inevitably replace the smallholding or home as the working environment. Consequently, people feel obliged to leave their hometown and go to the city for a job and higher income; therefore, cities began to appear everywhere. With large concentrations of heterogeneous people, face-to-face society comes to an end, and impersonal transactions become the norm.

In the second half of the 19th century, the invention of the elevator and the automobile began to dramatically change cities. Since then, city space has been expanding horizontally and vertically. Building houses on private land will often reduce the value of neighboring properties, especially in a high-density environment. In the process of urbanization, the value of real estate increases markedly; therefore, the absolute loss caused by this negative externality becomes correspondingly larger. In an impersonal society, there is no effective means for the property owners to negotiate, and judges often have to arbitrate between public interests and private property rights when adjudicating land use disputes. They can follow only the tradition of public tort law, applied to the specific situation. Under a lack of precedent and technical guidelines, the costs incurred by participants in legal disputes become prohibitive (Lai 1998a).

When the cost of protecting fragmented landownership is too high relative to its benefit, the government will legislate to regulate it (Barzel 2003). Consequently, Germany has the “Boundary Line of Building,” the United Kingdom has “development control,” and the United States has “zoning regulations.” Random development becomes increasingly regulated by statutory enactments and regulations in all developed cities. Building materials, setback, height, and volume are all gradually brought under control. Municipal departments and the entire planning management system, independently of public law, are established accordingly, and any proposed land development in the city must be submitted to the planning authority for permission to go ahead.

Regardless of whether they are development controls or zoning regulations, all such measures are designed to maximize the value of real estate by prohibiting building “nuisances,” and they are both more effective and more extensive than private restrictions on land use. The market, therefore, has an incentive to demand

public controls on land use. At the same time, the government has incentives and initiatives to supply them on the grounds that property taxes are the main source of tax revenue for local governments, such that any rise in the value of real estate will increase tax revenue. Thus, the mechanism of incentive compatibility is established.²

From the perspective of the urban development process, when modern cities are planned, the role of regulations is far greater than that of any master plan. Although master plans have existed for a long time, they are often vague and impractical, and many cities are not built according to master plans. Modern city planning was introduced in the early 20th century, when almost 50% of the population was living in cities. As early as 1901, the urban population in Britain was 78% of the nation's total population. Many cities in the United States have no master plan and rely entirely on zoning laws, although, in 1909, D. Burnham completed a master plan for Chicago, which is known as the first master plan in history. By that time, the city's population already exceeded two million.

It is more remarkable that the master plan concerned only the use of public land and the development of municipal public facilities such as public buildings, parks, and streets. It had no means, other than passive control, for determining the use and development of private land. After the Second World War, although the preparation of conceptual plans and master plans had become an important responsibility of city governments in western countries, classical planning for such developments as New Concord Village, Linear City, Sunshine City, Broadacre City, Garden City, Neighborhood Unit, New City, and so on emerged continuously, but most of these master plans have been relatively ineffective (Clawson 1972). Some have even failed completely.

Why is such a master plan in the west so ineffectual? The stage of urbanization is, of course, very important. It is more difficult to impose a master plan on an already-urbanized environment. However, regardless of its developmental stage, a city should always develop. In order to continue to increase the rent value of land, as a municipal government with the nature of a firm, it is absolutely necessary to make certain arrangements for the quantity structure and spatial structure of the land within its jurisdiction.

A more deep-seated reason for the weakness of master plans in the west is the rigidity of land property rights caused by their absolute protection. It should be recognized that "adjacency" can in no way be created artificially; that is, the transfer of land property rights requires the consent of all the people in the entire region as its

² When a zoning ordinance reduces the economic value of a site, the developer or user of the site can apply to the planning board for an ordinance change. It can also be argued that zoning controls are designed to address congestion, pollution, health, safety, and even sunlight and air issues, which eventually lead to the appreciation of real estate value.

premise. Thus, there may be no clear and competitive land price for market transactions. If the government cannot take the initiative to supply and develop the land, its role is rather like that of a gourmet chef who wants to cook but has no ingredients.

The British experience is a good example. The town planning schemes in the Acts of 1909 and 1932 were not clearly defined as policy tools. Although there was a form of master planning, in which most regions were eventually included, it was very ineffective in guiding land development. As the government could not deprive private landowners of land development rights, local authorities faced huge indemnity claims when allocating private land resources. Consequently, these early laws only weakened private rights to a certain extent; they did not fundamentally change the land distribution or the balance of development rights between the state and private owners. The master plan had become a trend-following plan with little useful purpose (Webster 2005). It was after the radical “Town and Country Planning Act” of 1947 that land development rights were nationalized. At that point, the master plan became a reality, such that the government’s plans for New Towns could be implemented and land acquired at low cost.

However, this new trend did not last long. In 1969, the courts emphasized the principle that landowners could demand compensation in accordance with its “expected price” for any expropriated land, which undermined the government’s ability to buy land at a competitive price for new housing construction under the New Town plans. This ruling effectively eliminated the availability of land supply under the terms of the 1947 Planning Act, leaving only development controls and Green Belts (Ryan-Collins, Lloyd, and Macfarlane 2017). Since then, old cities can be renewed only by the encouragement of more private land development.

In contrast, in Singapore, in order to avoid potential social conflicts and contradictions, British colonists formulated the Jackson Plan as early as 1827, which was aimed at controlling private construction. It was only in 1958 that Singapore prepared its first city master plan, when its population had reached 1.45 million. This seemed late at that time, but subsequent city construction has basically adhered to the master plan. Why does this come to be? The answer is that under the terms of its “Land Acquisition Law,” which came into effect in 1967, Singapore’s government can compulsorily acquire land for any residential, commercial, and industrial purpose at its market value. It is unambiguously clear that Singapore would not be famous as a Garden City without that master plan.

4.2 China’s Practice

At the founding of the People’s Republic of China in 1949, China’s urbanization rate was only 10.6%, and the urban population was just 57 million. Subsequently, more

than 30 years of central planning resulted in growing industrialization but little urbanization. At the very outset of China's reform period and the opening up of its economy, when the urbanization rate was only 17.9%, China's city development was equivalent to painting on a blank canvas. In a socialist country, the government has a predominant role in guiding land use.³ Under the system of graded administration of land resources, local governments at the city and county levels have the power to plan, examine, approve, and transfer land. Their land purchase, storage, auction, and listing systems provide an institutional guarantee for the master planning of land use and pave the way for the maximization of land rent value.⁴

The municipal government can be compared to a large landlord who seeks to maximize the total rent value of land in his or her possession by using all of the land he or she owns and encouraging competition for its use.⁵ In the development process, the government or the landowner's first duty, as owners of the land, is to consider its role in the context of its province, its country, and even the world based on comparative advantage and the division of labor. It must then mastermind the spatial allocation of infrastructure and industry according to a development strategy, considering, in particular, the proportions of land of different types, the pace of land supply, and the intended development sequence.

Generally, it is tempting to think that in order to maximize rent value, similar parcels of land should generate a similar income. However, transaction costs are not insignificant, and the total rent value of a privately-owned plot may be far lower than if the same plot were under the control of the government. Thus, the landowner requisites raw land, after providing civic amenities, to create a secondary land trading market through the transfer of public land freely, the transfer of industrial land by agreement price, and the transfer of commercial and residential land by bid auction and listing. Public land and industrial land can

3 Although the government has the economic nature of a firm, it is clear that a government has powers that might enable it to accomplish certain things at a lower cost than could a private organization. Unlike a firm in the market, the government has legal coercive power. Therefore, even if the right to use or transfer land has been assigned to individuals, the state can use its "public easement" and "eminent domain" laws to solve the problem of idle resources caused by the property rights fragmentation and reduce the transaction costs of implementing land property rights. However, if the region is one where there is a profound easy-going and highly collective culture, coordinating separate property rights and internalizing externalities of infrastructure investment by private contracts are also desirable (Qian Lu 2016).

4 This is also the reason for the development of different forms of land finance between China and western countries. Countries without land supply policies can choose only to levy taxes on ownership. By contrast, in rapidly urbanizing China, it is more efficient to levy taxes when land is transferred.

5 The competition between governments at county level breaks the monopoly on the primary market for land and serves to restrict the price of land.

generate strong positive spillover effects, which, though they cannot be charged for directly because of the prohibitive transaction costs, can be indirectly charged for by “building a nest to attract the phoenix” and “throwing bricks to attract jade.” Therefore, the landowner first develops land by improving its infrastructure and then transfers the land with “seven accesses and site leveling” at a low price to manufacturing enterprises and public facilities. The inception and growth of these enterprises generate a strong and positive spillover effect that increases the value of the nearby land, which can be rented out for commercial or residential use, thus generating a high income. Finally, the landowner can apply for loans using land as collateral in order to upgrade the infrastructure and in response to changes in market demand. Such an agglomeration of industries, in turn, generates new demand for commercial and residential real estate. It is a virtuous circle that enriches all participants. Government planning and market development are always cooperating with each other, to their mutual benefit.

Unlike western cities, China has had master plans for more than 40 years only. Under the planned economy system, construction projects are all built by government agencies: some large-scale projects are built by the central government; others by local governments. There is no role for individuals in land development, so the government is not restrained at the micro level by regulation. As a unitary state, the authority of local governments, in principle, derives from the central government. Since China’s reform and opening up, the central government has been committed to controlling the scale of cities, supervising them, and ensuring that city development objectives are in line with its own objectives by means of a hierarchical approval system. Technically, the master plan can control the level of city land development as well as its area. Under the market economy system, neither the government nor the market has incentives to make regulations. Rather, regulations arise from negative externalities as indicated, and the resulting problems can mostly be resolved through private contracts (Cheung 1973). If a property right is not defined, it is the government’s role to delimit property rights (Coase 1960). When the cost of defining property rights is too high, externalities are inevitable. If the transaction costs of negotiation are too high, owing to a large number of disputants, the government may, indeed, need to use coercion to solve the problem, especially when development is being held up (Coase 1959). However, if externality can be internalized, why do we ask the government to act (Pashigian and Gould 1988)?

It should be noted that there have been virtually no houses built by residents in China’s cities since the 1990s. Except for the transfer of a few land parcels, large-scale land development and construction are carried out by developers. There is now an appreciable number of gated communities occupying thousands of acres of land. These gated communities have internalized externalities by organizing

themselves and generating value by considering their community's environmental capacity, construction design, ancillary facilities, and behavioral activities, all of which are reflected in housing prices. The communities must survive market competition, and, if land developers want to "make a profit," they must consider the public's willingness to buy as well as the intensity and quality of their land development.⁶

When new owners join such a community, they must accept deed restrictions.⁷ In other words, the community is a self-selected group of residents. Unforeseeable externalities, therefore, cannot arise within the community. Externalities arising from the community itself can be handled only by the developers, who will face negotiated costs or judicial costs that are neither absolutely nor relatively very high. In effect, developers have become the city's operator responsible for large-scale land development and construction. They provide the roads, municipal pipelines, infrastructure, and other "small supporting facilities" for the community. They have not only enough space to carry out comprehensive development but also the incentive to cater to consumers and win a reputation by virtue of ensuring the outstanding quality of their project, with good supporting service facilities, a pleasing overall environment, efficient estate management, and so on. Such services are typically subject to economies of scale; thus, in a competitive market, the savings gained help reduce house prices.

From the perspective of contractual arrangements, provision of infrastructure and land development by the government can be seen as a self-employment contract; there is no fixed, transparent price at which industrial land can be transferred, and the rent becomes the value-added tax paid by the enterprise, which fluctuates every year (Cheung 2014b). The government and enterprises are engaged, in effect, in a sharecropping system, which is a structured joint venture contract, for which certain restrictions on the qualifications, factor inputs, and land use are needed. In terms of residential and commercial land, however, the government makes a land

⁶ Taking floor area ratio (a building's floor area divided by the area of the parcel on which the building is located) as an example, if developer wants to increase the floor area ratio of a building, at the initial stage, the marginal cost will be reduced because of the relatively constant cost of foundation engineering and treatment. However, once the number of floors reaches a certain limit, it becomes necessary, for instance, to reinforce the foundation, add elevators, and strengthen the earthquake resistance, and the marginal cost begins to increase dramatically. At the same time, the increase of building capacity leads to a decline in the quality of lighting, ventilation, and other environmental features, which will reduce the market value of the building. As a result, the government agencies cannot calculate the so-called optimal plot ratio because of the costs of obtaining all of the relevant information.

⁷ The property management regulations are so detailed that even the maximum number of dogs per household and the maximum weight of each dog are stipulated in the contracts.

lease contract with the developer, and the land transfer fee takes the form of the rent discount for many years. Under normal circumstances, the government does not need to restrict developers' activities, just as a landlord who leases land to a tenant does not specify how much fertilizer or labor, for example, the tenant should use, nor whether the tenant should choose close planting, intercropping, or interplanting. The landlord is concerned only with receiving the rent. Moreover, arbitrary regulations in the terms of the lease contract, such as terms that specify plot ratio, green area, building density, and supporting facilities, will adversely affect the rental income of the leased land, and the government will not wish to give up the opportunity for betterment. Furthermore, when the government faces the challenge of judging detailed matters pertaining to land use arrangements, it can reduce information costs by effectively allocating the planning rights, thus making full use of society's dispersed knowledge and letting entrepreneurs, who have the requisite acumen and judgment concerning the spatial utilization of resources, resort to trial and error when they decide how to use the land. This conforms to the efficiency principle of contract selection (Qian 2016).

As mentioned above, China's city planning systems used to consist only of the master plan and the detailed construction plan, the latter being responsible for the detailed planning and design of specific plots before the architectural construction. However, by the end of the 1980s, China began to learn from the statutory plan system and added a regulatory plan between the master plan and the construction plan. One reason for this is that, when introducing foreign investment, to be consistent with socialist ideology, the government needed to set up some control clauses to maintain nominal land management. Later, western control and development provisions were copied altogether, like "hundreds of birds returning to their nests."

We may safely arrive at the conclusion that the usefulness of the theory depends on the similarity of the constraints. Transplanting institutions blindly is bound to violate economic laws and will inevitably result in chaos. Not surprisingly, regulatory planning details are amended frequently in China, a process in which the government appears almost capricious. After the implementation of the Urban and Rural Planning Law in 2008, the control rules have become statutory preconditions for land transfer development and construction, which accounts for about 70% of the planning budget. In addition, the 2012 edition of the *Restricted Land Project Directory* specifies concrete requirements for housing, roads, squares, and other construction projects in site areas. Since then, developers have no voice in the determination of planning details such as floor area ratio, open space, building height, density, and so on.

It may well be assumed that the introduction of this series of intervention policies is due not only to insufficient knowledge or information but also to the

masterwork of interest groups. For the sake of simplicity, the government is assumed in this paper to be abstract and all civil servants to be identical. Of course, in reality, the government is composed of many individuals, and the decision makers have their own private interests and are subject to the interests groups formed within the government that need to encroach on rent via the implementation of regulations.

It should be noted that some micro-interventions are not entirely unnecessary. For example, the related building is required to have a high bottom line according to the spatial landscape, ventilation conditions, and important historical sites and scenic spots of the city. The floor area ratio of a building has to be compatible with the geological conditions and land carrying capacity of its location. Depending on local conditions and public safety considerations, it is desirable, for instance, to regulate building setbacks and fireproof the materials. Those nomothetic rules are necessary but need not be very detailed. The highest priority for a government is to set building standards and technical specifications that play a synoptic role for its own advantage. It is not necessary to force developers to comply with every detail, but they do have an obligation to disclose information, thus enabling consumers to have enough information to make their own decisions when comparing properties and prices.

In China, relatively detailed control regulations may be applicable only at the “rural-city fringe” or in “villages within cities,” which conform to the constraints imposed by city plans of western countries in the 19th century. This is a result of the weakness of governance of village committees, which are not capable of taking effective control over construction, such that land development in these areas is subject to an unrestrained free market. Homesteads are developed only at the proprietor’s own initiative, which can worsen the ventilation and illumination conditions of adjacent low-rise buildings. In such cases, government higher than the local level cannot turn a blind eye.

5 Conclusion

The government’s remit is to maintain price criteria and, by setting the rules of the game, to reduce transaction costs. The government’s planning system provides the overarching framework that facilitates market transactions and leads to higher rents for a wide range of properties. Land is the basis of city planning, and the goal of city planning is to increase the value of land. In western countries, the specific planning logic is “ex post, unilateral, and passive control,” and its overarching aim is to avoid damage to the rental value of neighboring property. Land finance is geared toward existing landowners, and the benefits to society from

planning are obtained in the form of property taxes. In Chinese cities, there is no personal housing development and no property tax; the government's planning logic is mainly "ex ante, bilateral and positive planning" (Lai 1998b). The government rents the continuous and mature land to developers to obtain one-off land-transferring fees. The primary market has eliminated uncertain externalities by the form of contract, so detailed regulatory planning is overreaching and unnecessary.

At the end of this discussion, city planning efficiency must be mentioned. As a function of how government interacts with firms, city planning should be committed to baking, rather than dividing, the cake. It should insist on the material planning and taking the change of land rent value as the reference index that conforms to the principle of cost and benefit.⁸ In particular, it is necessary for the government to solicit opinions and obtain information from the public when planning cities. However, the choice of which decisions need public participation and which require the government to decide independently is a specific economic issue that depends on the particular circumstances of each case and should not be influenced by ideology. This is similar to the way decisions are made regarding a firm's activities: some issues require employees and shareholders to vote; others require only the manager's decision. This is also the inspiration for China's city planning practices.⁹

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8 Urban planning focuses on the redistribution of wealth, which not only has high costs and low benefits but also creates new problems. If the government indeed desires the redistribution of income, the most efficient way is to directly transfer wealth.

9 Planning is authoritarian and, though it may be unwise and abusive, has the lowest transaction costs. The market is the most democratic decision-making mechanism: it relies on price guidance, cannot abuse power, and accurately reflects public opinion according to people's willingness to spend money. However, the formation of the market depends on how property rights are defined and protected. The design and operation of democratic voting systems also entail certain transaction costs, which are higher than those in a dictatorship and lower than those of the market. However, whether such voting systems truly reflect public opinion depends on their specific nature. It can be said that, regardless of how we choose to solve the problem, we have to balance transaction costs, people's actual wishes, and the influence of the interests involved when evaluating a planning decision.

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