

**Market-oriented land-use planning:
A conceptual analysis**

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Abstract

The development in many countries has been described as a movement towards a more *market-oriented land-use planning*. Further moves in that direction is sometimes seen as a way to make the supply of housing adapt more rapidly to demand.

It is argued that the term "market-oriented planning" covers several distinct types of planning, and that these can be analysed by looking at the role of the local government in three dimensions:

- formulation of visions of urban development,
- legal rights to determine land use, and
- economic resources.

Market-oriented planning then means a stronger role for the private sector in one or several of these dimensions. Five specific types are identified, related to exactly which dimensions the private sector has a strong role in.

A more precise conceptual structure is important both if we want to be able to analyse the effect of a more market-oriented planning, and if we want to compare the development of the planning system in different countries.

Referat

Utvecklingen när det gäller systemet för fysisk planering har i många länder beskrivits som en förändring i riktning mot en mer *marknadsorienterad planering*. Ytterligare förändringar i den riktningen ses ibland som ett sätt att få utbudet av bostäder att snabbare anpassa sig till efterfrågan.

I uppsatsen hävdas att begreppet marknadsorienterad planering täcker flera distinkta typer av planering och att dessa kan särskiljas genom att man ser på kommunens roll i tre olika dimensioner:

- som formulerare av visioner rörande den framtida stadsutvecklingen
- som den som har juridiska rättigheter att bestämma över markanvändningen
- som den som har ekonomiska resurser att genomföra förändringar i markanvändningen.

Marknadsorienterad planering innebär allmänt uttryckt att den privata sektorn får en starkare roll i en eller flera av dessa dimensioner. Fem olika typer av marknadsorienterad planering identifieras, som alltså kännetecknas av olikheter i vilka dimensioner som den privata sektorn har en stark ställning.

Avslutningsvis betonas att en precis begreppsapparat är viktigt både om vi vill analysera effekter av en mer marknadsorienterad planering och om vi vill jämföra planeringssystemets utveckling i olika länder.

1. Introduction

Land-use planning has changed more or less dramatically in most countries in recent decades. This development is often described in terms of a more market-oriented planning (see e.g. Rodwin and Sanyal (2000) for a description of the development in the USA Allmendinger and Tewdwr-Jones (2000) for England, Mäntysalo (1999) for Finland and Cars and von Sydow (2001) for Sweden). In many countries there are currently discussions about rising housing costs and problems with the supply of new housing. One theme in this debate is that the planning system still is too bureaucratic, and that a more market oriented planning system would improve the situation (see e.g. Staley and Scarlett (1999) or Luger and Temkin (2000) concerning USA, and Monk and Whitehead (1999) for England).

Within this literature there are of course controversies: Is market oriented planning something good or bad? Is it something that we must accept as inevitable even if it might have negative consequences? However, if one looks closer at the debates it turns out that term market oriented planning is far from clear. Mäntysalo (1999:189) notes that "the picture of market oriented planning styles is becoming more blurred".

The purpose of this article is to identify a number of different interpretations of the term market oriented planning, and create a framework where these different types of market oriented planning can be related to one another. Such a clarification is very important as a basis for a constructive debate about the planning system. If one is interested in the effects of a more market oriented planning on e.g. housing costs or democracy, it is of course also very important to give the concept a clear meaning. There is no reason to assume that all variants of market oriented will have the same consequences.

The strategy in the paper is to first describe the "anti-thesis" to any interpretation of market oriented planning, i.e. land-use planning with a strong local public sector (section 2). Three central components are identified: The local government formulates the visions, the local government has far-reaching decision-making powers and the local government has economic resources to implement the plans. In the following sections (sections 3-6) a number of interpretations of market-oriented planning will be defined in terms of their characteristics in these dimensions. The relation between the types will also be discussed in these sections. The final section (section 7) contains an overview of the different types of market-oriented planning and some short comments on the trajectory of land-use planning in some countries.

2. The ideal-type of strong local government planning

In Logan & Molotch (1987:153) we can read:

"Intervention in land use in the USA has never been meant to replace the operation of the property marketplace, only to smooth out its functioning"

We will return to the meaning of this later, but we can note that they mention Sweden as an extreme contrast to the American situation (p 147). What was it then that characterised Swedish land use planning at that time?

I think we can identify at least the following characteristics:

1. The municipalities formulated visions about how the city would develop in the future.
2. The municipalities also had clear ideas about what should be constructed on a specific lot.
3. The municipality had a strong legal position, both in terms of rights to expropriate land and buildings on favourable terms, and in terms of rights to decide about land-use and the characteristics of specific buildings.
4. It was not possible to challenge the municipalities' decisions concerning land-use and building design by going to higher authorities or to courts, except if there were formal mistakes when the decisions were made.
5. The municipality was a dominating land-owner.
6. The municipality owned real estate companies that could function as developers for housing, shopping centres, office buildings and industrial parks. They could also own and manage this real estate.
7. The central government regulated the credit market and supplied e.g. the municipal housing companies with finance on generous terms.

One could perhaps add that in this ideal type there are also strong local politicians, in the sense that the politicians were not afraid to disregard the views of "small" opposing groups if that was necessary for the renewal of the city.

This ideal type can be described in terms of three core components.

Component 1: The local government had an ideologically dominating position. The local political apparatus formulated the general visions and also the visions concerning specific projects.

Component 2: The local government had a strong legal position, which gave them wide decision-making powers and also the right to expropriate land and buildings if that was judged to be necessary.

Component 3: The local government had a strong economic position, partly through local taxes that grew because of a positive general economic development and partly through resources supplied through the central government. These resources made it possible to implement the decisions that were taken.

Table 1 below summarises these characteristics.

Table 1: The ideal type of planning with a strong local government

<i>Component</i>	<i>The position of the local government</i>
Visions	Strong
Legal rights	Strong
Economic resources	Strong

In this ideal type, the private real estate developers that wanted to participate basically had to do what the local government wanted them to do. These actors in the private

sector had a weak bargaining position because the local government could implement the projects themselves if the private sector made demands that conflicted with the ideas of the local government.

However, in one sense the local government was always in the hands of the decisions made by private firms. We are talking about land use planning in a market economy where private firms dominate in most sectors of the economy. In order to clarify the meaning of the ideal type of strong local government planning it is necessary to make a distinction between - to put it crudely - *firms that belong to the economic base and real estate firms*. The municipalities were always dependent upon e.g. manufacturing firms moving to, or expanding in, their city. But what characterise the ideal type of strong local government planning was that the local government *was not dependent upon private real estate investors*. The municipalities had to negotiate with the firms in the economic base, but not with other private firms. Of course, the firms in the economic base usually had some views about land use, but in this ideal type these views were primarily related to their own need of a land reserve to expand on, and on the infrastructure that they needed.

3. Market-oriented planning of type 1 - Planning based on compromises with private real estate investors in order to attract private capital

In this type of market-oriented planning component 1 and 2 above are not changed. The local government still formulates the vision and has a strong legal position. However, in many countries the economic situation deteriorated during the 1980s and this also affected the local governments. *The third component of the ideal type of strong local governmental planning was no longer fulfilled*. The local government now needed private capital to implement the visions.

A typical case of this was the building of the Stockholm Globe Arena. Private investors got the right to build offices, hotels and a shopping centre around the arena, on the condition that they supplied the capital that was needed to build it. Mäntysalo (1999: 183) writes that the local governments were "increasingly seeking new forms of cooperative planning with the private sector".

This change also affected the details of the planning process in a number of ways, as a number of specific features of the lay-out of the area or the building design could not be decided until the private investors had accepted them. The investors wanted to have hotels, offices and shopping centres that were as profitable as possible.) In this context Mäntysalo (1999) describes the planning as more project oriented and partly turned around in the sense that the lay-out of the area could not be decided until the negotiations about the specific buildings complexes were finalised. For obvious reasons these negotiations were made behind closed doors, involving only a small group of leading politicians and civil servants. Cars (1992) gives a general description of this type of planning and analyses a number of Swedish cases.

Table 2 summarises the characteristics of this type of market-oriented planning:

Table 2: Market-oriented planning of type 1

<i>Component</i>	<i>The position of the local government</i>
Visions	Strong
Legal rights	Strong
Economic resources	Weak

As always, there is in reality differences in degree, and the weaker the economic situation of the local government the more it might have to compromise in terms of the visions that was to guide the development of the city. But as long as the local government have the right to decide about land-use, they still have a very strong card to play.

4. Market-oriented planning of type 2 - Developer-driven planning with state support

The most extreme contrast to the ideal type of strong local government planning can be found in the early stages of the Thatcher period in the United Kingdom, see e.g. Thornley (1993), Harding, Wilks-Heeg and Hutchins (2000) and Allmendinger & Tewdwr-Jones (2000). The formation of Urban Development Corporations (UDCs) meant that in designated areas within a city the local government lost its legal powers to determine land-use. The proposals of the UDC only had to be approved by the central government. As private interests dominated the UDCs, the visions were formulated completely outside the sphere of the local government. Harding, Wilks-Heeg and Hutchins (2000: 980) write:

"UDCs, TECs and LECs represented a significant shift towards the 'business domination' of local regeneration and development agencies insofar as the majority of members appointed to their boards, along (usually) with their chairs, came from the private sector."

This situation is summarised in table 3 below. The economic position of the local government doesn't really matter in this case as it has lost control over the area in question.

Table 3: Market-oriented planning of type 2

<i>Component</i>	<i>The position of the local government</i>
Visions	Weak
Legal rights	Weak
Economic resources	Not relevant

This type of market-oriented planning can be compared to what has been called "trend planning" which Mäntysalo (1999:183, 185) describes in the following way.

"In trend planning () the lead in urban structuring and renewal is handed over to the market... The planner's attention is directed towards architecture, townscape, and details."

"The proponents of the trend planning approach - ... - expected public planning not to interfere with the amount, location and timing of commercial buildings."

Nothing in the definition of market-oriented of type 2 above does however say that local government planners need to be involved in the kind of "essentially aesthetic control" that Mäntysalo discusses. My impression is that the private investors were very interested also in controlling design issues as these could affect the attractiveness and profitability of the projects. This also seemed to be the case in market oriented planning of type 1.

Allmendinger and Tewdwr-Jones (2000) make a number of observations that indicates that *this type of market-oriented planning is dynamically inconsistent*: It can only be applied for a short period of time and then it will break down. The basic reason for this is that the external investors that dominate an Urban Development Corporation will turn into owners of locally bound capital. In order to protect their investments, the private investors want to return power to the local arena. Even a strong right-wing government like the Thatcher government was forced to give back power to the local governments, as strong local economic interests wanted such a shift.

Fischel (nd:405) notes the following in the context of American planning, and this strengthens the idea that it is difficult to reduce the local power over planning.

"Proposals to have the federal government penalize local governments for unreasonable zoning standards have all died on the vine."

5. Market-oriented planning: Type 3 - Planning to protect the interests of the current property owners

This and the next interpretation of market oriented planning is primarily inspired by American discussions about planning. The starting point is that the local government has strong zoning instruments that make it possible to determine the future land use. This tool is under control of the majority of the citizens in the municipality and they are assumed to use this tool so as to maximise the value of their properties. Fischel (nd: 404; 1992:17?) writes:

"I regard zoning as a collective property right that is used by the municipality to maximize the net worth of those in control of the political apparatus."

"many studies show that adoption of more restrictive zoning reduces the value of undeveloped suburban land subject to the restrictions and increases the value of already developed homes.")

Similar views can be found in the overview Pollakowski and Szasz (199)

In this ideal-type the municipality has no specific long run vision, and they do not have economic resources to carry out any major investments on their own. The strategy of the local government is instead to use their control over land use to force

developers to pay for different kinds of infrastructure that is needed. Fischel (nd:412) notes:

"modern courts have expanded the range of services that developers may be required to pay for or provide directly" (Fischel nd p 412)

Mäntysalo (1999:188) makes the same observation for Finland:

"A typical form of Finnish public-private partnerships are land use agreements where the property owners submit to carrying more financial burdens than what is obligatory according to the Building Code."

In this way the current property owners can reduce their tax burden and defend or increase their property values.

The basic characteristics of this type of market oriented planning are summarised in table 4.

Table 4: Market-oriented planning of type 3

<i>Component</i>	<i>The position of the local government</i>
Visions	Weak
Legal rights	Strong
Economic resources	Weak

In order to illustrate the difference between this type of market oriented planning and developer driven planning (type 2) we can look at the following hypothetical case. Assume that a developer finds that it would be profitable to build a large shopping centre, aimed at middle and low-income households, within the borders of a municipality mostly inhabited with high income households on rather large estates. In a system of developer-driven planning this kind of project might be possible to carry out, but it might not be allowed if the majority of the current property owners decide. These property owners might be afraid that their properties would fall in value if the shopping centre is built, as the image and status of the area might be negatively affected.

6. Market-oriented planning of type 4 - Planning to simulate a market situation with no transaction cost

This view of market oriented planning starts from a certain theoretical perspective based on the works of Ronald Coase. The idea is that if property rights are well-defined, actors are rational and perfectly informed, and transactions costs zero, then there would be no need for public land use planning, see e.g. Laia (1997), Staley and Scarlett (1998), Klein (1998) and a number of other articles in the on line journal "Markets and Planning". If property owners want to change the use of their land, they could make a contract with all individuals whose property rights are affected. Investment in infrastructure could be made by private investors who could charge anyone who used it, and also sell options to landowners who in the future might develop their properties and then might want to use the infrastructure for a certain price. On such an ideal market the only role of the state is to define and protect the property rights.

The question in this literature, e.g. and Laia (1997) and Staley & Scarlett 1998), is what kind of planning that can be motivated by the unrealism of the assumptions above, *primarily that there in reality can be considerable transactions cost*. Can we identify the situations where actual co-ordination costs are too high on the market and where planning might increase efficiency? There are controversies about exactly what kind of local government planning that might be motivated from this perspective, but a rather common view in this literature is that the role of planning would be to:

- Protect against "broad" negative external effects. Local external effects could be handled by contracts between the directly affected, but this is difficult if many parties are affected. Staley and Scarlett (1998:10) says in this context "Local planning should move towards a common-law, nuisance-based standard for regulating land development".
- Guarantee enough collective goods with widespread positive effects, e.g. larger parks that affects the air-quality. Local public goods could be handled by market.
- Investments in infrastructure where large scale co-ordination is important, e.g. where there are networks effects (roads, water, sewage, etc).

In these areas the role of the planner is, according to this view of market oriented planning, *to try to simulate the market without transactions costs* and *not* to start from any specific professional or political view of what is a suitable development. To quote Mäntysalo (1999: 182) "use the public authority to assist the private sector with minimal regulatory intervention" or Allmendinger and Tewdwr-Jones (2000:1396) "The emphasis on planning as a more minimal and focused form of regulation...".

We summarise this type of market-oriented planning in table 5.

Table 5: Market-oriented planning of type 4

<i>Component</i>	<i>The position of the local government</i>
Visions	Weak
Legal rights	Strong, but for a smaller number of issues
Economic resources	Weak

There is a clear difference between this type of planning and the one driven by the interest of the current property owners. Let us go back to the example of the proposed shopping centre above. Assume that the "winners" on such a development gain so much, that it would have been possible to compensate all the "losers", e.g. the owners of the properties that fall in value. In a system of planning of type 4 the project would have been approved, as it would have been carried out in a situation without transaction costs. The transaction costs for writing contracts between the winners and the losers are however so high that the contracts are not feasible. If we assume that the majority of the current property owners lose, then in planning of type 3 the local government would say no to the project to defend these property owners interests. Another way to put this is to say that, given certain assumptions, the type of market oriented planning we discuss now (type 4) aims at maximising total property values (see Milgrom & Roberts 1992, chap 2 about "The Value Maximising Principle"). Planning of type 3, on the other hand, aims at maximising property values for the majority of the voters.

It is probably very difficult to implement market oriented planning of type 4. As mentioned above, we should expect that local interests dominate local government planning. If this is true, market oriented planning of type 4 will move in the direction of market oriented planning of type 3.

7. Market-oriented planning of type 5 - Planning in co-operation to increase the competitiveness of the city

The types of market-oriented planning discussed above are very much focused on the local arena and the relative power of local politicians, local property owners and developers. Who among these should formulate the visions, have the legal rights and who have the economic resources? When the economic system as a whole develops into a more global system, where firms and people more easily can move between cities and countries, there *is an increased pressure on the local actors to co-operate instead of compete about local power.*

Williams (1999: 21) talk about "the marketing of places" and writes:

"Currently, however, there has been a rebirth of interest in approaches to strategic planning with 'collaborative' positions becoming central.... ..[O]ur major cities have entered into a new competitive era, promoting a range of 'capacity-building' initiatives and perceiving local political fragmentation as impairing their ability to compete..... The starting point is no longer the visions of the local government or of the private sector. Instead both join forces against an external threat - that "their" region will lose in relation to other regions."

Gleeson and Low (1999: 42) write:

"In a real sense, the triumph of the 'productive city' signals an end to the long antagonism between the market and planning in neo-liberal Western societies.".. "The productive city seeks not a new accommodation of the market to planning - *it seeks to reconstruct and redeploy planning as a market dynamic itself.*"

A number of the articles in Rodwin & Sanyal (2000) points in the same direction, e.g. the ones by Innes and Susskind. A similar Swedish development is described in Cars and von Sydow (2001).

In table 6 we summarise this fifth form of market oriented planning. The local government is seen as an important actor among others in formulating visions for the development in the city. The local government has strong legal rights concerning structural issues and also considerable economic resources that can be used for investments especially in infrastructure.

Table 6: Market-oriented planning of type 5

<i>Component</i>	<i>The position of the local government</i>
Visions	In co-operation with other local actors
Legal rights	Strong, but for a smaller number of issues
Economic resources	Rather strong

Thornley (1993:217) argues that one of the characteristics of the developer-driven planning - described above as market oriented planning of type 2 - was " the removal of social criteria". It might be interesting to speculate a little about the general content of this fifth type of market oriented planning. What does it take to make a city more attractive?

If we look at e.g. Andersson (1999) the picture that emerge is that if a city should be able to attractive expanding new industries it will need to have a well functioning housing market, a good infrastructure - including schools and other social institutions - and a low level of social problems. The city must avoid slums, high criminality and social unrest to be attractive. If this is a correct view of what it takes to make a city attractive, the result would be that social criteria would come to play a bigger role in planning, compared to especially market-oriented planning of type 2 and 3. A bold conjecture would be to say that the social content of the fifth type of market oriented planning could be similar to the content of the initial planning with a strong local government. The social dimensions of planning would however no longer depend on the good will of the local majority, but be enforced by the global market. It might be interesting in this context to note that there is a line of research in modern economics that points in the same direction. Too wide income differentials might reduce economic growth partly through creating higher uncertainty and higher risk for social unrest, see Persson & Tabellini (1994).

8. Conclusions

Market-oriented planning has been discussed intensively for a number of years. The purpose of this article was to identify a number of distinct types of planning that all has been discussed under this heading. In the table below we summarise the different types and the distinguishing characteristics of each.

Table 5 An overview of the different types of market-oriented planning

	<i>The role of the local government in different types of market oriented planning</i>				
	1. Planning based on compromises with private real estate investors in order to attract private capital	2. Developer-driven planning with state support	3. Planning to protect the interests of the current property owners	4. Planning to simulate a market situation with no transaction cost	5. Planning in co-operation to increase the competitiveness of the city
<i>Visions</i>	Strong	Weak	Weak	Weak	In co-operation with other local actors
<i>Legal rights</i>	Strong	Weak	Strong	Strong, but for a smaller number of issues	Strong but for a smaller number of issues
<i>Economic resources</i>	Weak	Not relevant	Weak	Weak	Rather strong

It is important to distinguish these different types in a number of contexts, e.g.

- *To understand the dynamics of planning in different countries.*

It is not very clarifying to say only that there has been a move towards a more market oriented planning. The impression from the literature is that in England during the Thatcher-era a planning of type 2, with elements of type 4, was introduced, but that later the system moved in the direction of type 4 and 5. In Sweden type 2 never existed, but instead type 1 came first and then also moved in the direction of type 5. In the USA type 3 seemed to be the most common type of market oriented planning, but that there is a tendency towards type 4 and 5. The categorisation above seems to be a useful tool for a more precise description of what has happened, and a fruitful starting point for explanations of what has happened.

- *To understand the consequences of changes in the planning system.*

The analysis above shows that it is not meaningful to discuss the consequences of a more market oriented planning unless one first clarifies what type of market oriented planning one is thinking about. The different types of market oriented planning can be expected to have very different consequences, concerning e.g. the role of social dimensions in planning.

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