The battle for ideas that shaped
British planning

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Abstract

In 1998 Daniel Yergin and Joseph Stanislaw won a Pulitzer Prize for a book titled *The Commanding Heights*, which looked at the great twentieth century intellectual debate between English economist John Maynard Keynes and London based Austrian economist Friedrich von Hayek. After the Second World War, Keynes won the peace and influenced three generations of scholars and policy makers, including those working in urban, rural and regional development. This intellectual influence helped create and sustain Britain's Soviet style post-War land-use planning system, which remarkably, has survived both the intellectual rehabilitation of Hayek and the more liberal political economy created over the last quarter of a century by left and right of centre governments. Epistemology addresses the question ‘how do we know what we know?’ The knowledge that has underpinned the British planning system is of two kinds: general theories about how society and economy should be governed and specific theories about social processes and intervention mechanisms. How do we justify our use of such knowledge in the design of institutions that shape peoples’ lives? Justification may come in the form of debates that feed into legislation and policy, in which arguments and evidence are explored. Knowledge also shapes institutions in many subtle and uncharted ways. It can also shift policy in a catastrophic fashion. This happened in Britain in the 1980s when a government came to power that was inspired by the intellectual ideas of Hayek and believed that the
The intellectual foundations of much government policy during the previous three decades were false. This paper looks at the influence of Keynes and Hayek on Britain’s spatial planning system. It shows how big ideas work their way into legislative details. It also shows that useful knowledge has to be discovered.

1. Introduction

The intellectual influences on spatial policy in Britain are many and varied and it would be impossible to be anywhere near comprehensive in attempting to survey them. There are, however, a number of core ideas that can be pointed to as fundamental shapers of the body of laws and polices that govern the development of British land and in particular its conversion from rural to urban uses. Institutions (systems of laws and rules) emerge in a democratic society where there is some degree of consensus that life without them is in some senses too costly. National enabling laws, detailed operational laws, legal precedents in the
courts and policies and by-laws at all scales of government, emerge to reduce the costs of social and political interactions and of economic transactions. The particular shape of an institution will reflect the interests of the governing agency in power and the interests that have influence on it, including academic interests. The power of scholars to shape laws can be particularly important at times of social upheaval or where old ideas seem to have run their course and offer little guidance about where to go next. Once established, institutions become a battle ground for different groups with their own beliefs, who seek to capture them in pursuit of their partisan interests. In this messy process, knowledge accumulates about the effectiveness of institutions and this knowledge will be have different significance to different groups.

This is the story of British land use planning law and policy. The really core ideas shaping the country’s planning framework have arguably not come from within the academic community specialising in planning and development but from outside. The prevailing political economy has determined the shape of laws promulgated at any particular time. Britain does not have a written constitution and its modern ‘planning constitution’ has been created by a succession of Acts. Foundational laws governing urban development and the conversion of the countryside were laid down at the end of the 19th century and the start of the 20th century but the main legal infrastructure was created in a raft of socialist legislation immediately after the Second World War. Among these were the 1945 Distribution of Industry Act, the 1946 New Towns Act, the 1947 Town and Country Planning Act and the 1949 National Parks and Access to the Countryside Act. The general premise of these Acts was that government needed to manage the land and development markets in order to restructure the spatial economy. In this sense, British planning has been profoundly influenced by the theories of the English economist John Maynard Keynes, whose ideas gave the general intellectual justification for the programme of the post War interventionist government.
Once established by the 1947 Town and Country Planning Act, the idea that
government should have fundamental and detailed control over the allocation of land uses
became accepted wisdom. Much of the control was handed down to local tiers of government,
where it was naturally used to serve local interests. This had the effect of strengthening local
macro-planning. Ironically, it also meant that the national government has also had to persist
with Stalinist-style control of land supply, years after the general shedding of the Keynesian
model in other areas of public policy. The shared sovereign power of national, regional and
local governments over the spatial organisation of economic activities survived the comeback of
Keynes’ pre-war sparring partner and intellectual competitor, Friedrich von Hayek. Prime
minister Margaret Thatcher reshaped the project of the British government under Hayek’s
influence, but a nationalised development co-ordination industry remained intact, strengthening
even, during the Thatcher years. The left-of-centre government that came to power after the
Thatcher bubble had burst in 1997 continued in the spirit of Hayek to dismantle the post war command economy. The result has been, and will continue to be, refinement of planning laws in
pursuit of better fitness for purpose. The centralisation of rights over land development put in
place in 1947, however, put British planning on a course that has been difficult to retreat from.
Development rights have, over time, selectively migrated to more appropriate levels, some
being given back to private interests, others such as those over strategic national infrastructure
being clawed back from local interests and given to the national state (Webster 2006). Other
rights, however, remain firmly locked in the wrong place, captured by various interests and
continuing to yield development patterns that are highly inefficient and inequitable.¹

¹ See a series of three recent publications by Alan Evans and Oliver Hartwich (2005a, 2005b, 2006), in
which they review, among other things, the impact of the British planning system on rising house prices,
poor housing quality and a serious key-worker housing problem in the South East region.
Some knowledge about policy failure becomes quickly established and leads to rapid policy change. Other knowledge can become obscured by beliefs that are not necessarily founded on truth. By and large, the British public seem to have accepted that land is scarce in their country, that rural land is quickly being exhausted and that we need therefore to live at high densities in houses of well below the European average size\(^2\). Actually, 90% of the English population live on less than 10% of the land. The misconception has helped protect the command economy operating in the land sector. So has the belief (true as it stands) that expanding the population in popular communities will bring no local benefits. This belief would change if local taxation policy was less centralised. I return to these ideas in section 5.

2. Organising land development transactions

Land development is never completely unorganised. In a primitive tribal society, someone has to organise the co-ordination of building materials, collective labour and construction and negotiate customary rights. A family farm upgrading drainage infrastructure in a field needs to co-ordinate the supply and installation of inputs and the negotiation of water rights with neighbours or with river authorities. Urban land uses are, by nature, interconnected with many other land uses. Positive and negative externalities in cities are everywhere and dense. Cities owe their existence to positive externalities and the negative externalities arising from closely packed people and activities are a necessary price to pay for the gains of cooperation. The balance between co-operative gains and losses are addressed in the subjective calculations that guide individual transactions. The balance is also addressed collectively by design, regulation, investment, management and the fashioning of rules and procedures that

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\(^2\) The average room size if a new house in England is 15.8 m\(^2\) compared with 21.4 for Italy and 26.9 for France. The average size of a new house in England is 76m\(^2\), almost half of the size in Denmark (137m\(^2\)) and the lowest in Europe. In Germany it is 109.2m\(^2\). (Evans and Harwich 2005a, p24).
create orderly markets. Transactions that have transformed land from one use to another through the ages have been organised in a variety of ways depending on the interests involved. The organising agencies include small holders, tribal councils, war lords, landed families, religious organisations, colonial administrations, industrialists, philanthropists, development firms, farming co-operatives, municipal governments, national governments, occupying military forces and so on. Knowledge about how to organise the spatial economy has historically been distributed across these agencies. Which knowledge guides any particular historical or spatial phase of development depends on which agencies have the greater power.

Generally, individuals and organisations with ownership of, or access to, the scarcest factors of production in a particular production process, are likely to gravitate towards positions of power in organising that production. Where it is land improvements that are being produced, and land is scarce, land owners can be expected to wield great influence in the development process. Where labour is scarce, labourers will become key stakeholders, as in frontier farming situations, for example. There are high rates of return obtainable in modern cities, realisable only by the injection of large amounts of capital. As a result, financiers and development firms possessing scarce knowledge about how to mix capital and land to yield profits join landowners to organise production of the built environment. Where there is a scarcity of power to organise collective action to address externality and public goods problems, agencies with this power will become key stakeholders in planning the built environment. In the uncertain but optimistic times of post World War II Britain, under the intellectual influence of Keynes, the state assigned itself the monopoly power to co-ordinate development. This represented a turning point in the evolution of knowledge about how a society may organise land development.
3. Planning in Keynesian Britain

Faced with reconstructing a new Britain from the wreckage of the second world war and the 1930s depression, the arguments of War time economics advisor to the British government, John Maynard Keynes, were rolled out into peacetime. In *The General Theory of Employment, Interest and Money* (1936) Keynes had argued that government investment and tax reductions could prevent business recessions from deepening into depressions like that of the interwar years. The technical prescription was for governments to deficit finance public works projects and an expansion of the public sector, which through the multiplier effect would boost aggregate demand (total expenditure on goods and services) by an amount larger than the investment and thus reverse unemployment. The more general prescription was for active government involvement in managing the economy. This had proved successful during the war and after the war, caught the mood of the public, many of whom believed that a controlled market economy would protect them from a return to pre-war market instability. It was in this spirit and intellectual climate that a series of far reaching reports on various matters related to land and development were prepared between 1937 and 1947. These formed the knowledge base of the 1947 Town and Country Planning Act and other socialist legislation governing the distribution of industry, the creation of national parks and the development of new towns.

The backbone of the 1947 Act was the nationalisation of the right to develop, which was passed to local planning authorities where it provided the legal basis for national, regional and local land planning. Around this property rights reform was arranged an elaborate structure of bureaucratic plan making, regulation and public administration designed to engineer the processes of constructing a new and better Britain. The reaction against the laissez faire
spatial economy of pre-war times led Britain into its own experimentation with the scientific socialism that was unfolding in more extreme forms elsewhere. Yergin and Stanislaws’ *Commanding Heights* (1998) draws its title from a quote from Vladimir Lenin, who was making the point that the state should be in control of the main infrastructure of the economy – transport, heavy industry and power. In the Keynesian spirit, Britain pumped investment into the commanding heights of its economy - the newly nationalised railways, steel, coal, health and other sectors. Its new land use planning system was a nationalised development co-ordination industry. The physical reconstruction of war torn cities, the containment and decanting of a sprawling and overcrowded London, the protection of natural areas and the reshaping of the spatial economy to build post-war Prime Minster Atlee’s *New Jerusalem*, meant that land was one of the crucial commanding heights.

Britain’s peaceful transition to a managed market economy came at a time when other modernist intellectual ideas were influencing society. In the urban and regional field, regional science was born in the late 1940s out of a dissatisfaction with the existing level of economic analysis of spatial processes, problems and planning. It applied the deductive methods of micro-economics to develop spatial economic theories that its founder, Cornell based Walter Isard believed would improve the management of increasingly complex social problems.

“The typical regional scientist wants to surround himself with a research assistant and a computer for a long time in order to collect all the relevant information about the problem, analyze it carefully, try out some hypotheses, and finally reach some conclusions and perhaps recommendations. His findings are then passed on to decision makers.” Isard 1975 p2.
British planning academic Brian McLoughlin’s book *Urban and Regional Planning: a systems approach*, first published in 1969, aimed to bring developments in scientific urban planning to a wider audience. As well as Isard’s regional science these included the pioneering work of Pennsylvania based Britton Harris on computational urban simulation and the work of British economist and planner Nathaniel Litchfield on multi-criteria evaluation methods. There were other developments but these represented a significant triptych for the planner in the age of modern social science: theory of optimal sectoral and spatial allocation of scarce recourse (including land), computational methods to operationalise these and a scientific approach for aggregating values and relating programmes and plans to goals. McLoughlin added the work of Melvin Webber and Donald Foley to this mix, rounding it off with ideas that related process to form, structure and design. McLoughlin’s synthesis aimed to create a new rationale, methodology and identity for planning³. It attempted to put planning intellectually within the discipline of cybernetics, the science of communication and control that had developed from strategic studies and operational research origins in the 1940s. The rationale of planning was to control complex spatial systems, the methodology was systems analysis, design and engineering and the identity of the planner was that of an urban social engineer.

Interestingly, there is no reference in McLoughlin’s 1969 book to the body of intellectual ideas that were rapidly expanding to underpin the more general economic rationale for government intervention in a market economy. Keynesian macro-economic theory and neo-classical micro-economics were respectively developing sophisticated scientific models of description and prescription⁴. Welfare economics, which uses micro-economic models of

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³ See also the later book by George Chadwick (1978).
individual behaviour to analyse the macro-economy lay somewhere in between and was an
important influence in regional science, but the so-called rational comprehensive urban planning
with its systems metaphors seems to have been only weakly influenced by these foundational
ideas from economics. The greater influence of general systems theory, operational research and
cybernetics was no doubt due to planning’s focus on the physical, its origins in engineering and
its growing preoccupation post 1947 with the administrative and legal processes of preparing
plans and controlling the development of rural land.

The golden days of Keynesianism lasted for about thirty years from the end of
the war to the mid 1970s. During this time the British land use planning system mushroomed as
it attempted to manage an increasingly complex mixed market urban development process.
Between 1947 and 1979 (when the incoming conservative Thatcher government started to turn
back the tide of the Keynesian economy) there were 53 separate pieces of primary legislation
and orders and 215 major circulars, legislating and elaborating on matters relating to urban
planning. The number of explanatory and elaborating policy circulars, rose from just one in
1947 to eighteen in 1977, indicating the complexity of the control process (see Figure 1).

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5 From An outline guide to Planning Legislation and Policy in England, chart produced by Drivers Jonas,
Figure 1 The deepening complexity of British planning laws

(Source: Drivers Jonas, Chartered Surveyors and Planning Consultants, Suffolk Street, London, 1997)
By the middle of this period – the 1960s, when Britain had made the immediate adjustments to peacetime and economic stability and was experiencing buoyant economic and physical growth, there were signs however, that a complex land use planning system may not be the best way to control a complex development market. In the preface to ‘A systems approach’ McLoughlin comments:

“On the one hand some remarkable successes can be claimed, among them the British achievement since the Second World War – for example the rebuilding of Coventry, the new towns, the conservation of areas of fine landscape, the maintenance of a large measure of public faith in the world’s most intricate and comprehensive planning system. On the other hand, very serious doubts have begun to arise – not only about the effectiveness of the means of planning, but much more fundamental doubts about the ends which institutionalised planning is supposed to serve, about the nature of the process as a whole, about professionalism skill and education.” (McLoughlin, 1969, p15).

It was not yet well understood that complex systems are best governed by simple rules. The idea of a complex control apparatus was a cybernetic approach in harmony with the prevailing interventionist ideas of the time. The problems mentioned in the quote from McLoughlin were undoubtedly exacerbated by planners’ lack of appreciation of the growing body of welfare economic theory, which would have given them a far tighter understanding of
the purpose of land use planning (reducing negative externalities and increasing public goods supply); of how planning could be expected to achieve its purpose (how exactly does a plan make these adjustments to the land economy?); of what unintended consequences could be expected; and what alternatives there were to achieving the same ends (regulatory, fiscal, direct investment and informational mechanisms). However, the problem was not just lack of thinking tools. One of the rationales underlying the search for a scientific approach to planning was to improve the degree of control by introducing better knowledge, information, data, theory and methodology. This was proving to be an unfounded premise. It was not just town planning that was struggling to command the expanding market economy. Macro economic planning and the planned nationalised industries and services were getting into trouble, despite being better founded on behavioural theory than were the attempts to plan land markets.

The period 1958-1966 in Britain was the period of strongest economic planning, including the adoption of a national economic plan, but it was also a time when unemployment and inflation started to rise concurrently. Keynesian theory suggested that the economic machine could never do this because rising unemployment would dampen demand for goods and services and put a break on price and wage inflation. The response of the British government to so called ‘stagflation’ was to fine tune the machine, but adjustments using wage and price controls failed to stabilise the economy. The national plan was abandoned, marking the start of a retreat from Keynesian orthodoxy. When oil prices rose by 400% after the 1973 OPEC crisis, Britain moved into pathological stagflation and a time of great political turmoil, central to which were the demands by powerful trades unions for the retention of a planned and managed economy (guaranteeing the jobs and wages of their members). The Keynesian planning era and this troubled decade ended with a violent coal miners strike and, by a sudden

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6 Economic stagnation + price and wage inflation
change of government, the entry of a Prime Minister determined to reject the intellectual ideas of Keynes for those of his rival, Friedrich von Hayek.

By the end of the 1970s most people involved with planning in Britain had realised that the spatial economy of cities and regions could not be managed as a machine. Even though British laws had constructed what was probably the strongest land control system outside of the centrally planned economies, cities clearly had a life of their own and resisted attempts to reshape, steer and constrain them. For many planners, plans were ends in themselves and there was little understanding of what problems they were meant to alleviate or of how they were meant to work. Speaking of sub-regional level strategic land use plans (structure plans), Bracken and Hume commented:

“The optimism and faith evident in the late sixties for this novel system of flexible strategic planning appears now to have largely evaporated and the main concern among structure planners is now more a pragmatic one, namely the satisfactory completion and approval of their plans.” (Bracken and Hume, 1980, p96)

The strategic plan system these Cardiff based planning academics refer to was meant to have provided an institutional framework for the type of system-control planning McLoughlin had promoted. The 1970s ended with an admission that British planners still knew very little about how to govern the land development market. They had discovered a lot about how to run a complicated bureaucracy but not enough about land and property markets. The fundamental problem was that the legal and procedural mechanisms used were inappropriate to the task. They were premised on the centralisation of knowledge and control. Such assumptions would prove fatal to national command economies as von Hayek had predicted 30 years earlier.
4. Planning in Hayekian Britain

Margaret Thatcher swept to power in 1979 with a Hayekian agenda for freeing the economy from the hands of politicians and bureaucrats and giving it back to capitalist investors and entrepreneurs. In a May 1979 letter sent from the Prime Minister’s office at 10 Downing Street, Thatcher wrote to Hayek:

“I was very touched by your kind telegram. It has given me great pleasure and I am proud to have learnt so much from you over the past few years. I hope that some of those ideas will be put into practice by my government in the next few months. As one of your keenest supporters I am determined that we shall succeed. If we do so, your contribution to our ultimate victory will have been immense.” (Friedrich von Hayek Papers, Hoover Institution Library and Archives)\(^7\)

She kept to her word. The nationalised industries were floated as public companies and sold off; buses and trains were deregulated and internal markets introduced into the national health and education sectors. Competition would replace control and price signals would replace political signals. Later, in 1984, in recognition of her intellectual debt to Hayek and his services to the study of economics, Thatcher had Queen Elizabeth II confer upon him the Order of the Companions of Honour.

During the Keynesian years, Hayek had retreated into the shadows, in 1950 moving from the London School of Economics to take refuge in at the University of Chicago and returning to Germany and then his native Austria in the 1960s. The inauguration of a Prime Minister of a major industrial power who openly espoused his views brought him in from the cold and revived the school of ideas that he represented.

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The importance of this lay not so much in the wider dissemination and application of detailed theories but in the revival of a far longer tradition of British intellectual thought: the tradition of Adam Smith’s invisible hand. Unlike Keynes’ technical formulae for governing the macro-economic machine, Hayek’s writings emphasised the individual. This was a step back from macro to micro economics and system modelling to individual behavioural modelling, but Hayek’s analysis spurned the objective mechanisms of neoclassical economics. In a way, these shared macro economics’ illusion of grandeur: both believed that it was possible to describe and analyse and to predict and prescribe. Macro economists planned and sought to keep the economy in line with an optimal plan by adjusting the prices and supply of labour, land and capital. Micro economists, including welfare economists, worked with the ideal notion of the perfect market and prescribed adjustments using fiscal and regulative interventions to correct so called market imperfections (for example, taxing output or consumption to bring pollution down to a socially efficient level).

For Hayek, economics was in some ways much simpler than this. What marks him out as one of the great social scientists of the 20th century is his powerful synthesis of a debate that had its modern origins during the growth of trade in the 16th century. He characterised economics as the science of coordination. The division of labour accompanies economic growth and with it, the division of knowledge, which becomes dispersed among many individuals. Each has their own preference for goods and services, for job and home location and so on, based on individual subjective valuation of benefits. A most fundamental question in this situation is how can the production and consumption plans of many individuals, with limited knowledge and cognitive ability, be coordinated in pursuit of mutual gains? Luis de Molina (1535-1600), a theologian economist of the Spanish School of Salamanca on the Spain-Portuguese border, considered the order that emerges as individuals exercise a God-given free-
will to trade. Regulated markets and price controls, in his view, infringed essential values of freedom and were not in keeping with the idea that individuals are bestowed by God with a responsibility to exercise free-will in line with the divine character. Prices should therefore be left to emerge from the interaction of subjective supply and demand. Bernard Mandeville (1670-1733) in *The Fable of the Bees*, made an early statement of the Scottish Enlightenment idea that social benefits emerge from self interested individual action and markets can therefore be relied upon to deliver wealth to an economy. Josiah Tucker (1712-1799), Dean of Gloucester Cathedral in the west of England, rejected Mandeville’s encouragement to selfishness, more palatably suggesting that individuals will promote the public interest while pursuing their own. The Scottish Enlightenment philosopher David Hume (1711-1776) saw that the rules that govern individual exchanges in markets are like this too: they are created to protect private property and individual gain but work to the benefit of society as a whole:

“Those rules, by which property, right and obligation are determined, have all of them a direct and evident tendency to public good...though it be not intended for that purpose by those who make them...They preserve the stability of possession, of its transference by consent and the performance of promises”

In *Wealth of Nations* (1776), Hume’s fellow Scotsman Adam Smith (1723-1790) developed the fullest classical argument that self-regulating and spontaneous order emerges from individual impulses and actions. He argued that an economy can order itself and grow in this way so long as there is in place a minimum ordering rule set: the rules of law; private property; and freedom to contract. These institutions ensure that individuals retain the
fruits of their knowledge and thereby have the incentive to invest their private resources in ways that benefit others.

Carl Menger (1840-1921), founder of the Austrian School that Hayek came to epitomise, added sophistication to the insights of earlier writers by demonstrating that social order emerged spontaneously as individuals made decisions based on their *marginal* valuation of additional units of a good. He had a broad understanding of emergent order, writing in *The problems of sociology and economics* (1871):

“Language, religion, law, even the state itself, and to mention a few economic social phenomena, the phenomena of markets, of competition, of money, and numerous other social structures are already met with in epochs of history where we cannot properly speak of purposeful activity of the community as such directed at establishing them”

Hayek’s work brought such ideas together in a compelling account of how coherent aggregate social structure emerges spontaneously from the actions of individuals. Decentralised decision making via markets, in his analysis, is the only mechanism of co-ordination yet discovered that can cope with the universal realities of limited knowledge and unpredictability of other people’s actions.

Hayek developed his early work as an argument against socialism, which he saw as a threat to freedom and a slippery slope to totalitarianism. Choosing cleverly not to pick a fight over the ends of socialism (wealth creation and social harmony) he made his argument on the basis of two technical problems: information and incentives. Government organisation of the economy simply cannot achieve the stated ends of socialism because (a) it cannot accurately measure and aggregate demand for goods and services and (b) without private
ownership, economic agents cannot be expected to deploy resources under their control efficiently. How can a government charged with planning production in an industry or allocating resources between industries possibly recover accurate information about the way millions of individuals value different quantities and bundles of goods and services? Planning has an inevitable information handicap compared to markets, therefore. And how can a government design a more effective mechanism than the market for creating the incentive for efficient resource deployment?

In the realm of land and land use planning, the same questions may be asked: how can a government possibly understand the social benefits and costs of alternative future allocations of land and activities at local, city, regional and national scale? Land and property markets are sophisticated institutions that signal benefits and costs via price and governments cannot possibly replicate this information. And how can a government set up incentives that match the power of private property in inducing land and building owners to deploy their resources for the widest public interest?

In this light, it is of interest to consider what became of land use planning in Hayek’s Britain. The authoritative detailed analysis of the subject is by London School of Economics based Andy Thornley (1991). The story can be told more simply, however, and with the hindsight of a further 15 years of liberal policy experiments.

The Thatcher government set about reviewing the planning laws and experimenting with marginal and more fundamental changes. Among the former, for example, were changes to the regulations that govern the change of one land use to another\(^8\). Among the latter were Simplified Planning Zones that gave local governments or developers the chance to propose schemes in which the normal site-by-site development control process is replaced by a

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\(^8\) The Use Class Order
negotiated planning framework in which certain kinds of uses are deemed to have planning consent. Urban Development Corporations were another innovation, lodging development rights within a quasi-public agency possessing strong financial and land assembly powers. In essence, what started to happen in this new regime was a long hard look at what land use planning was supposed to deliver, what it was and was not in fact delivering and what society and the economy might want it to deliver. There was no outright rejection of plan making and development control. Rather, the search was on to discover a more appropriate boundary between market-led and government-led land development. One surprising result of this search was that by the end of a decade of Thatcher’s government, major new planning laws in 1990 had rendered the land use plan a stronger not weaker legal instrument. What was happening here was actually very much in tune with the government’s avidly Hayekian philosophy. Hayek’s own views on town planning are found in his *Constitution of Liberty* (1960)\(^9\). In this, he accepts the welfare economic view that the market may need correcting where there are social costs arising from non-marketed externalities such as air, water, noise and traffic pollution.

*But though the price mechanism is an imperfect guide for the use of urban land, it is still an indispensable guide if development is to be left to private initiative and if all knowledge and foresight dispersed among many men is to be used. There is a strong case for taking whatever practical measures can be found to cause the (price) mechanism to operate more efficiently by making owners take into consideration all possible effects of their decisions. The frameworks of rules within which the decision of the private owner are likely to agree with the public interest will therefore in this case have to be more detailed and more adjusted to particular local*

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\(^9\) Quoted, very helpfully, along with the views of other libertarians on pollution control in Lai LWC (2002) Libertarians on the road to town planning. Town Planning Review 73(3).
In Hayekian Britain, neighbourhood level planning through mechanisms that helped internalise, remove or reduce negative externalities, was acceptable. Thus Michael Heseltine, Thatcher’s Environment Minister said in 1982:

I remain, as I have long been, committed to the concept of planning. Britain would be the poorer without it and it is to me unthinkable that the broad philosophy of development control will ever be set aside. Our land resource is too limited, the pressures on it too great to contemplate such a prospect. (Heseltine M, 1982, p11, quoted in Thornley 1991, p123)

Similar commitments were made throughout the 1990s. This did not, however, stop the reforming government’s attack on the legacy of Keynes. At the same time as endorsing the need for appropriate development control, Heseltine took on the local planning authority ‘macro-planners’. Indeed, the distinction in the British town planning system between plan making and development control, has at times been in some senses like that between macro and micro economic prescriptions for the economy more generally. What had happened with the introduction of county level strategic land use plans (structure plans) in the late 1960s was that these had been used by many local governments as local-level general social and economic development plans. Heseltine’s department ruled many of these as inappropriate, determining
that plans under the Town and Country Planning system should be land use plans, strictly there to guide development control, and by implication, functioning like the latter, to make land and property market mechanisms more effective. In 1980 the Hayekian government reduced the scope of county level structure plans, disallowing the lengthy surveys and analysis that made them rather like sub-national development plans and removing some of the functional ambiguity in the system by assigning most development control powers to the district level government. This was, in fact, the first step towards the weakening of Keynesian style general purpose structure plans that would culminate in a Labour government abolishing them in 2004. A 1990 law that shifted the emphasis in development control from discretion to plan, firmed up the idea that land use plans are created to lower transaction costs in the development market. The new stronger plans would give greater certainty, lowering the costs of private and public decision making.

When the period of Conservative party rule eventually came to and end in 1997, the incoming Labour Prime Minister Tony Blair turned his attention to modernising Britain’s socialist party. His approach was to steer the government between the extremes of Keynesian style central coordination and Hayekian market coordination. The intellectual influence for his ‘Third Way’ politics, which he shared with Bill Clinton, seems to have come in
part from communitarian philosopher John MacMurray.\footnote{Blair was influenced by MacMurray, a popular philosopher in the 1960s, while studying at Oxford. The influence came through Blair’s religious mentor, Australian priest Peter Thomson. The idea of a Third Way based on community is also found in the work of the early 20th century Dutch philosopher Abraham Kuyper. See Abraham Kuyper’s \textit{Lectures on Calvinism: Six Lectures Delivered at Princeton University Under the Auspices of the L. P. Stone Foundation} (Grand Rapids: Eerdmans, 1931), reprinted in 1978, 1983, 1987, and 1998; Stephens P, \textit{Tony Blair}. London: Viking Press; Richards P (2004) Ed. \textit{Tony Blair in his own words}. London: Politico; Tony Blair, \textit{The Third Way: New Politics for the New Century} (London: The Fabian Society, 1998).} Blair’s focus was on community and the mutual responsibility that creates it. Practically speaking, however, this has never fundamentally challenged the Hayekian project of allowing the market to co-ordinate where it does this best. Community was a ‘conviction politician’s’ answer to what he perceived to be the philosophical emptiness of a market liberalism based on intellectual individualism. In the 2004 Planning and Compulsory Purchase Act, Blair’s government made the most far-reaching changes yet to the 1947 planning system. The changes bear the intellectual imprint of Hayek, not MacMurray. Among other measures, the Act brings in further deregulation of land use change rules; a new experiment with simpler planning zones (Business Planning Zones); and the formalisation of compensation charges through a so called Planning Gain Supplement - a version of impact fees and a means of more effectively pricing the external costs of private development transactions. Plans remain a strong determinant of development control decisions but there is a clearer than ever sense that the function of plans is to co-ordinate the development market and to ensure the market takes account of third party costs and benefits. A stipulation that plans will normally take ‘months not years’ to prepare is the most forthright
attempt yet, to steer local government development plan makers away from plans that attempt to
entire future resource allocations, to a Coasean style mechanism that outlines an initial set of
rights that can be changed by negotiation as market conditions change.11

5. Rural protectionism and national land control

Notwithstanding these reforms, there is at the heart of the British planning
system a deeply embedded mechanism of central control that reflects a social-market
philosophy. This has led some commentators to wonder at how the system could have survived
for so long without the economic evaluation that has led to the dismantling of all other
components of the post War planned welfare state (Corkindale 2004, Pennington 2002). The
central control is there in two senses: constitutional central ownership of development rights and
central instrumental control of particular resource allocation processes.

In a legal sense, the state still owns the right to initiate development. This
right is passed back to private owners under certain conditions and is by and large devolved to
local governments, but the presumption in British development is still against the developer.

11 See, for example, Webster CJ and Lai LWC (2003) Property rights, planning and markets: managing
spontaneous cities. Cheltenham UK and Northampton MA, USA: Edward Elgar,208 pp, ISBN 1 84376341 9,
paperback; Webster CJ (2005a) The New Institutional Economics and the evolution of modern urban
Coase, spatial pricing and emergent cities, Urban Studies 38(12), pp. 2037-2054; and Webster CJ (1998),
This necessarily implies that a government agency will make the final decision about land and land use allocation and implies a belief that government agents possess the best knowledge for such decisions. This may be so in respect to knowledge about demand for collectively consumed goods over which it is difficult to assign private property rights – infrastructure and externalities that are technically or politically difficult to ration by price. However, the difficulty that has brought confusion into the British planning system since its inception, mirrored in many other countries, is in distinguishing between knowledge about the benefits and costs of collectively consumed goods and knowledge about the social demand for private goods. The market is generally better at providing the latter, via prices and profit and loss accounting: government is generally better at organising the former. Having said this, there needs to be a debate about which kinds of governance organisation are best placed to organise collective action over different kinds of co-ordination problem\textsuperscript{12}. There is a sense, therefore, that the centralised ownership of land development rights can be used wisely – to render market based co-ordination more effective and socially acceptable by exercising firm control over third party costs in the development markets (as articulated by Hayek in the quote above). As we have seen, the power has been used unsuccessfully in the past to try and prescribe what the market is better at discovering.

British planning has not yet got this completely right. A case in point is its central allocation of land for housing. This is at odds with the greater market reality built into the system over the past 25 years. Housing allocations involve the national government making periodic estimates of national and regional population growth and allocating new growth to local government areas. This is a formula straight from the policy book of the 20\textsuperscript{th} century

\textsuperscript{12} See the collection of papers in the December 2005 issue of Economic Affairs (Webster 2005b) where 10 authors ask the question: who should co-ordinate neighbourhood affairs?
planned economies and unlike any other land policy in Western Europe. The allocated numbers of people and houses and the imputed land supply targets are hotly contested by local governments, resulting in coerced negotiated planning targets for local rural-urban land conversion and urban expansion.

The necessity for this anachronistic procedure can be understood in terms of the long-lived legacy of post war interventionism and even longer-held intellectual and ideological beliefs that the countryside should be preserved. The modern preoccupation with sustainability interacts with both to strengthen the conservatism and control of the British planning system.

The post war planning machine gave local governments a powerful tool for controlling land on their patch. Because of the emphasis on control and regulation, initially premised on the idea that government via development plans, could work out what is best for a community in the future, there is an inbuilt imbalance in the way local communities evaluate the costs and benefits of new development. A more balanced system would allow a community to weigh up the costs in terms of lost green land, increased demand for services and so on, with the benefits of increased local income and wealth, increase local tax revenues and enhanced agglomeration benefits. The problem is that there is a very weak link in the UK between local growth and local tax income. Currently about 85% of local government finance is allocated by central government. The added demand for services required by residents of new housing feeds into the system with a time lag, making it difficult for local authorities to respond flexibly to local development markets in producing well serviced communities. Non-residential local property taxes go straight to the central government to be partially returned by formula with up to a three year delay. Residential property tax (Council Tax) is retained, but this amounts to only 15% of local expenditure. Local governments bear the full costs of accommodating new
population but only some of the benefits. The ‘price’ signals for the benefits are very weak and noisy. If these were made stronger and clearer then existing settlements would have a greater incentive to accommodate new growth and there would be less need for the old fashioned and inefficient central allocation mechanism. Evans and Hartwich (2005) summarise some practical suggestions for aligning incentives more effectively. These include hypothecating tax receipts directly to the local authority; allowing new forms of local taxation such as local income tax or local sales tax; tying central-local transfers more directly and simply to local population numbers; and formalising some kind of impact fee or social cost tariff. The last of these is being worked on by the current government and will be one way of compensating local residents for loss of green land and increased densities and increased risk of congestion.

The resilience of one of the last bastions of Keynesian Britain can only partly be explained by the path dependent evolution of a strong regulative planning culture and non-joined up institutions, however. It must also be explained in part by Britain’s lasting love affair with the open countryside. The words of Prime Minister Thatcher’s environment minister quoted earlier are echoed in an introduction to the current government’s official web site on planning:

“England is one of the most crowded countries in the world. Over 90 per cent of our population lives in urban areas covering just eight per cent of the land area. This makes how we plan for, and make decisions about, the future of our cities, towns and countryside extremely important”

(Department for Communities and Local Government Web page on Planning: http://www.odpm.gov.uk/index.asp?id=1143104)
The clue to the confused thinking is in the statistics: 90% of English people live on 8% of the land. Far from being flaunted as a reason for careful regulation of urban development, this could better be offered as a reason to relax such regulation. Much of the 92% of land not occupied is flat, accessible and not particularly precious in terms of agricultural or scenic value. The best landscape in Britain remains very well preserved by the National Parks set up under the 1949 Act. These cover about 10% of England and Wales (20% of the more mountainous Wales). The explanation for why British people live in such crowded conditions and endure such appallingly small and poor quality houses has its origins back in the industrialising cities of the 19th century when a strong intellectual and popular romantic movement emerged that had the effect of iconicising the British countryside. In the words of Jeremy Paxman,

“having invented the Industrial Revolution, the English then invented a mental counter-revolution” (Paxman 1999, p158, quoted in Milbourne 2004)

This manifested itself in the early 19th century in the arts, with the poetry of William Wordsworth and the pastoral art of J M W Turner, John Constable and the Norwich School of water-colourists. Ebenezer Howard’s 1899 prospectus for free standing privately financed and privately governed ‘garden cities’, capturing the best of urban and rural environments also bears the influence of the rural romantics (and had a profound impact on urban and regional planning in Britain and throughout the world). Powerful interest groups such as the Council for the Preservation of Rural England emerged in the early part of the 20th century and influenced policy, helping shape the spatial planning Acts of the 1940s.
“The preservation movement highlighted ‘nature’ as the unspoilt other, as embodied in the relics, customs and mystery of the English countryside. Such a nature was no longer viewed as robust but as vulnerable, threatened by an urban growth and industrial expansion, and in need of the state for protection in the collective interest.” (Macnaghten and Urry 1998 p38, quoted in Milbourne 2004 p16).

The strength of this reaction to the laissez faire urban development of the 19th century helped shape the 1947 land planning machine. The machine in recent years has been employed by local communities who display the same antipathy towards rural-urban land conversion. This is perfectly rational given the misaligned incentives for accommodating new growth. What is remarkable about it, however, is the lack of public debate about the underlying reasons for such a restricted land supply. If there were debate about that, there would also be debate about the central planning of land. Long after any need for preserving a capacity for agricultural self sufficiency had gone, a state planning apparatus keeps 90% of the English living on 8% of the land. The moral high ground in this issue has been well and truly secured by sustainable development protagonists. The planning profession has naturally welcomed the new rationale for its professional activity and along with the environmental lobby has been successful in institutionalising the sustainability agenda in a particular way. Sustainable development in UK policy means compact cities and a presumption against new settlements on green field land. There has recently been a pragmatic compromise in the congested South East of England where new growth corridors have been announced to help accommodate desperately needed housing in the London region. But this is only after tens of thousands of households have been forced to live in apartments and tiny houses with tiny rooms, built on brown field sites: and the new houses in the growth corridors will be equally crowded. The need to contain
urban England (Hall 1973) looks set to remain established wisdom and as long as this is so, the established wisdom that land supply should be centrally planned will also remain. If local communities were given greater incentives to accommodate new urban growth, central government might still choose to use its ownership of development rights to centrally allocate land. The objective would change from forcing growth on communities to preventing growth. However, it is likely that there would be social learning and the discovery that urban expansion can be managed by (tax) price would weaken the legacy argument for central land market planning.

6. Conclusion

Institutional evolution follows a complex path. Social learning takes a long time – longer for laws that govern strategic, as opposed to local, issues. For all sorts of reasons, bad policies are not as easily rejected by society as are bad manufactured products. The political market is less efficient than commodity markets at signalling dissatisfaction. The equivalents to profit and loss accounting in the political domain are less accurate. Information about the demand for collective goods has to be aggregated across individual willingness to pay and this is problematic both in terms of measuring the latter and aggregating it. The aggregation task is unavoidably weighted in favour of certain groups and thus institutions and policies can so easily be captured. This often means that they persist in the interests of minorities (including bureaucrats, politicians and professionals) long after they have proved to be ineffective for some broader social purpose. But over time, in an open society, it might be expected that the complex
processes of experimentation, discovery, feedback, adjustment and more experimentation and discovery gradually produce better institutions.\(^\text{13}\)

Institutional evolution is chaotic, in the technical sense of being sensitive to initial conditions and characterised by so called *topological mixing* – the recycling of knowledge through trial and error, reaction and counter reaction that leads at any one time to overlapping sets of ideas bundled in different ways in pursuit of different purposes. The process of learning about policy – learning about what makes good planning and learning about how we know what we know about planning - is chaotic but far from random. There is an orderliness about it, which in the language of chaos theory follows different kinds of *attractors*. An attractor is a *set* (pattern of behaviour) to which a dynamic system evolves over time. Geometrically, an attractor may be represented as a point, a curve, a torus or a complex fractal structure (strange attractor). The idea that a planning system emerges to lower the cost of transactions in the property markets, suggests a point attractor dynamic. Institutional evolution through trial and error will converge to some fixed point at which there is a perfect balance of market, regulation and public infrastructure investment activity.\(^\text{14}\) The reality is obviously more complex. More likely is that there is a range of final institutional states (a limit cycle attractor). There may be constant experimental movement from more control to less regulative control, for example, and the dynamics may be such that this never stabilises. This is quite likely given that regulation is never distributionally neutral. Institutions serve to allocate property rights over scarce resources – that is how they work. As Ronald Coase famously showed in *The problem of...

\(^\text{13}\) This is an idea formally developed by Karl Popper, an Austrian-English contemporary of von Hayek (Popper 1974)

\(^\text{14}\) Note the similarity with the idea of equilibrium in neoclassical economics – in the urban policy field, the notion, for example, that applying a green field tax will stabilise demand for green and brown field land to some static equilibrium in line with policy goals.
social costs (1960), pollution regulations effect a symmetrical redistribution of rights and benefit between the polluter and the polluted. Institutional equilibrium may be achieved in respect of the goals of one group but the demands of another will soon disturb it. The London green belt has functioned since the 1940s to protect the interests of those fortunate enough to own homes on its margins or in its protected villages. Over time, the squeeze on property prices that partly results from the green belt and the shrinking green space in the densifying city creates a demand for institutional change.

There may be a cyclical and predictable pattern to institutional and policy solutions over time (demand for more schools with a growing young population followed by demand for school closure and diversion of school budgets as a community ages, followed again by new demand for schools as the community regenerates). At another level, parents typically swing between being too strict and too lenient – in their day to day control or in their policy as it evolves between successive offspring. Institutions governing society may also swing between more and less control, the cycle kept going because of short memories and because previous lessons were learned by previous generations. There may also be more complex attractors governing institutional dynamics, analogous to tori and fractals in geometry. This is most likely given the density of interactions in society. From any particular point these dynamics are likely to look like simpler point or limit cycle dynamics or to appear random. Wider more complex regularities can only be judged over time, or perhaps by comparing different systems across space. Batty and Longley’s (1994) work on the fractal nature of cities implies that the process of urban transformation is inherently fractal in nature, with different physical patterns repeating themselves at different scales. This might be an indication that the processes governing city growth also have a fractal complexity about them – for example, policies becoming more or less liberal to development as demand fluctuates. There must certainly be a link between boom and
bust and social attitudes to development control. The denser parts of many cities have tended to emerge during boom times and it stands to reason that this is correlated with levels of control.

The shift from a Keynesian planned economy and land economy to a Hayekian market economy was a twentieth century manifestation of a longer term process of social experimentation with different approaches to organising human co-operation. The drilling down from big picture intellectual ideas to institutional details that I have considered in this paper and elsewhere\textsuperscript{15} reveals the control-freedom/centralised-dispersed dialectic working out at different scales. If society as a whole is at the point of learning how to free up its development market by a more liberal planning regime or an experimental non-planning zone, for example, then there will also be new lessons to be learned at the more local level about how the specific provisions of those laws should be implemented – with greater or lesser discretion, for example. Local knowledge will feed back over time to higher levels of administration and influence the way national institutions continue to evolve.

Social learning about how society should organise the growth of cities is inherently problematic because of the nature of land and property markets. Urban externalities mean that there are many resources that are not priced or marketed and in such circumstances, individual property owners will make less than optimal decisions when faced only with price signals that relate to private goods. At the level of society and the economy, there will be many gains from trade left unrealised. The policy question becomes how better to assign property rights over the many un-marketed resources that are both the blessing and curse of the city.

Having exported a misconceived or perhaps misunderstood spatial planning system to many parts of the world, Britain may yet have a role to play helping other countries unravel planning. Spatial planning as practiced in Britain and many other states is a portfolio of social functions,

\textsuperscript{15} Webster 2005a
some more necessary than others; some more effective than others at achieving desired ends. Planning needs to be broken down into its component parts and the objectives, mechanisms and net costs to society of each part scrutinised. This will generate more accurate knowledge and feedback into more efficient institutional evolution over time.

In this respect it is of interest to note, for example, that prescriptive rules seem to have been particularly successful in Britain at delivering conservation - conservation of historic buildings and city centres and undeveloped land around cities and in prized scenic areas. On the other hand, land use plans have proven largely incapable of guiding market-led development, unless they merely reflect market trends. By contrast, a master plan for an area under unified ownership and in the hands of an agency with access to development finance is an effective means of co-ordinating development. Discretionary control of development allows for more flexible evaluation of social costs and benefits than does a zoning system but may be more costly to administer and result in too much uncertainty.

In the end, those institutions that are better founded and prove reliable in yielding desirable outcomes at reasonable cost will tend to persist – though not necessarily in static equilibrium. A recent study of so called common law cascades (Yee 2001) showed that a few common law principles hold for a long time – periods in excess of 100 years. Very many are ephemeral, lasting less than 5 years as useful tools in legal argument. Statutory law takes longer to make and longer to test than common law but the same principle applies – eventually, bad law is likely to be replaced. The main principles of 1947 British planning system have lasted a relatively long time. This is partly because its goals were ill defined, making it difficult to evaluate and making it easily captured by many diverse interests. Its plans did not work well as instruments of allocation and control and consequently adapted under political and public

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16 The distribution follows a rank size law.
scrutiny, into something that is generally rather more useful to society. Not all of its provisions are to society’s overall benefit, but in such a complex institution forged over many decades there will be a mix of good and bad effects and traces of many different stages and processes of social learning.

Bibliography


