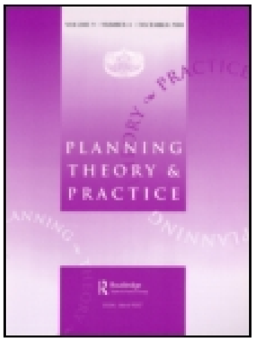

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Planners as Market Actors: Rethinking State–Market Relations in Land and Property

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ABSTRACT *This paper challenges the dichotomous distinction between planning and the market promoted by mainstream economists, by arguing that markets should be seen as socially constructed not given. Drawing on recent developments in institutional and behavioural economics, it contends that what is required is not for planners to become market actors, but rather to realise they are already "market actors" intricately involved in framing and re-framing property markets. By highlighting planners' potential to re-make, rather than merely accept, market conditions, the paper calls for state–market relations in land and property to be accorded a central place within the new spatial planning.*

Keywords: Economics; land and property development; land and property markets; market actors; spatial planning

Introduction

According to one influential report, spatial planning is essentially about "shaping and delivering tomorrow's places" (UCL & Deloitte, 2007). As Allmendinger and Haughton (2007) argue, this requires a strong emphasis on the spatial co-ordination and integration of investment plans across the public sector, amounting as much to a search for spatial governance as spatial planning. Such integration helps distinguish the concept of spatial planning from such earlier expressions as "land use planning" and "town and country planning". In Wales, for example, preparation of a national spatial plan provided the opportunity to inject spatiality into such diverse arenas as transport, health, economic development, and cultural development (Harris & Hooper, 2004). Yet, as Healey (2006, p. 10) contends, in the UK, "Delivering a planning system and place management capacity capable of fostering, enhancing and sustaining 'good quality places' is a demanding agenda." This she attributes to the country's history of over-legalised land-use regulation, sectoral separation, and under-investment in both the public realm and in planning expertise, research and intelligence.

This paper is not intended to add to the rich debate on the nature of spatial planning as the "governance of place". Instead, since place-making requires robust connectivity between vision and delivery, it concentrates on state–market relations in land and property as an important context for spatial planning. In most western countries, much of the built environment is constructed and financed by the private sector, making the

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ability of spatial planners to understand and influence property markets and development processes a crucial test of their effectiveness. We thus take what Alexander (2009) describes as a teleological view of the purpose of spatial planning, in the sense that setting up complex state-based systems to promote and govern place quality is justifiable only if it improves, and is seen to improve, upon the outcomes that would have otherwise been produced by market processes, without such intervention.

Despite earlier academic interest in land and property relations (Healey, 1992a, 1992b and 1998), their importance for place delivery remains a minor theme in the growing spatial planning literature. The UCL and Deloitte (2007) study, for example, includes 415 references to spatial planning, 81 to local authorities, 65 to planners, 42 to health matters, but only 10 to developers. Perhaps this is because, as Faludi (2000) suggests, many planners inherently like to see themselves at the centre of the action, controlling or reining in other actors.

Yet, as Albrechts (2006, p. 1161) points out, in the end "Strategic spatial planning relates to action, to implementation—things must get done!" Albrechts' desire for effective connections between political authorities and implementation actors (within which category he includes developers) matches Faludi's (2000) call to see spatial planning not as a form of directional control but rather one of mutual learning. In the UK, spatial planners have increasingly sought to extract greater financial benefits from development for the local community through planning agreements linked to the approval of individual planning applications.[1] A more interactive relationship with the private sector is thus particularly important in areas of significant urban change, such as Cambridge, where knowing how best to negotiate development pressure forms an essential part of the armoury of spatial planning (Healey, 2006). Such experiences reflect Needham's (2000) conception of spatial planning as the design of policies capable of achieving desired spatial dispositions of activities, buildings, and spaces. He emphasises that "in most cases spatial planning is an intervention in, or an influencing of, the creation and use of the physical environment *by others*" (Needham, 2000, p. 443—emphasis added).

Such acknowledgements of the importance of effective relationships with property actors reflect varied earlier thinking, including Lichfield's (1956, 2003) concept of planned development, Brindley *et al.*'s (1989, 1996) contrasting styles of planning, and Adams' (1994) view of planning as a form of intervention in land and property development. Nonetheless, even when engaged with market realities, planners[2] tend to adopt a detached view of the market that is implicitly grounded in mainstream economics. In this paper we challenge the dichotomous distinction between planning and the market promoted by mainstream economists. Drawing on recent developments in institutional and behavioural economics, we call on planners to see themselves essentially as "market actors" intricately involved in framing and re-framing local land and property markets and hence operating as a significant constitutive element of such markets. We argue that planners who think and act in this way are likely to find the experience empowering since it offers the chance to break free from discredited market-led thinking of past decades and discover instead how plan-shaped markets can best be created. While we suggest that local communities can benefit if planners seek to promote more, rather than less, efficient markets, we thus do not believe that market efficiency should be the sole determinant of planning action, since market transformation may require equal, if not greater, consideration to be given to matters of equity and sustainability.

The paper thus addresses three critical research questions:

(1) *How should planners understand the operation of land and property markets?* We explore how recent conceptual insights that see land and property markets as socially constructed institutions within a system of institutions differ from more conventional counterparts.
(2) *By what means, and to what effect, do planners already shape such markets processes?* We show how planning already works to shape, regulate and stimulate markets, even if planners themselves do not necessarily think in these terms.
(3) *How might planners develop their capacity as market actors to shape market processes more effectively?* We seek to contribute to the newly emerging debate around the effectiveness of planners as market actors. We identify three crucial capacity-building challenges for planners revolving around the need for market-rich information and knowledge, market-relevant skills, and market- rooted networks.

In the final section, we summarise our answers to the three research questions and consider their implications for spatial planning as both an area of professional practice and academic endeavour. Our central argument is that since markets are socially constructed not given, planners have much greater potential than they often realise to frame and re-frame land and property markets, rather than merely accepting or perpetuating current market conditions. We seek to raise state–market relations in land and property to as central a place within the new spatial planning as that presently occupied by spatial governance, and thus to broaden debate on what "shaping and delivering tomorrow's places" might really involve.

Towards a Social View of Markets

Planners, Economics and Markets

According to Evans (2003), communication between planners and economists is difficult, occasional, and characterised by "shouting very loudly" as they each travel on different tracks to different destinations. He even suggests that "I know of no evidence that planning has in practice been affected by any of the contributions made by economists" (Evans, 2003, p. 196). To evaluate this statement, we need to distinguish between economics and markets.

Many contemporary textbooks draw on Robbins' (1932, p. 15) classic definition of economics as "the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses" augmented by Samuelson's (1948) three questions of "what?" "how?", and "for whom?" (Backhouse & Medema, 2009). Thus, according to Begg *et al.* (2003, p. 3), economics "is the study of how society decides what, how and for whom to produce." However, increasingly "modern economists do not subscribe to a homogeneous definition of their subject ... [and] are generally guided by pragmatic considerations of what works or by methodological views emanating from various sources, not by formal definitions" (Backhouse & Medema, 2009, p. 231).

Although Gravelle and Rees define markets as existing "whenever two or more individuals are prepared to enter into an exchange transaction, regardless of time or place" (2004, p. 3), Hahn (1993, p. 203) famously conceded that "even careful (neo-classical) theorists introduce 'markets' as a primitive concept ... markets are conjured up rather than analysed." An institutional definition provided by Hodgson (1988, p. 174) views the market as "a set of social institutions in which a large number of commodity exchanges of a specific type regularly take place, and to some extent are facilitated and structured by those institutions. Exchange ... involves the contractual agreement and the exchange of property rights, and the market consists in part of mechanisms to structure, organise and legitimate these activities. Markets, in short, are organised and institutionalised exchange."

Many planners, especially those working at a strategic level are explicitly concerned with economic matters, especially around employment and local economic growth. At a more operational level, retail needs assessments which provide good examples of planning processes that clearly incorporate economic theory. The most recent government guidance in England (DCLG, 2009) for example, suggests that assessing retail need for a particular catchment area involves analysing consumer expenditure, assessing existing retail supply and market share, comparing that supply with demand, and subsequently assessing future capacity. More widely, sustainable development now calls upon planners to promote economic prosperity as well as environmental protection and social inclusion. Since efficient resource allocation can be seen as a matter of public interest, many planners would claim an economic influence on their work, even though they may be uncomfortable or unfamiliar with some forms of economic analysis.

Markets in capitalism have long presented planners with much greater difficulties, not least because they tend to privilege the rich over the poor, frequently begging the question: efficiency for whom? As a result, it is not readily apparent how Adam Smith's "invisible hand" produces long-term and collective benefit out of private and sectional interests, which triumph more immediately. The markets with which planners most engage—those concerned with land and property—are among the least efficient, because of widespread imperfections and failure (Balchin *et al.*, 1988). Skaburkis and Mok (2006, pp. 100-101) argue that such failures create some of the greatest contemporary challenges for planners, including "continuously expanding suburbs, the loss of access to the countryside, increasing congestion, extra infrastructure not covered by development charges and increased CO_2 emissions." Healey comments that "Planning has often been considered as opposed to the market" (1992a, p. 13), while Webster and Lai (2003, p. 2) suggest that "Those espousing a public service ethic often demonise the market." Yet, as we argue below, the activities of planners help construct the market, making the relationship between planning and the market symbiotic rather than dichotomous.

The Changing Face of Mainstream Economics

Economic interpretations of relations between planning policy and property markets have been dominated by three mainstream approaches: neo-classical economics, welfare economics,[3] and increasingly new institutional economics (Adams *et al.*, 2005a, 2005b), each of which presents planners with a fundamentally different question. Whereas neo-classical economics asks how far planning policy directly affects the overall quantity of market supply and demand, welfare economics concentrates on the extent to which planning policy is able to overcome market failure, while new institutional economics focuses on its capacity to reduce (or indeed increase) market transaction costs (Adams *et al.*, 2009a). In each of these approaches, the market is essentially viewed as dichotomous to planning: open, of course, to influence, but characterised by the unfamiliar terrain of profit-driven behaviour.

Neo-classical economics has changed remarkably over the past 20 years to the extent it is no longer possible to claim that it is founded on the assumption that "only rationally acting individual actors operate on the market. Price adjustments will automatically lead to an equilibrium" (Van der Krabben & Lambooy, 1993, p. 1384). The central tenets of neo-classical economics—optimising (utility maximising) atomistic individuals, methodological individualism, deductive reasoning, equilibrium, and scarcity and choice—have, to varying degrees, been challenged by the recent "turn" in economics. The nascent developments in game theory (classic, evolutionary, and behavioural), complexity theory, neuroeconomics, new behavioural economics, and "infomatic economics" (Fine & Milonakis, 2009) stress, to different extents, strategic interaction, departures from constrained optimisation, and the de-emphasis or eschewal of marginal trade-offs.

In land and property economics, four developments are of particular note. First, information available to market actors is now seen as bounded and essentially asymmetric. In land and property analysis, such informational efficiency has been applied to distinguish between strong, semi-strong, and weak markets (Keogh & D'Arcy, 1999). Secondly, it has been recognised how limited information produces bounded rationality and opportunistic behaviour to the extent that, as Ball (2002) argues, rationality should be regarded merely as a working hypothesis or methodological standard. Thirdly, property research now incorporates slow market adjustment (Wheaton *et al.*, 1997) and disequilibrium (Hendershott *et al.*, 2002). Finally, there is now much greater understanding of the spatial differentiation and operation of submarkets, to the extent that Healey's (1992a) call for better recognition of the connections between user and investor markets has been heeded. Since neo-classical theory no longer depends on such assumptions as perfect competition, full information and instant equilibrium (Maclennan & Whitehead, 1996), Ball (1998) warns us not to construct neo-classical economics as a straw man, fashioned in a form that can be readily knocked down.

Many have seen a strong rationale in welfare economics for state intervention to improve property market efficiency and enhance economic welfare (Evans, 2004). Externalities, lost opportunities, and scant provision of public goods all provide examples of market failure where the operation of land and property markets is distorted by external influences. Externalities, where production or consumption creates social costs and benefits which markets are unable to transmit into private costs and benefits, have been widely seen as the classic justification for planning (Klosterman, 1985) since the planning system is intended to prevent the over-production of negative externalities and the under-production of positive ones. Similarly, a planned approach should ensure the more efficient provision of public and semi-public goods, such as community open space, and prevent lost opportunities, such as the continued vacancy of a potential development site in multiple ownership, due to a lack of common agreement between its various owners about its future.

Welfare economics has been highly influential in planning thought and planning, especially through its application in urban and environmental economics (see, for example, Willis, 1980; Garrod & Willis, 1999; Willis, 2003). It has provided an important theoretical foundation for cost-benefit analysis and community impact evaluation (Lichfield, 2003), which are widely practised by planners. The growth of new institutional economics over the past two decades represents a challenge to traditional welfare economics since it suggests that market failure can be better tackled by creating more clearly defined property rights capable of reducing transaction costs through minimising risk and uncertainty (Jaffe, 1996). New institutional economics, which is widely regarded as a key development in contemporary mainstream economics (Fine & Milonakis, 2009), should be seen as an extension of neo-classical economics, even though it operates with less formality (Samuels, 1995). Among writers who have sought to apply new institutional economics to planning, Alexander (2001) emphasises that, by assigning development rights, planning helps create the institutional environment for land and property markets. He points to planning's potential to reduce the transaction costs of development by managing neighbourhood effects and bestowing greater certainty about the future. In this context, Webster and Lai (2003) contrast markets as institutions that potentially reduce individual transaction costs with government policies and regulations that potentially reduce collective transaction costs. However, Dawkins (2000) highlights the increased transaction costs that private developers actually incur as a result of lengthy delays in plan approval and implementation.

In summary, mainstream economists now understand the market in quite different ways from a generation ago. These fresh insights, for example on bounded information, limits to rationality, and transaction costs are beginning to affect many areas of public policy. Increasingly, economics draws on mathematics, psychology, neuroscience, and evolutionary biology as more important sources of inspiration than the mechanics that underlie neo-classicism (Davis, 2006, 2008). Nevertheless, many mainstream economists continue to see the market in positivist terms as a distinct identity, separate from the individual and (to some extent) opposed to the state. By contrast, newly emerging research, to which we now turn, is exploring how markets are essentially constructed through human processes, with all their unpredictability and imbalances of power.

The Social Construction of Markets

Behavioural economics represents both a challenge to, and an extension of, the economic mainstream. It draws on insights from human psychology and is defined by Pryce and Levin (2008, p. 16) as "the study of the social, cognitive and emotional biases that cause economic decisions to deviate from rational calculations." In a substantial review of behavioural evidence in economics, DellaVigna (2009) identifies three types of individual deviation from the standard neo-classical model. These are non-standard preferences (such as take-up of unfavourable credit card offers), non-standard beliefs (such as over-confidence in likely success of business mergers) and non-standard decision making (such as the undue influence of the reference frame to which a decision is anchored).

Behavioural studies in both North America (Brown *et al.*, 1981) and the UK (Goodchild & Munton, 1985) have long emphasised the importance of landowner characteristics in the conversion of land to urban development. A substantial body of work has also investigated how the behavioural characteristics of property valuers affect property valuations (for a review see Diaz, 1999), while the tendency of developers to satisfice or accept sub-optimal but adequate outcomes has also been explained in behavioural terms (Mohamed, 2006).

Behavioural economics has been popularised, and indeed politicised, by Thaler and Sunstein's (2008) bestseller, *Nudge*, in which they argue that policy makers should work with human nature to encourage behavioural change by, for example, making people fully aware of their daily energy use. An early attempt by the UK Government to test "nudge economics" in practice was evident in 2008 when the Department of Communities and Local Government awarded Barnet Council an additional £100,000 to experiment with ways of encouraging people to reduce litter, recycle more, and lower carbon emissions (Stratton, 2008).

Behavioural research suggests that "provision of information alone is unlikely to achieve significant or enduring behavioural change, except when the behaviour being encouraged is relatively convenient and cheap in terms of time, money, effort and social disapproval" (Government Office for Science, 2008, p. 94). Indeed, as this "Foresight" report points out, psychological research warns that one-off public information campaigns intended to change people's behaviour can backfire in certain circumstances. Instead, it suggests that enduring behavioural change will not be achieved without systematic, concerted action, deployment of a variety of tools and strategies, sustained implementation over time and an approach that targets specific groups or sectors. Despite its current political attractiveness, there may be dangers ahead in attempting simplistically to apply behavioural economics to public policy making.

A more radical view of markets, which can be traced back to old institutional economics (Rutherford, 1994) and which now connects economics and sociology, has also emerged strongly in recent years. As Smith *et al.* (2006, p. 81) explain:

> Of late, there has been a paradigm shift at the interface between economy and society. Markets, the core concept of classical economics, have been taken for granted throughout the modern period. Now, for the first time in half a century, social researchers are challenging the economic essentialism invested in these and in other "stylised facts" of economics. Terms like supply, demand, information, competition, efficiency, price and value have all been opened to scrutiny ... Instead, research is emphasising the social and power-filled character of markets: their diversity and complexity, their sensitivity to context, their passions as well as their "rationality" and their part in the social construction and performance of the economy.

This paradigm shift has three crucial implications for the way in which planners relate to markets. First, if markets are viewed as essentially social constructs, it follows that they "are made, not given" (Christie *et al.*, 2008, p. 2296). This then raises the second question of how and by whom markets are made. Thirdly, since property markets are "dynamic, deeply contextual and contingent both on the particular aims and objectives of development actors, and on a shifting market framework which may enable or constrain development strategies" (Guy & Henneberry, 2000, p. 2413), it has to be recognised that different localities may experience different forms of market construction. We shall now explore these points in turn.

There is now a widely held view beyond mainstream economists that the market should be conceived as a social institution (Hodgson, 1999), a "human construct" that can be "reconstructed as needs and preference change" (Keogh & D'Arcy, 1999, p. 2408) or, specifically in the case of land and property, as a "social construct ... understood as part of the system of social relations through which buildings and the built environment are produced and used in a given society" (De Magalhães, 2001, p. 106). This means that markets are not detached and autonomous structures, but fragile and contested terrains (Christie *et al.*, 2008). Market transactions, like social interactions are thus conditioned by humanly devised rules, norms and regulations, with markets thus reflecting dominant powers and interests. These institutional insights can be linked to those from the cultural economy perspective (Amin, 2005; Amin & Thrift, 2003) for as Christie *et al.* (2008, p. 2297) emphasise, "markets are saturated with all kinds of emotions, sometimes calm and predictable, sometimes wild and out of control, sometimes dependent on aggressive behaviour, but also infused with humour, warmth, affection, even love."

In reflecting on how markets are made and by whom, it is important to recognise that market transactions are institutionally conditioned by the same set of humanly devised constraints that structure political, economic, and social interactions (North, 1991; Zhu, 2005). As Oxley (2004, p. 59) points out, for example, "Markets are social constructs; they are not "natural phenomena" ... The state performs essential property-right enforcing, underwriting and protecting roles that allow markets to function." As Schultze (1977, p. 29, 30) thus famously remarked "there exists no such animal as a 'natural' laissez-faire system sprung solely from private arrangements" with the result that "the free enterprise system, therefore, carries the label 'made by government'."

The importance of market makers or intermediaries is also increasingly highlighted in understanding market operations. As Amin (2005, p. 14) explains, "there has been a turn to explaining the rules of the markets—from price formation through to actor rationality and investor behaviour— as a performance involving many intermediaries to get actors to think and act in certain ways." De Magalhães (2001), for example, demonstrates the importance of international property consultants in the incorporation of Madrid and Milan into the transnational property investment network from the late 1980s. Smith *et al.* (2006), who provide a fascinating insight into the role professional intermediaries played in scripting the performance of the Edinburgh housing market in the late 1990s, draw specific attention to the potentially destabilising impact of such people. Indeed, "by acting as if the system is self-regulating, by believing themselves to be powerless against a tidal wave of independent market forces, the work of intermediaries may help to place the system beyond control" (Smith *et al.*, 2006, p. 92). In short, those who think the market is a neutral allocator of resources might actually amplify market volatility.

If professional intermediaries create a market performance, then so, too, do planners. How well planners are embedded into what might be described as the development network of international institutional investors, major commercial property developers, local communities, government and others (Doak & Karadimitriou, 2007) affects their capacity to participate in this performance. Reflecting the importance of common honesty and decency in making business deals (Hodgson, 1999), the extent to which planners and planning committees can be trusted (Hess, 2009; Höppner, 2009; Swain & Tait, 2007) may also determine their potential influence as market actors.

These insights into market construction produce a strongly disaggregated view of market structures, with each sub- or local market reflective of its own routines, procedures, distinctive relations, social culture, and other institutions. Guy *et al.* (2002) powerfully demonstrate this in relation to Manchester, where the alternative cultural framework of local "maverick developers" produced a very different built form in the Northern Quarter of the city centre from that in the nearby Square Half Mile, where London-based institutional investors were dominant. There is thus no single land and property market, but many markets, each reflecting the different ways in which development cultures play out in different localities.

Once markets are seen as socially constructed, not given, it becomes fallacious to place planning and the market in a dichotomous relationship. We thus need to ask how planners have helped construct markets, and to explore their potential to do so differently in the future. We open up this debate in the next section.

How Planners Help Construct Markets

The Means by which Planners Help Construct Markets

At this stage it is helpful to distinguish more clearly between the development process and property markets. Development is a production process that creates the built environment. It is essentially about that moment of spontaneous change that may happen every 20, 40, 100 or more years. Left to itself, this spontaneity produces enormous and indeed unpredictable urban change, whose implications may not be immediately apparent (Webster & Lai, 2003). Spatial planning acts as a form of intervention at this fleeting moment. Yet, development is but one component of the wider property market, which can be sub-divided by motive of acquisition into the user, investment, and development markets (Keogh, 1994). The impact of spatial planning is direct in the development market, but indirect in the user and investment markets. This impact operates through three types of policy instrument, intended respectively to shape, regulate and stimulate markets (Tiesdell & Allmendinger, 2005). In other words, development control and development promotion are as much part of spatial planning in its broadest sense as development planning.

Market-shaping instruments, such as "development", "regulatory" and "indicative" plans, set an important context for market actions and transactions, especially by offering a "political position statement" (Healey, 1992a) about the kinds of development that are likely to be favoured by the planning authority. Market regulation instruments, such as development control and restrictive covenants attached to land transfers, restrict the parameters of market actions and transactions. In recent years, at least in the UK, extraction of community benefits from developers in the form of planning gain has increasingly accompanied market regulation, with the effect that the concept of planners as market actors has become ever more familiar in practice. Market stimulation instruments, such as development subsidies and compulsory purchase, lubricate market actions and transactions.

These three categories are conceptual, and will rarely, if ever, be found as explicitly in planning documents. Nevertheless, they can often be discerned through careful content analysis of such documents. Adams *et al.* (2009a), for example, analysed 64 planning, housing, transport and regeneration strategies and policies published by the Scottish Executive between 1999 and 2009 to discover their implicit property market policy. This revealed that the Executive had implicitly pursued nine policies intended to shape property markets, six to regulate them and four to stimulate them. Relevant examples include:

- "Planning authorities should ensure that the housing market requirement for each housing market area is met in full" (Shaping)
- "Developers should make a greater contribution towards increasing the supply of affordable homes, through agreements tied to planning permissions" (Regulating)
- "Developers should be encouraged, through policy initiatives and development subsidies, to build in the most deprived areas" (Stimulation)

The research concluded that the Scottish Executive property policy was primarily grounded in neo-classical and welfare economics, demonstrated by the statement that "within the established frameworks of planning policies, the essential thrust of 'property policy' is that markets should lead change and that policy action should be to reduce or remove market failures, largely induced by poor information and perceived risks. In that respect key dimensions of policy should be to deliver the remediation of contaminated land, to provide significant amounts of local market information and to provide types of property or developments in locations where latent demands exist, but market developers do not provide (because of poor information)" (Scottish Executive, 2003, para 3.6.4).

This statement provides a rare example of explicit policy attention to property markets. Yet, our proposition that planners are important market actors does not depend on whether planning documents are organised by market shaping, regulation, and stimulation themes, or on whether planners themselves would recognise this interpretation of their activities. Instead, what is crucial is the market impact of planning actions to which we next turn by highlighting the substantial body of literature looking beyond the formal appearance of planning as an act of spatial governance to its actual market consequences. In Albrechts' terms, this raises issues central to whether and how "things get done" (2006).

The Market Impact of Planning Actions

Over the years there has been a rich and varied debate in the literature on the market impact of planning actions. Three powerful, but not exclusive, themes emerge from this debate. The first concerns the impact of spatial planning on a country's overall economic performance, along with the spatial differences that arise when that performance is disaggregated by region or another areal component. Relevant questions here include whether spatial planning impedes or facilitates economic growth, for example by increasing or reducing the costs of space occupancy, and whether it redistributes welfare between areas and/or socio-economic groups. We label these kind of issues "macroeconomic" in the sense that they are concerned with the broad impact of planning on wealth creation and distribution as a whole. The second theme is more local and concentrates on the immediate impact of planning actions on the patterns of land values in any locality. Relevant contributions here have concentrated on the extent to which spatial planning may create, destroy or distribute local land value patterns. Since we are primarily concerned with the impact of this on the future built environment, we use the label "urban land economic" to describe these kinds of issues. Finally, much controversy has been generated by claims that planning intervention has rendered particular developments "unviable", especially by increasing the cost of developments or delaying their delivery. We label this debate "microeconomic" since it is conducted at the level of individual projects or firms, with specific examples often highlighted to fan the controversy.

Macroeconomic impacts. Macroeconomic analysis emphasises the extent to which restrictive planning policies make land and property more expensive through constraining supply. In the UK, particular attention has been paid to the extent to which planning restrictions have been responsible for the much higher rate of house price inflation than in European countries (see, for example, Bramley, 1993, 1998, 1999, 2007; Cheshire & Sheppard, 1989, 1996; Evans, 1988, 1991; Meen, 2005). This substantial body of work has produced a consensus, at least among economists, that restrictive planning policies lead to higher house prices and higher residential densities.[4] As a result, some groups such as landowners and those already well established in the housing market, gain while others, such as first time buyers, lose. Elsewhere, similar forces may be at work in the business and industrial sectors (Henneberry *et al.*, 2005), though apparently not in the retail sector (Jackson & Watkins, 2005).

Concerns about the consequent macroeconomic impact of the unstable and inflation-prone British housing market compared to many other European countries led the UK Government to commission Kate Barker (2003, 2004) to undertake a fundamental review of housing supply, in which the role of planning restrictions was accorded particular prominence. Barker's review emphasised the negative long-term impact of such restrictions on housing affordability, which produced a new policy emphasis, at least in England, on trying to improve affordability by releasing more land for housing development (DCLG, 2006a, 2008; NHPAU, 2008). Barker's influence on national planning guidance in England has since been far-reaching, with planners now expected explicitly to consider the impact of planning policies on local housing markets by undertaking strategic housing market assessments. The core outputs of such assessments are to include "Analysis of past and current housing market trends, including balance between supply and demand in different housing sectors and price/affordability" and "Description of key drivers underpinning the housing market" (DCLG, 2007a, p. 10).[5]

The "house price inflation/affordability" turn in planning policy tends to produce one of two reactions from the planning profession. Denial of responsibility, with the finger pointed elsewhere, is the first of these (CPRE, 2007; RTPI, 2007). Disinterested resignation, reflected by the view that constraining supply is an essential part of planning, even if it leads to higher house prices, is the second. Crucially, both reactions demonstrate the profession's failure to understand the very macroeconomic analysis that has proved so influential on government policy. What, therefore, is missing from the debate is rigorous economic analysis of whether and how different planning approaches might contribute more to revenues than costs, and thus generate higher value added. Interestingly, other economists have now begun to develop alternative explanations of British house price inflation, placing emphasis on interest rate shifts rather than planning policy (Levin & Pryce, 2009).

Although business interests have often drawn attention to the transaction costs of the planning system (CBI, 2004, 2005), an answer is still awaited to the important macroeconomic question posed earlier by Healey (1992a, p. 13), namely "Do plans stabilise land and property markets, creating greater certainty, thereby reducing transaction costs and by limiting the potential for 'over-building' in a property market, producing greater efficiency in the relation between supply and demand in the land markets?" Certainly, since the persistence of habit in developer behaviour leads to over-building (Antwi & Henneberry, 1995), there are likely to be some developers in the current recession who are thankful for the planning delays that prevented new development at the height of the last boom.

Urban land economic impacts. Much of the debate around the impact of planning on urban land markets has been conducted in relative terms, often under the false assumption that while planning policy may redistribute value around the city, and especially between potential development areas at the urban fringe, its overall impact is neutral. This mistaken approach can be traced back at least to the Uthwatt Report (1942), with its view of floating and shifting values, which has been much criticised for its unrealistic assumptions and static understanding of land price determination (Adams *et al.*, 2005a).

As a result, planners may not think directly about how they can help create urban land value by, for example, improving accessibility and complementarity within the city. Balchin *et al.* (1995, p. 106-7) argue that "as the value of privately owned land may be increased by changes in the public land-use infrastructure, town planning can be seen as a means of increasing the values of private and profitable uses of land." In some cases this involves what Healey (1992a) describes as the activity of "creating markets" through a strategic development or regeneration framework, which uses public-sector vision and investment to rescue weak local property markets, then breeds confidence and co-ordination among private landowners and developers. More recent econometric-based research has begun to explore connections between greenfield land release and the viability of nearby brownfield development, opening up new ways for planners to conceptualise the market signals that plans can generate (CPRE, 2009).

Microeconomic impacts. At the level of the firm, the impact of planning systems on financial appraisals has generated increasing interest in the policy community. For example, the Scottish Government's (2009) guide to development viability, expressly intended to inform the work of local planning authorities, reflects renewed demands for more market-aware forms of planning. A key issue here is the extent to which planning acts as a risk-reduction or risk-intensification measure, through making the future (and the steps by which it is achieved) more or less certain. As Adair *et al.* (1998, p. 16) comment in relation to urban regeneration, "reduction of risk is a key issue with the result that private sector investment depends on the facilitating role of the public sector." Although planners may not necessarily think in these terms, academic research has pointed to the potential of planning as a risk-reduction mechanism (see, for example, Neutze, 1987), though this has not yet been explored in any depth from an empirical perspective.

In summary, this section has argued that planning does indeed serve to shape, regulate and simulate markets and that the economic effect of this is evident at the macro, urban land, and micro levels. In central government, at least in England, economists have become ever more powerful in driving forward planning policy, to the extent that the former Chief Economist and Head of Analytical Services Directorate at the Department for Communities and Local Government was able to claim that "Economics is at the heart of what we do in the Department. We need to understand—and be capable of thinking rigorously about—the choices and trade-offs that people make in reaching decisions, what can incentivise behaviour, and how markets operate and change" (DCLG, 2007c, p. 4). The working paper that included this statement in its foreword contained a wide-ranging economic analysis of the perceived rationale for spatial intervention by governments in markets. Significantly, this paid little heed to the social construction of markets but instead reflected the dominance of neo-classical, welfare, and neo-institutional economic discourses within government thinking.

However, while mainstream economists have thus become increasingly influential in government planning circles, the academic and professional planning community remains largely disconnected from the growing debate around planning, economics and markets. As a result, critics can continue to claim that planners stand in opposition to markets and that planning takes little account of economists. To counter this requires a paradigm shift among planners that raises the creation of value, rather than its mere distribution, as a central concern. As we explore in the next section, this demands substantial effort in capacity-building.

How Planners Might More Effectively Construct Markets

According to Hamilton's (1932, p. 84) classic definition, an institution is: "a way of thought or action of some prevalence, which is embedded in the habits of a group or the customs of people." In the previous section we suggested that planners already serve as market actors, shaping, regulating, and stimulating market activity. But, crucially, planners do not necessarily see themselves playing this role, with the result that their market influence is less effective than it might otherwise be. The institutional change that, in Hamilton's terms, is required is not for planners to become market actors, but rather to realise that they already are market actors, intricately involved in framing and re-framing local land and property markets, and act accordingly.

This implies, at a conceptual level, that spatial planning should be as much concerned with market participation as spatial governance and that, where required, legislative and procedural reform should proceed from this principle. It is beyond the scope of this paper to suggest how that reform might develop, save to mention as an example that tackling ownership constraints to urban redevelopment (Adams *et al.*, 2002) might become a greater planning priority in future, since every piece of land has an owner and a value, as well as a use. Instead, our focus in this section is on what could be done to build the operational capacity of planners as market actors. While we emphasise the importance of institutional change as a starting point (in the sense that planners may first need to be encouraged to break free from those inherited mindsets that see planning as dichotomous to the market and so constrained that it must cede much influence to the market), creative thinking alone will not turn planners into more effective markets actors. Instead, we concentrate here on building planners' capacity in three crucial areas: market-rich information and knowledge, market-relevant skills, and market-rooted networks.

Market-Rich Information and Knowledge

Planners have traditionally been strong in collecting information on people and place (for example, from the census and local surveys) but much weaker in obtaining similar data for land and property markets. There has indeed been some suspicion about whether prices, values and ownership are proper planning matters, reflecting the fear that too close a knowledge of such information would soon result in a market-led style of planning. Since the impact of the Barker Review on national planning policy in England, there has been an explicit expectation that the new Local Development Frameworks will reflect the wide-ranging analysis of local housing markets required in Strategic Housing Market Assessments, although the same cannot be said for information on commercial and industrial property markets. Moreover, the IPD Regeneration Index, published annually by the Homes and Communities Agency (2009a) (and previously by English Partnerships) shows how reliable property market statistics can be used to test, demonstrate, and reinforce the success of urban regeneration policies.

A wide range of statistical time series on the performance of property markets at the national, regional, and increasingly local level, are now available for access by both public and private sector sources, and these, together with the more qualitative market reports published by most leading property agents, would provide planners with a much richer information base about the performance of their markets. Better market information might, for example, enable planners to understand more clearly how "windows of development opportunity" open and close unevenly between places and, where possible, to take advantage of this information.

Such initial information needs to be reinforced by a better understanding of the motives and behaviour of private-sector implementation agents, in order to recognise which landowners, developers and investors are most likely to share policy agendas, and which are likely to be more hostile. Here, the research community could make a far greater contribution to effective policy making, for example, by teasing out the distinction between "place-based" and "non-place-based" entrepreneurs. Drawing on Guy *et al.* (2002), we can suggest that place-based entrepreneurs are those who actively work with the grain of a city, responding to local factors, seeing added value in design, and taking a broader view of where development potential exists. They are typified by local, relatively small-scale, independent entrepreneurs. Non-place entrepreneurs tend to ignore, undervalue, or actively work against the grain of a city. They take a more limited view of where development potential exists and are generally risk averse. They are typified by externally based institutional investors. As this illustration suggests, rich qualitative knowledge of the local market can be as important for planners as robust statistics.

In residential development, Urban Splash, the innovative Manchester-based company, founded by the locally based cultural entrepreneur Tom Bloxham in 1993, provides an excellent example of how locally embedded knowledge and sensitivity can achieve highly sustainable forms of development. In her research on speculative house-builder responses to the brownfield agenda, Payne (2009) argues that the most inventive brownfield developments since the late 1990s were driven forward by companies such as Urban Splash, whom she labels as "pioneers" in the house-building industry, since they developed alternative and innovative design solutions for brownfield projects. However, she reveals that such specialist house builders were small in number and were more than outweighed by other developers, termed "sceptics", who were inherently reluctant to take on brownfield sites. What made the difference to the overall balance of housing production during these years was the middle group of house builders, termed "pragmatists", whose familiar greenfield markets proved increasingly hard to access as planning restrictions tightened, and who therefore saw an economic opportunity in switching production to brownfield locations.

Market-Relevant Skills

In the RTPI's 2004 revisions to its guidance on the content of academic planning education, the following two indicative learning outcomes were included among those expected from typical graduates in spatial planning:

- Recognise the role in the planning process of such skills as negotiation, mediation, and advocacy and the importance of team-working, often with other professionals, in an inter-disciplinary context (Outcome 5)
- Understand the relationship between market processes, built form, different development models and patterns of movement, evaluate the economic and financial implications of alternative development strategies and consider how best to generate and capture added value for both particular interests and the wider community (Outcome 13)

Since both these statements represented an evolution of earlier RTPI education guidance, it can be argued that the most significant change in 2004 was the greater encouragement given to cross or multi-disciplinary education, partly in response to the emerging Egan Review (2004), and partly because many universities had moved planning into multi-disciplinary schools. There has since been a significant growth in jointly accredited planning programmes in the UK, in some instances producing more architect-planners, but more often linking planning and real estate. While many more planning graduates in the future are thus likely to know about what is (perhaps mistakenly) called "development economics" than in the past, the urgent need to improve such skill sets among those already in the profession is now widely recognised (Homes and Communities Agency, 2009b).

Here, however, we need to distinguish between shallow and substantive skills. It can be "a dangerous thing" if planners gain only limited awareness of development economics, for this merely reinforces acceptance of market-led planning, in which planners develop a more sympathetic understanding of developers' calculations, but do not have the expertise to challenge them fundamentally. As effective market actors, planners need to be able to negotiate financially on level terms with developers, and this requires substantial knowledge not shallow awareness of development economics.

Negotiation has become an increasingly important skill in planning as a result of the widening scope and extent of financial benefits that planning authorities now seek to extract from both housebuilders and commercial developers in the form of planning gain. Now that the example of the Milton Keynes "roof tax" or "development tariff" has been formalised into the recently enacted Community Infrastructure Levy in England as a means of paying for urban infrastructure, spatial planning is moving much more towards a negotiative relationship with the private sector than at any time since the introduction of comprehensive planning in 1947. The extent to which individual local authorities and planners are likely to negotiate successfully under the new arrangements may well reflect their prior experience over the past two or three decades, since extracting increased community benefits through planning agreements or obligations became an ever more common element of planning practice during that time. As Government-commissioned research on the value of planning obligations found, individual planners "can maximise contributions through the use of experience gained in previous negotiations and the support of a clear policy framework" (DCLG, 2006b, p. 54). This reinforces the earlier points on the power of information, since control over information enhances bargaining strength.

Negotiation theory makes a clear distinction between competitive and collaborative negotiation (Fisher & Ury, 1991). Competitive negotiation is about the distribution of fixed value and is characterised by a "win-lose" outcome. Collaborative (or integrative) negotiation is about both the creation and distribution of added value and is potentially characterised by a "win-win" outcome. It is tempting for planners to see themselves engaged merely in competitive negotiation with the private sector. In fact, strategic market management is more likely to involve collaborative negotiation, in which planning action helps transform market potential, rather than simply dividing up the spoils in a different way.

Market-Rooted Networks

In recent years, the neat separation between public and private-sector development has begun to break down. Public-private partnerships, for example, now deliver many forms of development (schools, hospitals, etc.) that would previously have been commissioned and paid for entirely by the public sector. The consequence is that if planners wish to do more than merely frustrate development, they must increasingly rely on implementation agents in the private and voluntary sectors. This has important ethical implications, since to balance the demands of probity and reality, considerable care needs to be taken over the manner in which non-public implementation agents are involved in the policy delivery process.

In this context, capacity building requires greater trust, mutual respect, and a willingness to work together in partnership to achieve mutually beneficial and desirable outcomes. While planners may therefore need to develop more effective connections with other market actors, allowing them to understand their strategies, interests and actions more fully, this should not be seen as a one-way relationship. Indeed, Healey (1998, p. 212) has argued that "Urban policy thus needs both to consider how to promote and sustain the institutional capacity of the development industry operating in specific urban areas, and to work out how best to regulate the activities of the industry to ensure quality concerns are addressed." As an example, in Scotland the Executive's Architecture Policy includes the following statement: "Using a similar approach to its current work with NHS Scotland, the Architecture and Design Scotland Enabling programme will be used to strengthen the skills and vision of other clients and developers. We will also use exemplars and case studies to demonstrate and communicate best practice" (Scottish Executive, 2007, p. 52). The challenge for planners is thus to develop more richly grounded market networks that facilitate mutual learning and sharing of experience in a manner that breaks down hostility between the private and public sectors.

In this section we have indicated some of the ways in which the planning profession is moving. In future, movement in these directions is likely to be more rapid, as planners increasingly engage with other market actors to deliver spatial plans. We have attempted to illustrate the increasing importance to planners of market-rich information and knowledge, market-relevant skills, and market-rooted networks with some relevant, though limited examples. Our purpose is to highlight the largely untapped potential of planners to re-make, rather than merely accept, market conditions. This depends on a clearer appreciation of markets as social constructs, a theme to which we return in the conclusions.

Conclusions

Many planners in practice may view our call for greater market engagement with some disdain. They may well provide evidence that they are already engaged with the market on a daily basis, and would be right to do so, especially in the context of the much greater importance now accorded to negotiations with developers to secure planning gains. This suggests that what is missing is not practical engagement between planners and other market actors, but conceptual development that might make more sense of all this activity and, in due course, help it to become more effective. As Healey's work in the early 1990s suggested, "Instead of simplistic oppositions between planning and the market which tended to structure debate in the 1980s, it is now more productive to explore the interactions between planning regulation and market conditions" (Healey, 1992b, p. 420). Since then, however, there has been little concerted academic interest in state–market relations in land and property, apart from the notable contributions grounded in new institutional economics of Pennington (2000) and Webster and Lai (especially their 2003 book, but also a series of papers, written both individually and jointly).

In this paper we have argued for greater academic advance on what it means for spatial planning to see markets as essentially socially constructed. Without such progress, planning remains in danger of slipping back into market-led modes of thinking, providing fresh and easy fodder for the next generations of academics to repeat the critical analysis of Scott and Roweis (1977) and others, who contended that, in practice, planning exists to serve property development and investment interests.

To break free from any perceived dichotomy between planning and the market, we answer our first research question by emphasising that markets are socially constructed and that, regardless of whether they themselves recognise it, planners are essentially market actors, constantly involved in the construction and re-construction of land and property markets. One specific example that illustrates this well is the notion of market capacity, which determines the speed at which private residential developers construct housing estates (Adams *et al.*, 2009b). Recent research shows how planning restraints on land release encourage housebuilders to make the most optimistic revenue predictions in bidding for land, which can later be achieved only by limiting the number of units for sale at any one time. As a result "the concept of market capacity needs to be viewed essentially as a ‘commercial construct’ contingent on that particular set of relationships between the state and the market which delineate the present structure of speculative housebuilding provision. Failure to recognise this helps ensure this construct is embedded within the culture of the industry and then transmitted into, and reinforced by, the decision-making processes of a planning system” (Adams *et al.*, 2009b, p. 298).

Our second research question concerned the means and effect by which planners help construct land and property markets. Although planners in practice may not categorise what they do as shaping, regulating and stimulating markets, we contend that this is a helpful way to think about market engagement. Here we do not restrict ourselves merely to statutory planning activities, but instead take the broader view of planning as an activity that includes all policy actions associated with land and property development, including relevant planning, transport, housing, land, environmental policies, etc. The importance of this is emphasised by Jackson and Watkins (2005), who, in evaluating the impact of planning on retail property markets, acknowledge that policy is complex and multidimensional and includes, for example, town centre management activities, as well as statutory planning policies. Significantly, they warn that “real estate modellers should avoid adopting narrower conceptions of the role of planning as a limited development control function” (Jackson & Watkins, 2005, p. 1466). Unfortunately, much of the research we reviewed on the economic impacts of planning from the macro, urban land, and micro perspectives is specifically grounded in this narrower view, which predates the arrival of spatial planning. One crucial information gap that urgently needs to be closed between planners and many economists thus concerns the nature of planning itself.

We answer our third research question by reiterating the need for planners to think and operate as market actors and crucially to build their capacity to do so. Real market engagement, and, indeed, market transformation in many locations, requires emphasis on market-rich information and knowledge, market-relevant skills, and better connectivity with market networks. We see hopeful signs of this in the reforms to planning education undertaken in the UK from 2004, and especially in the development of more multi-disciplinary approaches to educating the next generation of planners. Nevertheless, despite daily encounters with other market actors, we also see many planning practitioners struggling with what it means to engage and reconstruct markets, rather than be subservient to them. Here, we believe academics and theorists have a significant responsibility in the years ahead to raise state–market relations to as central a place within the new spatial planning as that presently occupied by spatial governance.

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Notes

1. Known as Section 75 agreements in Scotland and Section 106 agreements in England and Wales.
2. In this paper, we use the term “planner” as shorthand for planners working in the public sector, while recognising that many now work in the private sector.
3. We recognise that some economists would dispute the distinction drawn here between neo-classical and welfare economics. We regard them both as important components of the economic mainstream, sharing the same methodological underpinnings despite their important philosophical differences.

4. Ironically, of course, rapid house price inflation generated the substantial growth in land values that planning authorities have sought to capture through planning gain.
5. Intriguingly, Barker's call for the planning system to be more responsive to market signals was reflected more strongly in the consultative draft of the new *PPS 3: Housing* published in 2005 (ODPM, 2005) than in the final version, which emerged a year later (DCLG, 2006a). While the former proposed that speedy take-up of allocated development sites might trigger further immediate releases, the latter contained only a more general expectation for local planning authorities to take market information into account. Moreover, research commissioned by the DCLG (2007b) highlighted both the complexity of incorporating market signals within the planning process and the impossibility of finding a relevant common indicator for this purpose.

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