



## Citizen Participation, the ‘Knowledge Problem’ and Urban Land Use Planning: An Austrian Perspective on Institutional Choice

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**Abstract.** At the forefront of the argument for government-directed land use planning is the notion that ‘citizen participation’ in urban land use decisions can avoid the problems associated with bureaucratic governance and tackle widespread instances of ‘market failure’. Using illustrations from the British land use planning system this paper argues that participatory planning models are insufficiently attuned to the problems of social co-ordination generated by the absence of market prices and of the importance of private property rights in facilitating ‘experiments in urban living’.

**Key Words:** urban policy, deliberative democracy, social learning, market process

**JEL classification:** B53, D62, R52

### Introduction

In the decade or so since the fall of the Berlin Wall and the collapse of Soviet Communism the notion of central economic planning has been somewhat discredited. Few schools of thought have done more to expose the failings of state socialism and to predict its demise than the Austrian school of economics. The implications of Austrian analysis and in particular the ‘knowledge problem’ have however, often been treated with lip service by contemporary public policy makers. The result has been a rapid resurrection of the case for new forms of government interventionism. Under the banner of the ‘Third Way’ in particular, critics of the market economy have gathered around the notion of ‘citizen’ or ‘participatory’ planning, which offers a critique of bureaucratic decision-procedures, yet claims to provide a *decentralised* social democratic alternative to the use of private markets.

One of the areas where the case for participatory planning has become the conventional wisdom is in the field of urban land use policy. Under the influence of thinkers such as Jurgen Habermas and Charles Lindblom a growing number of writers have argued that citizen-based forms of land use planning provide the ideal institutional vehicle through which to tackle instances of environmental ‘market failure’. This paper offers a critique of participatory urban planning from an Austrian perspective. It argues that whilst offering an improvement on technocratic forms of urban governance, participatory planning models are insufficiently attuned to the problems of social co-ordination generated by the absence of market prices and of the importance of private property rights in facilitating social

experimentation. The paper concludes, therefore, with some institutional pre-requisites for successful urban land management, focussing on the role of private property rights and market processes as the most appropriate vehicles to secure 'experiments in urban living'.

### **Citizen Participation and Urban Land Use Planning**

In recent years there has been a rapid growth of interest in the development of decentralised, citizen-based forms of urban land use planning in response to public disillusionment with 'top-down' modes of urban governance. For many years the regulation of urban land use patterns was seen as a quasi-scientific enterprise conducted by 'neutral' government administrators and public policy experts. Theoretically this approach to land use planning drew on the rationalist approach to public administration and the influence of social cost/benefit analysis within neo-classical economics (see, for example, Faludi 1973). The assumption underlying such models was that planners could collect all the necessary 'data'—about trends in population growth, projected trends in industrial and residential location and so forth, and rationally devise a land use policy in accordance with pre-defined social optima. If the market economy and the price system were thought not to deliver 'social welfare' as a consequence of externality and public goods problems then the task of the land use planner was to step in to perform this co-ordinating role.

The post-war enthusiasm for rationalist planning methods resulted in comprehensive programmes for the management of land use change in a number of different countries. In Britain, for example, the right to develop land was nationalised in 1947, with all forms of development outside of the agricultural sector having to conform to a local land use plan, which was in turn subject to national policy guidance. Technocratic arguments lay at the heart of the British commitment to a planned decentralisation of the urban population into 'self-contained' New Towns, designed to reduce congestion in the older cities and simultaneously ensure protection of the countryside by concentrating development in targeted 'growth poles'. Even in supposedly more market-oriented societies such as the United States, rationalist planning notions were evident in 'urban renewal' programmes often characterised by the 're-location' of people and businesses to make way for the public housing projects, civic centres and highways favoured by urban managers of the day.

It was largely as a response to the perceived failure of comprehensive land use planning that public and academic interest in alternative decision models was sparked (see, for example Jacobs 1961, Coleman 1977). Disillusionment with the socio-economic consequences of high rise public housing and urban highway projects in particular, and the seemingly 'autocratic' approach of urban planners led to calls for greater levels of public involvement in decision-making processes. These calls were mirrored by theoretical developments in the social sciences that argued for the greater democratisation and decentralisation of policy-making practice. Within this context, the work of Jurgen Habermas and Charles Lindblom has been particularly influential in making the case for 'citizen-based' forms of urban planning practice.

*Habermas and Citizen-Based Urban Planning*

Habermas's writings and in particular his critique of 'instrumental rationality' have formed an important plank in the case for participatory models of land use planning. For Habermas, decision-making practices in modern society have come to be dominated by a narrowly objectivist conception of rationality based on the technical application of means to clarified and consistent ends (see, for example, Habermas 1984, 1987, 1990). This emphasis on the application of universal rules in the pursuit of 'scientific truth' has according to Habermas, acted to exclude more interpretative forms of social knowledge, including 'practical knowledge', 'artistic knowledge' and 'common sense reason', which are *not* open to scientific measurement and quantification. Seen in this context, the failings of urban policy are but one example of the wider deficiencies of a 'therapeutic state,' which seeks to define the needs of its citizens in scientific terms. It was, for example, the pre-occupation of planners with rationalist utopianism that resulted in the construction of high-rise public housing projects that frequently ignored the fine-grained detail of urban life and as a result often destroyed the fabric of the communities that had been deemed in need of assistance.

For Habermas, the claims to objectivity by modernist science are subject to serious limits with 'experts' themselves having widely different views on what it is they are pursuing, and with standards of scientific 'truth' shaped by complex cultural processes of social interaction. Seen in this light public rationality should be shifted towards a more *open* conception of reason in which different 'subjectivities' engage with one another in a process of *inter-subjective* learning. Knowledge is not to be conceived as something that exists in an objective sense but should be seen as an emergent property from the process of public debate and discussion itself—a process of *communicative rationality*. In practical terms this means that urban land use decisions should be 'de-monopolised' from expert control and subject to a process of citizen participation in which multiple different 'stakeholders' are allowed to have their say (Forester 1980, 1989, Healey 1997).

Habermasian epistemology offers a powerful critique of 'top-down' planning models but has also been used as stick with which to beat market institutions and 'consumer-centred' modes of decision. Echoing Marxian notions of 'alienation', theorists of this ilk see markets as inherently dis-empowering institutions. The 'anarchic' pattern of decision-making exhibited in markets, it is argued, leaves people at the mercy of forces that they cannot understand and do not directly control. The competitive price system conceals from people how their actions affect the lives of others and prevents individuals from thinking about how to co-ordinate their actions in ways promoting the benefit of society *as a whole*. Haphazard market process are, for example, often held responsible for generating environmentally damaging side-effects such as the increased demand for private automobile use and subsequent air pollution. Democratic deliberation of land use by contrast offers the prospect of more 'holistic' decision-making practices, enabling people to re-assert collective social control over the pattern of urban development in a manner allowing for the fullest consideration of the costs and benefits to society at large (Forester 1989, Healey 1997). According to this view, conscious social planning is perfectly compatible with a decentralised form of decision-making where local decisions and those that transcend the immediate locality are subject to a process of collective action in which all citizens are actively involved.

In addition to its critique of the 'anarchy of the market' Habermasian planning theory is also critical of the failure of private markets to engage people in a properly *educative* manner. This line of criticism has frequently been advanced by supporters of the 'New Urbanism', who claim that processes of sub-urbanisation are a manifestation of an atomistic individualism in which the uneducated gratification of individual desires for an auto-dependent mode of living threatens environmental security (see, for example Calthorpe 1993). In order to 're-connect' individuals with their communities it is argued, land use decisions should be based on 'voice' mechanisms that can transform peoples' values through a process of democratic deliberation in which the virtue of different ends is judged according to the articulation of the 'best reasons'. The latter requires a commitment to the notion of 'consensus-building' and 'citizenship' rather than 'competition' and 'consumerism' and involves a subjection of the 'exit' mechanisms in private markets to collective democratic control (Healey 1997).

#### *Lindblom and Citizen-Based Urban Planning*

A second discernible influence on participatory models of urban planning can be traced to the works of Charles Lindblom. For Lindblom and his followers, rationalist planning models are unrealistic in their assumptions about the ability of planners to collect and centralise all the necessary data and to foresee the unintended consequences of policy implementation (see, for example Lindblom 1959, 1977, 1988). Planning, therefore, should be seen as a process of 'disjointed incrementalism' in which policies edge forward over time in a series of small steps, not dissimilar to Popper's notion of 'piecemeal interventionism'. The knowledge that is necessary for effective decision-making is thought more dispersed than in the comprehensive rationalist approach. Rather than being centralised in a single 'super-planning agency,' the necessary knowledge is divided between a variety of actors including different government departments, private sector actors and various interest groups. Within this context, increasing citizen participation is thought to have a crucial role to play in improving the accountability and effectiveness of the planning process by maximising the amount input of information that would not be available to technocratic experts acting alone.

Unlike the Habermasian emphasis on 'conscious organisation' and 'holistic' decision practices, however, Lindblom's account of ideal planning practice eschews the notion of attempting to secure social co-ordination via deliberative collective action. For Lindblom, apparently haphazard decision procedures embodied in the day-to-day push and pull of pluralist politics may prove more effective than conscious social planning. In developing the notion of 'partisan mutual adjustment' Lindblom claims that a more extended rationality, properly attuned to the complexity and ever changing nature of social circumstances can be achieved via a process in which actors are constantly in the process of adjusting their conduct to each others behaviour. Co-ordination in urban land use, therefore, is to emerge through an 'invisible hand' process of conflict and accommodation between developers, conservationists and planning professionals. This focus on mutual adjustment and invisible hand processes is reflective of a somewhat less critical attitude adopted by Lindblom's followers towards market institutions than that exhibited in Habermasian stakeholder theory. Pluralist political processes are, however, seen as equivalent in effectiveness to market

processes and given the alleged prevalence of public good problems in the market for land are often regarded as a *superior* institutional alternative, where it is deemed that markets cannot operate effectively (see, for example, Meadowcroft 1999).

The influence of Lindblom, but more especially that of Habermas has become increasingly evident in the field of urban land use policy. Under a variety of labels such as 'collaborative planning,' 'communicative planning' and 'deliberative planning' social democratic arguments have been advanced for citizen based models of urban planning as an alternative to the failures of bureaucratic governance *and* of the market in land. In practical terms this has led to the adoption of a range of 'participatory designs' such as citizens' juries, focus groups and community workshops designed to improve the responsiveness and accountability of urban governance structures. Simultaneous with this emphasis on 'public participation' increasing demands have been made for greater public regulation of markets through the extension of third party decision rights over private property in land.

### **Austrian Economics, the 'Knowledge Problem' and Urban Land Use Planning**

In their different ways the contributions of Habermas and Lindblom offer insightful criticisms of the rationalist models that have traditionally dominated urban land use policy. What is perplexing about the various arguments for 'participatory planning' and especially those of the Habermasians, however, is the generally critical stance towards market institutions. The case for the market economy advanced by the Austrian school and exemplified in the works of Mises and Hayek shares with Habermas and Lindblom an emphasis on the dispersed, subjective nature of the knowledge necessary for effective decision-making and of the need to restrain the exercise of bureaucratic power. From an 'Austrian' perspective, however, the 'knowledge problem' cannot effectively be overcome in the absence of market generated relative prices and the process of economic calculation that such prices facilitate. Participatory planning theorists emphasise the conveyance of information via public discourse and debate. In doing so, however, they neglect the significance of a large body of knowledge that simply *cannot* be communicated by such means but which may in fact be communicated via a system of private property exchange. In order to appreciate the difficulties faced by participatory planning models that flow from this neglect it is first necessary to examine the *general* critique of government planning advanced by the Austrian school and its relevance to the arena of urban land use planning.

Following Mises (1920) and Hayek (1948, 1978), the Austrian school recognises that much of the knowledge necessary for social and economic co-ordination is diffused throughout society, is to a large extent subjective and far from being 'given' must be 'produced' through a process of social learning. If knowledge of means and ends was objectively fixed and information perfect as in the general equilibrium model of neo-classical economics, then it would be possible to rely on government planners exercising an omniscient rationality. From an Austrian perspective, however, it is precisely because human values are subject to dynamic change and information imperfect and fragmented that government planning is unlikely to succeed (Boettke 1997). Within this context, the competitive market process performs two crucial functions, which cannot be replicated by a government planning mechanism.

First, the market acts as spontaneous co-ordinating procedure in which the changing ideas and behaviour of individuals and firms are constantly adjusted to one another through the medium of the price system. The structure of relative prices that emerges from multiple acts of exchange enables people to calculate which goods are more or less scarce and to adjust their behaviour accordingly (shifting from more to less expensive goods, for example). As Hayek (1948:86) explains, the great virtue of this process is, “the economy of knowledge with which it operates, or how little the individual participants need to know in order to be able to take the right action.” The price system, therefore, operates as an economising device, enabling actors to adjust their behaviour to that of others under conditions of complexity and bounded rationality (Simon 1957). For a planning mechanism to achieve an equivalent level of co-ordination would require that planners be consciously aware of *all* the relevant facts necessary to secure co-ordination between the multitude components that form a complex economy. It is, however, precisely the inability of planners to have access to the constantly changing circumstances affecting the behaviour of individuals and firms, owing to the *cognitive limits of the human mind*, that prevents conscious co-ordination of this type.

Second, the competitive market process acts as an *inter-subjective* discovery procedure in which contradictory ideas widely dispersed amongst individuals and firms are constantly tested against one another and where successful modes of action are disseminated via a process of emulation (Hayek 1948, 1978). Entrepreneurs do not start from a position of knowing what goods to produce, how to produce these goods, in what quantities and at what price to sell, but acquire such knowledge over time. Consumers meanwhile, do not start from a position of ‘knowing what they want’ but are constantly re-evaluating their preferences in the light of the changing offers continually presented by competing entrepreneurs. A discovery process unfolds, however, as the profits and losses generated by the constant interaction between consumers and firms are noticed by neighbouring actors who imitate the behaviour of the successful and learn not to make the same errors as the unsuccessful. Calculations of profit and loss operate through a rippling effect, spreading information about more and less successful courses of action across the overlapping perspectives of different individuals and firms (Hayek 1948, 1978). In this manner, the market process facilitates learning under conditions of ‘radical ignorance’, where actors on both the demand and supply sides are alerted to instances of knowledge, which they previously did not know was in existence. Government planners, by contrast (democratically elected or otherwise) could never perceive and respond to all the subjective economic opportunities dispersed amongst a myriad of actors who have the freedom to exchange property titles in the market. Only under private ownership of productive assets can individuals and firms make bids for resources reflective of their own ideas and subjective interpretations and only under such a system can the greatest diversity of these ideas be tested against one another and the resultant successes and failures be revealed.

None of the above is to suggest that the process of market competition ever arrives at an equilibrium state where all opportunities for mutually advantageous exchange are exhausted. On the contrary, the market is an *open ended* procedure characterised by uncertainty and the possibility of error, where there are always hitherto un-exploited opportunities whether in the form of new ideas, different organisational forms, or price discrepancies in existing markets (Buchanan and Vanberg 1991). Under such conditions, a ‘perfectly competitive’

market can never exist. What is needed in order for a 'spontaneous order' to be generated is the freedom for individuals and firms to challenge existing market participants by offering better opportunities than are currently available (Kirzner 1997). The concept of 'spontaneous order' used by 'Austrians', therefore, is fundamentally a dynamic, evolutionary notion, that seeks to explain how in a world of uncertainty and diffuse, imperfect knowledge, individuals are able to co-ordinate their plans to the extent that they do. It is in the latter sense that the Austrian analysis provides the most convincing explanation for the relative economic failure of socialist planned systems when compared to societies that make greater use of private property rights and market exchange.

The Austrian analysis is at its most forceful when explaining the failure of attempts to plan the entire economy. Its conclusions also apply however in less ambitious areas of public policy that seek to 'correct' for various 'market failures'. Urban land use policy, therefore, is but one of a large number of responsibilities assumed by the regulatory state, which may be beyond the capacity of public policy procedures to manage effectively. One of the areas where the epistemological problems of planning are particularly evident in this regard is the notion of 'sustainable urban form'.

At the forefront of the contemporary debate over the so called 'new urbanism' has been a confrontation between those highly critical of the environmental effects of low-density commercial and residential development, and writers who are equally critical of proposals to encourage high density, compact development patterns. The former, argue that higher density developments reduce the need for car based travel and longer commuter or shopping trips. According to this perspective, higher density developments reduce the need for auto use and hence pollution, because people are able to access a wider range of services within a smaller surface area (Newman and Kenworthy 1989, Haughton and Hunter 1994). The latter, by contrast, contend that in certain circumstances higher densities may actually increase car use because shorter origin-destination trips reduces the average cost per trip. Cheaper trips may mean *more* vehicle-trips so that total vehicle-miles travelled may increase in compact settlements. Although people may travel longer distances in low density areas, the frequency of these visits (to a large hyper-market, for example) tends to be less, so it is not at all clear that discriminating against such developments will do anything to reduce auto-based pollution (Crane 1996, Gordon and Richardson 1997).

In practice there would appear to be considerable uncertainty concerning the effect of different urban forms on transit patterns and related levels of pollution. From an Austrian point of view, none of the relevant 'experts' may know the 'optimal' policy response, because the range of inter-connected variables that contribute to the quality of urban life may be far too complex to rely on in a conscious attempt to co-ordinate the land use system. There is so much 'expert' disagreement about the likely effect of different urban forms (high-density versus low-density etc.) on pollution and congestion levels because there are so many inter-connected variables that are difficult to predict or model. None of the relevant commentators may genuinely be in a position to judge the 'social costs' of different schemes and must instead rely on their own subjective preferences to define what types of development would constitute an improvement in the 'quality of life'.

Experience of previous attempts to secure a preconceived urban form does not bode well for those who seek to design the structure of towns and cities in accordance with any

particular optima. As the case of New Towns policy in the United Kingdom suggests, where such policies have been instigated the results have often been contrary to their initial aims. New Towns were designed to accommodate 'excess' population from the older cities and were to be 'self-contained' with the bulk of their employment and service provision needs confined within the boundaries of the towns themselves, in order to discourage urban sprawl and the growth of long distance commuting. In the event, however, planners' predictions regarding the likely effect of future population/employment growth and transport pattern effects of the towns proved totally inaccurate. Population expanded at a much higher rate than was planned for and the towns, far from being self-contained developed into major importers and exporters of population. Some became major urban centres in their own right attracting population and employment from elsewhere, whilst others became little more than dormitory towns for the commuter market. In the face of such pressures the New Towns programme was abandoned, though years after its initial goals had been made redundant (Simmie 1993, Cherry 1996).

The 'knowledge problems' evident in the debate over the new urbanism and in the actual experience of attempts to consciously design urban systems stem from the difficulties of attributing values to a variety of land-use externalities without a competitive market process and the comparative price signals that such a process produces. In the absence of such prices, planners lack the information necessary to adjust their decisions in accordance with the changing nature of the subjective trade-offs made by individuals and firms. If planners decisions fail to reflect the constantly changing structure of public preferences and behaviour patterns then there is no direct feedback mechanism for the planner comparable to the financial loss and potential for bankruptcy experienced in the market. The best way of dealing with the relevant uncertainties, therefore, may *not* be to deliberately plan for an 'optimal' urban form, but to permit a wider variety of *experiments in urban living*. The latter may allow a discovery process to reveal which particular ways of organising urban areas work best from the subjective view of their inhabitants as signalled by the relative willingness to pay for different types of development scheme.

### **Citizen-Based Urban Planning and the 'Knowledge Problem': An Austrian Critique**

The Austrian critique of government planning is able to throw considerable light on the failings of state-directed programmes of urban land management. What is significant for current purposes, however, is that key elements of this analysis are equally applicable to the various models of citizen-based or participatory urban planning discussed earlier. Whilst offering some improvement on technocratic forms of decision-making such models are neglectful of the co-ordination problems generated by the absence of market prices and the inability of majoritarian decision procedures to generate the necessary 'experiments in urban living'.

Of the two schools of participatory planning, Habermasian stakeholder theory is the one that displays the most serious misunderstanding of the institutional processes necessary to cope with the knowledge problem and the issue of social co-ordination under conditions of complexity. According to this perspective, active stakeholder deliberation and democratic community participation are to facilitate more holistic decision practices by rendering

available information that must remain obscure to technocratic planners. Participatory planning, therefore, is to deliver citizens from the 'anarchy of the market' by ensuring more holistic decision practices in which people consciously seek to co-ordinate their actions with one another. If technocratic planning is held incapable of producing appropriately 'holistic' land use policies, comparatively fewer doubts are held over the capacity of citizen deliberation to deliver such objectives.

As such, Habermasian planning theory appears oblivious to the 'knowledge problems' involved in securing social co-ordination under conditions of *complexity*. The implication is that if only planners are able to hold sufficient committee meetings and encourage the general populace to participate in such gatherings then the information necessary to secure an appropriately 'holistic' set of land use policies could be gathered and distilled. Such claims are strikingly reminiscent of the view advanced by Dickinson in the 1930s, that a socialist economy would operate 'within glass walls', where everyone is able to see what everybody else is doing and to co-ordinate their actions accordingly (Dickinson 1939). It is, however, the very *magnitude* of the inter-relationships that make up *complex* social wholes that *prevents* 'conscious co-ordination' of this type. The economies and environments of different local communities are inter-linked in a myriad of flows, which may be far too complex to allow people to be consciously aware of how all their different actions impinge on and affect the lives of others. It is precisely the magnitude of these inter-relationships that requires a reliance on 'unconscious' spontaneous ordering processes such as the market. The changing structure of relative prices in markets enables people to adapt their behaviour (substituting more for less expensive alternatives) to that of people they may never actually meet and whose circumstances they *cannot* know in sufficient detail. The market price system, therefore, far from providing an obstacle to effective social co-ordination, facilitates such co-ordination under circumstances where it is impossible for people to be consciously aware of what everybody else is doing.

At first sight, Lindblom's model of citizen participation appears more attuned to the problem of co-ordination under conditions of complexity than the advocates of Habermasian 'collaborative planning'. In this account, the push and pull of conflicting positions and interests within the context of pluralist political processes dispenses with the need for a synoptic decision-making procedure via an unplanned process of spontaneous mutual adjustment. The principal difficulty with this particular view of citizen participation, however, is its failure to explain adequately *how* the relevant process of adjustment is to take place *in the absence of market generated relative prices*. Lindblom's model is, therefore, equally susceptible to the 'economic calculation problem' articulated by the Austrian school as that of the Habermasians. Decision-makers in the political process have no common denominator of economic value and changing patterns of relative resource scarcity equivalent to money prices and hence no easy way to compare the costs and benefits of alternative courses of action.

The information emergent from the interplay of interest groups, politicians and government agencies in pluralist politics is by no means equivalent to that generated from exchange relationships in private markets. In the latter, the structure of relative prices is constantly updated through the continuous buying and selling decisions of millions of individuals operating in a multitude of different markets. Citizen choices in the political process, by

contrast, are made in far less continuous manner with no standard feedback mechanism from citizens to politicians available in the period *between* elections (Wohlgemuth 1999, Holcombe 2002). How, for example, are politicians to judge whether the receipt of a phone call from a citizen is to be given the same weight as that of other citizens writing letters and of still others deciding to participate in demonstrations? With the rise of interactive technology one might envisage a futuristic scenario where citizens are permanently attached to voting buttons and attempt to express their preferences on a slightly more continuous basis, but such mechanisms would still be a far from adequate substitute for market prices. First, the agenda setting process limits the range of options presented to voters because politicians and political parties are not subject to open competition in which a diversity of competing producers actively supply a range of differing alternatives. Second, voting procedures do not typically communicate knowledge about the value of *individual* goods, but are based on large 'bundles' of goods, many of which have to be consumed by people who did *not* actually demand them. Third, even processes of single issue 'direct democracy' provide no means equivalent to money prices of revealing the *intensity* of individual valuations. In such processes the vote of someone who values a particular good very highly counts for no more than that of someone else who places the same good much further down her scale of individual values (Steele 1992:316–317).

Problems of this nature are magnified still further once it is recognised that a large body of the information necessary to secure social co-ordination is of the tacit or inarticulate sort embedded within individual minds. All models of citizen participation, whether of the Habermasian or Lindblom variety, rely to a significant degree on the ability of citizens to communicate their values via verbal means. From an Austrian perspective, however, there is a large body of *tacit* knowledge, crucial to the process of social co-ordination that simply *cannot* be communicated linguistically. When asked to value the different elements that make up a given basket of goods an individual may not be able to explicate how much she values one good in relation to another. To what extent are high-density developments preferable to low-density developments? Does the convenience of 'out-of-town' shopping malls outweigh the aesthetic appeal of small town centre outlets? Such knowledge can only be revealed through the *act* of choosing between the competing alternatives as and when they arise in the actual experience of peoples' lives. As Sowell (1980:217–218) has noted,

“The real problem is that the knowledge needed is knowledge of subjective patterns of trade-off that are nowhere articulated, not even to the individual himself. I might think that, if faced with the stark prospect of bankruptcy, I would rather sell my automobile than my furniture or sacrifice the refrigerator rather than the stove, but unless and until such a moment comes, I will never know even my own trade-offs, much less anybody else's.”

The virtue of the market, therefore, as opposed to 'participatory planning', is that it is constantly updated as both producers and consumers choose between different courses of action and unconsciously alter the structure of relative prices in line with the choices that they actually make. Without such prices it is difficult for both 'planners' and 'participants' alike to communicate such inarticulate knowledge to one another and to adjust their behaviour accordingly.

None of the above is to suggest that there is *no* scope for the 'striking of deals' in the political process and hence a degree of mutual adjustment. Rather, the Austrian argument is that such procedures will represent a poor substitute for the fine-grained adjustments to constantly changing patterns of supply and demand facilitated by a set of relative prices. How, for example, is it to be decided whether the environmental benefits of conserving green-field sites outweigh the cost to consumers of more expensive housing? How are the costs of building on different green-field sites to be compared from one to another? How is it to be decided what proportion of green-field development should be devoted to housing, leisure, agriculture or industrial production? Such questions will, of course, be multiplied many times over when the choice is between the vast array of potential land uses that make up a complex economy, the myriad possible combinations of such uses and the complexity of their environmental consequences.

Calculation problems of this ilk are already evident in urban planning systems that do indeed embody a considerable element of pluralist citizen participation. The experience of British Green Belt policy, for example, widely admired by proponents of the 'New Urbanism' provides a particularly clear illustration of such difficulties. The explicit aim of this policy is to prevent the outward growth of the larger urban areas in the UK, preserving environmental quality by minimising urban sprawl. It is, however, rarely acknowledged by planners that the level of environmental quality *within* Green Belts varies dramatically. The London Green Belt, for example, whilst including wooded hills and chalk downs, also includes large tracts of land on the western and eastern urban fringes, consisting of dis-used gravel pits, quarries, and low-grade farmland/horticultural developments. Whilst there is clearly a desire of citizens to preserve aesthetically attractive sites within easy reach of the city, it is equally the case that people searching for affordable housing might be prepared to see the relatively less attractive parts of the Green Belt developed for residential purposes. This point is of particular importance when considering the level of development that has been displaced into the 'deep countryside' beyond the designated zones rather than taking place on the immediate urban fringe (Herington 1984, 1990). Seen in this light, the Green Belt policy is incapable of responding to the diversity of conditions that exist. Without being guided by a set of relative prices, highlighting variations in subjective environmental quality between different sites, citizens and planners alike are unable to know how to choose between competing uses for land and to judge whether Green Belts add to or subtract from the desired set of environmental goods.

The models of participatory urban planning advanced by the followers of Habermas and Lindblom are insensitive to the importance of market generated money prices in communicating information about changing relative scarcities in land from one actor to another. This is, however, by no means the only area where citizen participation fares badly in comparison to the exercise of individual choice in private markets. As well as enabling people to adjust their behaviour to changing patterns of relative resource scarcity, the market process also acts as a *creative* procedure in which the *content* of that scarcity, of 'which goods are scarce goods' is itself discovered through an ongoing process of entrepreneurial experimentation. It is this creative and ultimately educational dimension to the market process that is likely to be stultified by the extension of the collective majoritarian procedures favoured by supporters of 'citizen-based' urban planning.

A primary difference between the exercise of individual choice in private markets and pluralist democratic procedures is that the latter *necessarily* lead to collectivised decision-making practices. As Wohlgemuth (1999) observes, a democratic government subject to pluralist participation must first collect a multitude of different and often contradictory opinions and preferences from interest groups and the voting populace at large and then attempt to condense these into a *single* policy platform, which will secure majority support. Once the government has been elected, citizens cannot actively test alternative policy platforms and bundles of political goods. Opposing politicians and interest groups, meanwhile, cannot compete by simultaneously supplying alternative service bundles. Individual voters, therefore, have no means of continuously substituting between different goods and suppliers in a process governed by majority coalition (see also Holcombe 2002).

In private markets, by contrast, multiple exchanges between individuals and firms allow many different and often contradictory ideas to be *simultaneously* tested against one another *without* the need for majority approval of any particular course of action. The market economy does not operate in such a way as to aggregate the many different preferences and opinions dispersed amongst individuals and firms in order to arrive at single social optimum. On the contrary, the market provides a forum in which *divergent* scales of value can be pursued in *parallel*. Market competition allows for the satisfaction of preferences and the testing of opinions via multiple acts of substitution between a wide variety of different goods and suppliers. Employing the option of 'exit' in markets enables those individuals who dissent from the majority view to achieve some of their ends without impinging on the ability of those who support the majority opinion to attain theirs. Seen in this light, the market process allows a greater variety of production and consumption decisions to be tried and tested and hence brings more knowledge into the public realm than would ever be the case under a strictly majoritarian system.

Of course, pluralist political processes of the sort championed by Lindblom may provide for a degree of experimentation and hence social learning. The most that majoritarian procedures can do, however, is to conduct *consecutive* experiments in which there is only one, or a very few sets of solutions being tried out at any particular point in time (Wohlgemuth 1995, 1999). Similarly, the most that politicians and interest groups that *do not* currently form part of the majority coalition can do is to offer verbal critiques of current policy platforms. What they cannot do, however, is to actively *supply* alternative packages of goods. The range of plans that may actually be implemented, therefore, will necessarily be less than in a context of market exchange, where multiple competing plans may be tried and tested in parallel with one another.

Such structural differences between markets and participatory democracy again assume particular significance when it is recognised that much of the information necessary for the transmission of new social values is of the tacit sort, which can only be communicated via multiple examples of private *action*. There is a crucial distinction to be made between the sort of social learning that takes place when people enter into a verbal conversation with one another or read a written text and that which occurs via observing and emulating the behaviour of others. The latter is an example of learning by results, imitating successful courses of action and avoiding unsuccessful ones, even when the reasons behind such successes and failures cannot explicitly be articulated (Horwitz 1992, Pennington 2003).

Far from providing the educative capacity to alert people to new ideas and to change peoples' preferences as claimed by the Habermasians, therefore, the majoritarian nature of social democratic procedures may thwart innovation and the dissemination of new values for the use of land. If no new production and consumption decisions are to be allowed to proceed without first securing majority approval then innovation and the transmission of new social values may be impeded. The institution of private property, by contrast, allows *multiple minorities* the space to try out ideas the merits/demerits of which may not be readily discerned by the majority but from which the latter may then learn. It is only when such projects are put into practice that the relevant information is revealed. A learning process may then be set in motion as previously indiscernible successes are imitated and previously indiscernible errors can be avoided.

Seen in this light, the stultifying effect of collectivist institutions on the process of land use change and evolution is readily apparent in centralist systems of land use planning that restrict the exercise of 'exit' options in favour of majoritarian decisions. In the case of the British land use planning system, for example, there is evidence that the nationalisation of development rights may have thwarted experimentation in such fields as building and architectural design (Evans 1988, 1991). It is difficult for innovative and radical new designs to receive planning permission since these must first be approved by an array of planners and political committees that are inclined towards conservatism and the preservation of the status quo. A similar lack of experimentation has also been evident with the ubiquitous emphasis on the designation of Green Belts and 'urban containment' strategies, which appear to have prevented experimentation with a range of competing urban forms, that might have delivered as yet, unforeseen environmental benefits (Pennington 1999, 2000). There comes a point, therefore, where the use of the 'voice' mechanisms that characterise collective decision procedures need to be backed up by the 'exit' mechanisms that are more evident in private markets.

### **'Exit' and Competitive Land Use Planning: An Austrian Perspective on Institutional Choice**

A primary implication of the analysis thus far is that the regulation of land use change needs to be subject to an experimental spontaneous ordering process equivalent to that found in competitive private markets. It is only via a process of competitive experimentation that the subjective costs and benefits attached to different bundles of land use externalities can be revealed and that individuals and firms can adjust their behaviour in response to the relevant patterns of trade-off. The question remains, however, what sort of institutional arrangements are likely to result in such a process and to generate the necessary feedback mechanisms for decision-makers?

In answering this question, it is important to emphasise that the case for greater experimentation in urban land use does *not* challenge the need for 'planning' *per se*, but rather questions the legitimate sphere over which any particular 'planning model' should be extended. The nature of land use externalities means that it is important in certain circumstances to have a decision-making unit which takes a broader view than might be expected if individuals were allowed to dispose of their property entirely as they see fit. In situations

where urban land use decisions may exhibit a variety of ‘knock-on’ effects or ‘network externalities’ associated with pollution or transport patterns, there may well be a need for institutions that can consciously plan the pattern of land development within a particular geographical area. What is at issue, however, is the existence of a mechanism that can subject such attempts at conscious design to a process of competition. In one of his few published statements on land-use planning Hayek (1960:351–352) puts the issue very well,

“Most of what is valid in the argument for town planning is, in effect an argument for making the planning unit for some purposes larger than the usual size of individually owned property. Some of the aims of planning could be achieved by a division of the content of property rights in such a way that certain decisions could rest with the holder of the superior right . . .

Most discussions of urban planning issues assume that the ‘larger planning unit’ of which Hayek speaks must necessarily be that of a government agency. This argument is based on the claim that government has an important role to play in co-ordinating the actions of private actors by lowering transaction costs in situations where there are a large number of affected parties. An Austrian perspective on urban land use planning does not rule out the possibility that government action may indeed be appropriate in such circumstances. What it does suggest, however, is that wherever possible intervention should be subject to a process, which involves competitive experimentation and preserves the possibility of individual ‘exit’.

One model that seems likely to meet these criteria of institutional choice is ‘Tiebout style’ local government provision, based on to inter-jurisdictional competition. The advantages of such an approach are, from an Austrian perspective, twofold. First, local intervention enables a much greater degree of experimentation than more monopolistic government structures. Federal decentralisation allows for *simultaneous* testing of competing packages of land use externalities, whereas central intervention, even when it is subject to the pluralist processes highlighted by Lindblom, generates at best only a few *consecutive* experiments in public goods provision. Second, as citizens exercise the ‘exit’ option, moving from one jurisdiction to another, a spontaneous adjustment process may be set in motion as the changing distribution of local tax revenues encourages local governments to alter the pattern of services they provide accordingly. Such processes are not equivalent to the constant adjustments facilitated by market prices but they are, from an Austrian view, more likely to secure a degree of social adjustment and to make use of dispersed knowledge than attempts by multiple local communities to secure ‘conscious co-ordination’ via Habermasian style deliberation.

Whilst an Austrian approach does not preclude the recognition of market failures and hence a case for government action, there are, however, grounds to be sceptical that intervention, even at the local government level, is necessarily the appropriate response. Most instances of ‘market failure’ boil down to problems of excessive transaction costs and the difficulty of enforcing contracts in large number situations. Transaction costs, however, exist in *any* institutional setting, so the mere identification of ‘market failures’ does not provide an automatic justification for government action (Demsetz 1969). Indeed, from an Austrian perspective, the competitive market process is a multi-purpose instrument that can evolve

a variety of responses to deal with high transaction costs in a manner that many be *more* effective than government action. The institution of the business firm is perhaps the clearest example in point. Firms are 'planning organisations' that develop where there are efficiency gains from replacing the rule of decentralised pricing mechanisms and 'spontaneous order,' with a hierarchy of conscious direction that reduces the costs and uncertainties involved in co-ordinating a large number of actors (Coase 1992). The optimum scale at which the costs of such hierarchies (e.g., lack of flexibility due to excessive centralisation) outweigh the benefits (e.g., a unified management system) is itself something that must be discovered and rediscovered, via open-ended competition between different types of 'planning regime' arrived at through private contract (Sautet 2000).

In light of the above, an important objection to a Tiebout based strategy of local government land use planning is that the approach rests on the assumption that local governments are in fact the appropriate jurisdictional level at which to internalise land use externalities. In an open market, if a private firm becomes too large/hierarchical and is unable to make sufficient use of the price system to determine internal resource allocation, then it may be vulnerable to smaller, more flexible competitors better able to access information about changing relative scarcities. Local governments, however, are not subject to open competition from new organisational forms. In many cases local authority boundaries have been imposed on communities for political reasons that have little to do with their efficacy in delivering services and improving environmental quality. Local government planning, therefore, is often predicated on the suspension of competitive forces from below and thus restricts the very sort of Hayekian discovery procedure that may be necessary to determine the appropriate level at which land use planning should actually take place.

The limitations of the Tiebout model, therefore, suggest the need for a more open-ended approach to the question of institutional choice. There are, in this context, a variety of private contractual devices that might be used to create appropriate 'planning units' with which to internalise land use externalities and to subject such arrangements to a more vigorous competitive procedure than is possible within the state sector.

Historically there is good evidence that private contractual arrangements based on the estate development model are able to internalise a wide range of external effects and to overcome public goods problems. The use of deed restrictions and private covenants by developers are perhaps the most widely cited examples. In the case of restrictive covenants, developers specify in contracts the activities to be permitted with respect to a particular set of properties for sale in order to internalise external effects and to capture the returns through higher asset prices. Contractual approaches of this genre facilitate the creation of markets in amenity values as individuals choose between competing development packages which offer different bundles of contractual restrictions and their associated externalities. Like all market solutions, restrictive covenants have the virtue of delegating authority to the people whose interests are directly involved in the relevant decisions and allowing them to subjectively weigh alternatives. When choosing what sorts of developments they offer, and in particular what contractual restrictions, developers may discover through the price system the opportunity cost of allowing land to be used for some activity not permitted in the covenant. Likewise, when considering where to live, consumers may compare the different prices associated with differing levels of amenity protection.

In a detailed account of the use of restrictive covenants in the United Kingdom, Davies (2002) has shown that a large part of the urban infrastructure developed during and after the industrial revolution was the product of private contractual planning and was responsible for what are now some of the most sought after residential areas. Covenants and estate development provided for a wide range of 'public goods' such as street lighting, roads and sewerage facilities, as well as aesthetic controls and successfully housed the vast majority of the middle and working classes in affordable accommodation. According to Davies a sophisticated market in property rights and amenity values was emerging prior to the advent of government land use planning, with a range of different amenities and pricing structures in competition with one another. These ranged from luxury resort developments with highly prescriptive aesthetic controls, to more basic environmental standards limiting only the most noxious land uses. Such devices were common across a variety of income brackets with the unsanitary developments that are the stuff of Dickensian imagery the exception and *not* the rule. Even in the latter case, slum housing was gradually being eradicated by the general rise in wealth and could have been dealt with through policies aimed directly at alleviating poverty rather than the adoption of government land use planning.

More recently, the growth of private contractual communities in the United States, arguably as a response to the failure of conventional local governments to deliver effective urban services, illustrates the potential of market processes to evolve solutions to a variety of land use problems. Market innovations such as homeowners associations, condominium developments and private communities have developed rapidly in recent years. According to Nelson (2002), in 1962 there were only 500 such associations across the United States, but by 1998 there were some 205,000 private contractual associations deploying devices such as restrictive covenants and involving some 42 million people. These range from relatively small-scale associations of property owners working at the level of an individual street or neighbourhood, to much larger developments where entire towns have been developed on the basis of private contractual planning.

The primary advantage of the contractual community model is that it facilitates competition and experimentation between different communities and lifestyles (low density versus high density, for example) offering various bundles of contractual restrictions across a range of territorial scales. In turn, the structure of relative prices emerging from decisions to buy and sell stakes in such communities enables the decisions of many dispersed actors to be co-ordinated as the prices paid for differing bundles of restrictions transmits information about the often tacit valuations placed on such amenities by the population at large. In addition, there is also the advantage that the formation of such organisations offers the prospect of tackling environmental externalities that go beyond any particular locale as the formation of contractual communities reduces the total number of contracting parties and hence facilitates bargaining at the *inter-community* level.

Whilst there is no one optimal form of private contractual planning, experience suggests that such models tend to operate on the basis of somewhat smaller geographical units than do present municipal governments. The bundling together of many services such as land use planning alongside the provision of schools, fire protection, leisure and recreational facilities by large municipal governments is largely reflective of the absence of competitive forces within most contemporary systems of government land use control. Under a market

model, by contrast, there is greater scope for individuals and firms to seek out alternative service bundles provided on a smaller more localised scale, as contractual land use planning organisations are subject to *open* competition. As Klein (2000) points out, private planning organisations tend to de-bundle services in order to discover more specialised market niches, the result being an overall expansion in the number of nearby alternatives and a greater capacity to exercise the 'exit' option.

It is the propensity of contractual models to extend the range of the exit options available to individuals and firms that suggests they are much more likely to empower people and to make use of dispersed knowledge than participatory planning models espoused by followers of Habermas and Lindblom. Lest it be argued that requiring that individuals pay a market price for land use planning discriminates against those on low incomes, it is worth pointing out that virtually every study of government land use planning in the English-speaking world has concluded that government land use regulation has redistributed wealth from the poor to the middle class (see, for example, Hall et al. 1973, Frieden 1979, Brower et al. 1989, Simmie 1993). Unlike the relatively easy and cheap comparisons of value between alternatives facilitated by the price system, which can be made by both rich and poor, articulate and inarticulate alike, voice-based methods of citizen participation privilege those skilled in the use of articulate persuasion alone. It is arguably an over-reliance on voice mechanisms that privilege the articulate middle class that has been responsible, at least in part, for the inequitable results of government land use planning.

## Conclusion

This paper has sought to examine the arguments for participatory citizen-based models of urban land use planning from an Austrian perspective. The analysis suggests that whilst offering an improvement on technocratic modes of urban governance, participatory planning models are neglectful of the communication and co-ordination functions of market generated prices. Habermasian stakeholder models continue to be driven by a 'synoptic delusion' that conceives of social co-ordination as the product of conscious organisation. As such, these models fail to grasp that the inherent complexity and inter-relatedness of many land use issues means that they are *beyond* the scope of 'conscious social control'. Lindblom's appreciation of 'spontaneous order' on the other hand fails to explain how an equivalent to the mutual adjustment facilitated by changing relative prices and the continuous experimentation and substitution between alternatives in competitive markets can be replicated via pluralist political processes. In light of these deficiencies attention should turn to the potential of market processes to generate the necessary competitive experimentation in urban living. Contractual forms of private land use planning based on the estate development model would seem to offer a promising alternative in this regard.

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