

Planning Rape

Land Use Policy and Local Government Finance in the UK

By Alister McFarquhar

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Adam Smith Institute

London

1999

Bibliographical information

This edition first published in the UK in 1999 by
ASI (Research) Ltd, 23 Great Smith Street, London SW1P 3BL
www.adamsmith.org.uk

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ISBN 1-902737-08-3

Set in Palatino 12pt
Printed in the UK by Imediaprint Ltd

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Abstract

This paper examines land use policy and local government finance in the UK. The first section deals with post World War II legislation which determines the rules of the game and the response of planners to the behaviour of the planning system in recent decades. Most of the hot issues in planning in Britain, strongly debated in the US for one or two decades, are reviewed in the second section. Against this background, major issues in land use policy in Britain are discussed in section four, including objectives of planning and its underlying culture, betterment and planning gain. Section five covers the relation between subsidiarity, federal, regional and local control. It also deals with reform of the uniform business rate, local government finance, devolution, land tax, and deregulation. Policy options appear in the conclusion.

Acknowledgements

This writer has leaned heavily on reviews of the issues discussed in this paper. Particular debt is expressed for liberal quotation from the recent work of Professors Cullingworth and Grant on land use planning in the UK. Special thanks are due to Professors Gordon and Richardson for their work on the planning debate in the US, to Professor Shoup for his persuasive papers on parking, to Professor Bowers for his work on the economics of planning gain and to Alan Holmans for his work on green belts and housing. The author would also like to thank Michael Bingham for his study on planning appeals, Barry Pearce on mediation, John Corkindale on privatization and deregulation, and Denny, Hall and Smith, the CIPFA, and Carl Emmerson on business rate reform and for comment. Thanks are due to Lichfield and Conellan for their work on reintroducing a land tax, and to John Barratt and Richard Castle for reading and improving the draft. Additional thanks are due to Christopher Carter and Marie-Claude Hemming for help with the final preparation, and to my son Alexander for not minding the loss of the hours I might otherwise have spent on football.

Errors in interpreting literature and in drawing subsequent conclusions are the sole responsibility of the writer.

Introduction

The political, if not the economic, sophistication of the British land use planning system is extremely hard to overestimate. It has survived for nearly half a century with very little adjustment, and reflects British culture and its propensity for the preservation of existing human settlement at the expense of the creation of new settlements and the regeneration of decaying habitats as wealth increases. The political success of Britain's land use planning system is dependent upon a number of factors, particularly the provision for appeal against planning proposals to the Secretary of State, and then to the courts which provide a political safety valve allowing the lobbies which dominate appeals to let off steam, albeit unsuccessfully.

Local government officials appear to favour a system which gives them strong powers of intervention (though little power over taxation) and the ability to buy votes through the provision of public benefits which are provided by developers as a condition of planning approval. The system also allows local officials to pander to various lobbies, whilst at the same time remaining politically unaccountable for overall results, as the majority of local voting is party dominated and thus led by national conditions.

The regulatory framework - in particular the framework concerning the green belt - creates a land monopoly and increases profits for developers who own land approved for development. For example, supermarkets which have been given permission to build away from town centres, now benefit from the fact that policy has been reversed and no further out of town development is permitted. Keeping up the price of land is beneficial for banks and existing mortgagees; the more real estate increases in value, the higher the rate of consumer expenditure sustaining growth. It is hard to imagine who does not benefit from increase in the price of land and housing, except those who have neither.

Even the planners appear to be happy. It can be argued that the role of the planner is similar to that of the civil servant; he advises his political master from a neutral position. However, planners also seem to exercise a professional aesthetic preference reflected in the notion that some styles of development are better than others, with little influence from local councillors. Admittedly planners have to interpret policies which reflect local attitudes and which are often unclear. However, they frequently do not appear to see themselves as neutral civil servants, but rather as knowing what is best for all concerned.

Moreover, legal intervention by the state in land ownership and use is more advanced than in other sectors of the economy. For example, as both rich and poor countries realize that state ownership of industry is extremely inefficient, there has been a general move over the last two decades towards privatization, a process carried out in Japan during the 1880s, (McFarquhar, 1994). The state now realizes that it does not have to own in order to control, but that control can be achieved by regulation. Until regulation becomes so constraining as to counteract the benefits

of privatization, - including the encouragement of new investment and the benefits of international competition - most sectors of society will benefit. The state will benefit through tax on productive and efficient enterprises which previously were subsidized, and consumers benefit from cheaper goods.

Regulation allows the state to cap prices or rates of return and to shift surplus from private producers to consumers at the cost of reducing long-term investment beyond the planning horizons of most politicians. Land use regulation in Britain may point to the way in which recently privatized industries such as gas, electricity and telephones may be regulated in future, namely in an inefficient way which does not encourage investment and enterprise, or meet the positive potential objectives of planning, even if satisfies the negative political wishes of vocal minority lobbies.

UK legislation on land was driven by a desire to nationalize land and to take for the state all profit which accrued to land development. This was achieved in the 1947 Act, not by nationalizing land and controlling ownership, but by state control over all development of land through planning regulations. Currently there are increasing misgivings about the system of land use planning and control. The government produced a draft paper on the subject in March 1999, and promises a final Green Paper in October 1999.

Distinguished experts consider the planning approval system to be "ramshackle" and find it piecemeal because it does not integrate transport and housing issues, (Grant, 1999 and Cullingworth, 1999). It is once again fashionable to reconsider the introduction of a land tax despite the negative experience of the last few decades, (Lichfield and Conellan, 1998). The perceived need for inner city renewal and affordable housing relaxes the constraints of the green belt and raises the price of housing.

Although the present planning system appears to satisfy many categories of society, it is generally recognized to be negative and strongly biased in favour of NIMBY and other minority lobbies. It is a good recipe for preservation but does not encourage reconstruction and new development to meet the needs of a rapidly developing culture. These misgivings are unsurprising given the widespread dissatisfaction in the US with attempts at regulation of land use and other policies including inner city regeneration, zoning, subsidy of rail transit, parking and taxation of the automobile.

Adjustment of the current planning system cannot be considered usefully on a piecemeal basis. The planners suggest the system must in future take account of transport and housing policy. But it must also consider tax collection and spending, including the inequitable uniform business rate, and political accountability which relates power to tax with power to spend. The whole system is intimately integrated both politically and economically, but this is not always recognized. For example, it seems strange that the government should be supporting tax harmonization in terms of a uniform business rate while resisting tax harmonization in Europe. The conclusion considers how some appropriate adjustments might be made.

2. Post-war planning in retrospect

The legal framework

The planning system in the UK is based on a series of unworkable Acts dating since 1909, (Grant, 1999) and was formalized in the 1947 Act which still provides the foundation for local government land use planning in the UK. This Act followed the 1941 Uthwatt Committee report which embraced the nationalization of land rights (apart from title, as full nationalization would be impractical (Grant, 1999). The report, which was rejected, recommended that the right of development should be controlled by the state with fair compensation, and an annual tax be raised on land on the basis of an annual site value. The 1947 Act enforced permission for development, controlled by local authorities, generally in line with the development plan but on a case by case basis. No compensation was to be paid for refusal of planning permission, but taxes were to be paid on the development value conferred by planning permission, and so development rights were nationalized. The Act reinforced the protection of conservation areas and historic buildings, and established a green belt without the cost of compensation.

The situation in the UK is unique, in that landowners have only procedural rights and rights to appeal to the Secretary of State on refusal of planning permission for applications within the development plan (Grant, 1999). The debate has centred only on how to share development value between the developer and the public purse. The Act taxed all of the development value which followed planning permission and established, as one might expect, a sluggish land market. However, in 1951 development charges were abolished, and up to 1962 there was no tax on the increase in land values. A tax on “quick speculation” was introduced, followed in 1964/5 by a 30 percent tax on capital gains.

In 1967 a Land Commission Act introduced tax at 40 per cent on development value. Naturally, the supply of land for development was reduced, and land values increased. This counter-productive measure was abolished in 1970, and a further attempt to levy a land tax was made in the Community Land Act in 1975 and in the Development Land Tax Act in 1976. The second phase which was never implemented, empowered local authorities to acquire development land at current use value and to sell at development value, whilst retaining the proceeds. The failure to make land tax stick despite three attempts, is relevant for the current debate.

The Community Land Scheme was terminated in 1979, but development tax was retained by the Conservatives despite its difficulty of operation and its remote relation to policy objectives at central or local level. This revealed the lack of any policy for land development, and the desire of both parties to capture the proceeds of development, irrespective of the implications. The earlier socialist policy for total nationalization gave way to the neo-Marxist desire to deem all profits from investment in land as speculation or unearned income. Despite two decades of

privatization embraced by both governments, this now remains acceptable to the majority of British people and planners. Politicians, meanwhile, remain determined to capture for the public purse, all profit which stems from the award of planning permission.

The vacuum in land tax was filled by the confusing concept of betterment, or increase in land value due to factors not provided by the landowner, other than his acumen in purchasing land where indirect benefits might possibly arise. This tax seemed to be designed to offset costs arising from the impact of the development on infrastructure, as well as capture benefits to the developer from existing amenities. How could this increase in value, perceived to be unearned, be taxed?

As might have been expected, it has proved impossible to distinguish the contribution of different spatial and external effects on value, and to allow for costs. Betterment is broadly the difference between existing value and imputed development value (see section below on planning gain). So betterment can include the effect of regulatory increase in land value and any other private investment which raises site value. But in this case the books are not balanced, and the developer is given no credit for the contribution by the development to other land values or to indirect economic benefits

Towards the end of the 1960s, developers were increasingly expected to contribute to the cost of infrastructure and overhead facilities which added to the value of a site. These could be levied in the form of the planning gain and as a contribution in return for planning permission. However, in 1994 the courts decided that developers could not be required to provide public works or to pay towards the provision of some public goods where they were not necessary for the site developed.

As a tribute to the ingenuity of markets, local authorities now make private agreements with developers. This practice was formalized in the Town and Country Planning Act, which allowed developers to contribute to public infrastructure on the site developed. Appeals in the courts which took a commercial, rather than ideological perspective, led to the withdrawal of the powers of the courts by substituting guidance in the form of a Planning Obligations Circular (1/97).

The present position seems to be pragmatic and commercial. Local authorities extract as much tax as they can from developers. Whether this is in the name of recovering the cost of public infrastructure which benefits the site, or offsetting the negative externalities of development, seems relatively unimportant. Curiously, no credit is given for positive externalities conferred by the developer. Impact fees, which compensate for negative externalities ought to be reduced by the value of positive externalities, if there were any sense or justice in the system. Thus when the developer negotiates planning permission, the development will not go ahead if he is asked to pay too much. However, cash contributions to local government have to be for a specific purpose and go into the appropriate account, whether central or local.

Realpolitik - satisfying vested interests

MOST VESTED INTERESTS seem to be satisfied by the current position. Local authorities extract the maximum tax on development, and the state legitimizes a monopoly land market which keeps up land prices and satisfies those who own land and housing. This keeps the banks happy, but is reflected in the high price of food and other retail goods, compared with the rest of Europe. Environmental and other lobbies dedicated to preventing development are often successful, and local constituencies, especially in richer parts of the country, seem generally to have the voting power and lobby influence to resist development or renewal. It can be argued that the current situation is, in the short run, politically acceptable to a majority.

The effects of the law since 1979 have involved a considerable shift towards regulation rather than statutory control as far as development planning is concerned. The statutory development plans were considered to be “inflexible, over-detailed, negative and oblivious to market conditions” (Healey, 1983 and Amos, 1986). The 1979 Conservative government discouraged local development plans (Circular 23/81) and encouraged a more market-oriented response (circular 22/80). This should not have been difficult in view of the historical emphasis on physical and spatial planning, but sacrifice of the sacrosanct development plan meant that by 1986, 40 per cent of planning appeals were allowed (Bingham, 1997). By 1994 Grant thought that the process of planning was increasingly ad hoc, which increased risk and added to delay and cost.

By 1986 government dislike of dealing with politically sensitive planning appeals led to a return to universal local planning (Planning Policy Guidance, PPG 12, 1988) and proposals to abolish the structure plan (Bingham, 1997). The Planning and Compensation Taxation Act, 1991, made local plans compulsory and new proposals had to be in accordance with the development plans, unless material considerations indicated otherwise. The confusion created by this lack of clarity on the role of the development plan led to PPG1 (1992) which states that there was now “presumption in favour of development proposals which are in accordance with the development plan.” The courts continued to show that development plans would be overridden in face of material considerations, especially where plans were ambiguous, conflicting, or out-of-date (Bingham, *ibid*).

Government thought this would lead to fewer misconceived appeals with a higher success rate because of greater attention to working within a development plan, and recognizing that the system is plan-led. But the number of appeals has increased greatly from the 1970s to the 1990s. It is now quite hard to consider the development plans as being anything other than cosmetic. Government states that the plan rules, but that any material consideration may allow deviation from it, especially if circumstances change. In other words it is a truly pragmatic British compromise. The sophistication of the system defies description as governments get the credit for having a plan and defend themselves against the accusation of permitting piecemeal development and urban sprawl, while at the same time allowing each case to be decided on its merits. Furthermore, the law has a defusing role by allowing appeals, which acts as an effective threat against negative local authorities who do not want to risk the cost of legislation involving large developers.

Of all planning applications, in England, something approaching 90 per cent are approved, with higher refusal rates for housing and mineral developments. Indeed, the approval rate is so high as to lead some to question the need for a planning system! Of the applications which are refused, there were about 13,000 appeals decided in 1997/8. Of these, over 10,000 refer to minor dwellings, householder developments, and other minor applications. There are three types of appeal which may follow the refusal of a planning application. Public inquiries account for about 5-10 percent, of which about 40-45 percent are approved. About 10-15 percent are informal hearings, of which over a third are allowed. Lastly there may be appeal by written representation, which accounts for 75-85 percent, and is dealt with by the planning inspector. Of these about one-third are allowed.

In spite of the high approval rate, the cost of appeal is still very considerable. For example, about 1000 enquiries per year, at £3600 each on average, amount to over £3.5 million. Very few cases ever reach the courts, as no doubt the local authorities are put off by the cost. However, the operating deficit of the Planning Inspectorate was about £13 million in 1995/5 and £25 million in the previous year. This is no doubt cheaper than putting the same business through the courts. Recently there has been a move to reduce the costs of appeal by introducing a pilot experiment in mediation. In this case the mediator meets the local authority and the applicant for planning permission in order to reach an agreement. It is surprising that applicants do not explore to the full, the scope for compromise during the negotiation that takes place between the applicant and the local authorities in the normal course of events.

At first sight there would appear to be advantages to this system, and the process can be justified by the reduced cost compared with appeal. However, assuming that planning permission is refused on the basis of some technical or financial obstruction which is not resolved in the normal course of negotiations, then the parties may be tempted, as a matter of course in future, to go through the mediation process in the hope of striking a better bargain. So the costs which are saved by avoiding an appeal may have to be set against the extra cost of mediation in a large number of cases. It is also a little bizarre that one of the parties to the mediation, namely the local authority should have power over the final decision (Barry Pearce, Personal Communication, 11 February, 1999).

There is generalized resistance to development where there is demand, but no clear economic incentives for development where it would be desirable or acceptable, yet unattractive to developers. In spite of the desire for employment creation and renewal, there is no explicit planning procedure for incorporating the benefits of any development in planning.

How the current land administration policy can be assessed in terms of the normal objectives of efficiency and equity is hard to say. Development will tend to move toward less efficient sites with least resistance, and where the tax levied is likely to be less if the local authorities are keen to encourage development. This may attract development to poor areas and be good for equity. However it is hard to avoid the conclusion that the negative forces in the planning of land use in the UK dominate. This reduces the rate of economic growth, and the scope for refurbishing and rebuilding the infrastructure in line with the demands of a new century in which technical progress is rapid. The law captures what has been, for most of the century, the British socialist desire to punish those who invest in land and to nationalize land resources and their product for the benefit of the people. As

with socialist regimes elsewhere, it contributes to the old, grey, and decrepit aspect which foreigners perceive to typify much human settlement in Britain.

A bird's eye view of planning

THE RECENT HISTORY of British land use planning is reviewed comprehensively by Cullingworth (1997). Cullingworth explains that the planning system was intended to be positive, backed by a political majority, in a planning milieu which supported the nationalization of land, compulsory acquisition and public development by local authorities. The ethos was meant to be positive, with a theme of developing the right land in the right place at the right time.

These objectives reflect hope rather than reality, and were doomed to failure because of naiveté of concept and difficulties of definition. Development was to be constrained by conservation of the countryside, historic buildings, and ancient monuments. Intervention included the notion of spatial distribution of economic activity in the best tradition of physical planning. The planning philosophy was essentially static with little emphasis on general or local economic growth, and little anticipation of social or technical change.

The Planners' Perspective

Driven by an anti-industrial zoning attitude, the planning system has become negative rather than positive, emphasizing objectives of containment which emerged in the 1940s, and reflecting the policy of constraining urban growth, allowing new towns to take the strain. It remains like that today with organized political obstruction to development, and popular support for the green belt to prevent "urban sprawl," derogatory words which serve the political purpose of those who resist all local development which affects them adversely.

At the same time the system has encouraged the emergence of cartels. Restriction of house building land raises profits for the few large builders who know how to work the system. Also the encouragement of a policy of ring road development involving supermarkets has increased their monopoly profits; this is especially true now that the policy has been reversed, and supermarkets are not to be built out of town, and contributes to the high price of food and other retail goods in UK.

Meanwhile development proposals face the problem that the majority will oppose them on the grounds that their interests are perceived to be adversely affected. Land and house owners, not to mention institutions which provide credit, using land as equity, do not wish to see the value of land fall relatively. The same applies to rural landowners whose *raison d'être* is an increase in land values, as the return on capital in farming has been at a derisory level for most of the post war years.

The planning system seems to be tacitly recognized as a political success at a local level. The power of the lobbies, often reflecting minority interests, to resist development is strong. In 1989 the Conservative government emphasized the desirability of reflecting local values. This emphasis does not, of course, encourage economic growth and employment creation, especially in areas which most need

new investment. It can be argued that perhaps we are rich enough not to force development in areas where the majority would wish to resist but this reaches the heart of the problem, since competition demands economic growth, just as the poor depend on it for a better quality of life.

Redistribution without growth is not really feasible, so the planning system, which favours a negative response, disfavours the poor for the protection of the privileged. Cullingworth says, in his review of post-war planning in the UK, that these decisions are not matters for local authorities but are regional or national issues. He recognizes that the old style preservation, plus the new environmentalism, not to mention the all-purpose apple pie concept of sustainability, all conspire to resist change.

Cullingworth rightly criticises planning in the UK for its failure to take account of socio-economic factors such as migration, immigration, household formation and population structure. He recognizes a weakness in planning in its lack of consideration of lateral integration and the optimal location of investment. But if planning cannot succeed in dealing with limited economic constraints, how is it to deal with problems which ultimately require to be treated as part of a general equilibrium solution?

This raises the aggregation problem which forever bedevils all economic analysis involving optimization, not to mention the political aggregation problems associated with federal structures. Cullingworth's wish for more integrated planning, including housing and transport constraints, reverts implicitly to the mid-century notion - now resisted even in socialist countries which practise physical planning - that government can choose efficient industrial investment even without consideration of the optimal location of such investment.

The plea for more positive planning harks back to the past, in contrast to the comparatively light touch reflected in *The Future of Regional Guidance* (DETR, 1998). However the desire to integrate transport policy and to put planning emphasis on a regional optimization basis, simply shifts the goal-posts without dealing with the aggregation problem, either at economic or political levels. Clearly we are in an intellectual vacuum where the disciplines of economics, sociology, architecture cannot combine in a context of human affairs. So what is planning but a form of dispute settlement in which planners, not lawyers, collect rents?

Cullingworth intriguingly inquires why health and education are so controversial, whereas the planning system is generally accepted. He cites in explanation the political support for a green belt as a restraint on urban growth and countryside protection. In Britain change is to be resisted and negative planning is institutionalized. The fort is held by the alliance of old style self-preservationists and the new age environmentalists.

Is there nowhere in the UK where there is support for new investment except in the old industrial areas which investors shun in favour of the suburbs? If resistance to change represents a genuine democratic preference, then we shall have to become poorer before we recognize the importance of encouraging inward investment locally as well as nationally.

Part of the problem seems to be the influence of pressure group lobbies such as the CPRE presenting prejudicial evidence and highlighting emotional issues. The

planning system has not attracted much intellectual criticism, which is not surprising with so many disciplines competing in a regime where politics rules. The old protectionism of the countryside has become the 'new protectionism' which sustains the equity in existing suburban settlement and provides excess profit enjoyed by those house builders who succeed in obtaining land, and for supermarkets built in advance of their recent prohibition in out-of-town sites.

The current planning system is an uneasy compromise between democracy and the worst risks associated with physical socialist planning. Moreover, many in Britain appreciate the pragmatic approach of the existing system, which is at least preferable to fully centralized interventionist concepts. However unless growth is tolerated in the areas where developers want to invest, or tax is negative where they do not, we shall increasingly become a heritage park reflecting the preferences of the middle-aged, middlebrow and muddle-headed. Without growth and reconstruction we cannot remain competitive and improve our environment which depends on new investment.

3. The debate in the US

Relevance

It is said that conditions in the US are different from in the UK and that a comparison of planning issues will be unhelpful. However, the major issues in US literature in the last decade cover those currently debated in the UK. These include zoning, or green belt control, population and housing problems, suburban versus central development, the automobile and the centrifugal flight from inner city taxes and poor public services. Planning debate in the US concentrates more on the trade-off between efficiency and equity as objectives of planning. In other words, the debate has more economic content. The UK debate is restricted to physical issues and regulatory control, which reflects the foundation of a planning system in the UK preoccupied with social, spatial, and physical planning, in which market instruments have little role to play, as currently reflected in the spatial determinism of New Urbanism (Katz, 1994, Calthorpe, 1993). New Urbanism assumes that compact development according to a physical master plan will conserve the environment, encourage nostalgic communitarianism and discourage car use. However the worst traffic is in the densest cities. By ignoring suburbanization as a safety valve, New Urbanism is bound to fail (Gordon and Richardson, 1998). Solutions demand more reliance on economic dynamism, in markets driven by competing entrepreneurs, and with more defined and enforced property rights as described by Mises and Hayek (1988). For a comparison between the neo-classical attempts to describe efficiency in markets and Austrian economics, which concentrates on the process by which markets approach efficiency, and associated contemporary debate, see Gordon's summary (1999) and Caldwell (1997), Rosen (1997) and Yeager (1997).

Objectives of planning

The theory that planning intervention promotes efficiency with equity is opposed by evidence that planning often produces inefficiency with inequity. In reality, all market systems involve heavy intervention, and the most socially planned systems are under pressure from markets, black or otherwise. We should perhaps forget the straw man of market failure set up by neo-classicists to justify intervention in pursuit of impossible market perfection, and embrace the potential of dynamic markets, in the Austrian sense, and Ricardian driven technology, to approach efficiency (Gordon and Richardson 1998).

Even in the US, where planning might help achieve positive social objectives, "planning has degenerated into negatives" (Gordon and Richardson, 1993) interfering with both property and individual human rights. Equally in the UK, Cullingworth draws attention to the negative aspects of planning and the desire for more positive thinking in the future (Cullingworth, 1999). Planning in the UK is reduced to the pragmatic practice of dispute settlement, with no very clear positive

objectives. Gordon and Richardson recognize the paradox in which command and control regimes in the former socialist world are being replaced by markets, while in the US regulatory and physical controls are becoming more common. Nor are planning decisions underpinned by democracy. Frequently only one-third of the electorate vote, with a small majority favouring control but representing perhaps 15 per cent of all voters. This democratic vacuum is filled by interest groups and minority lobbies. Local planning is not the result of democratic support. Apathy on the part of the voters may be rational given the cost of obtaining and interpreting information. This description of planning in the US in the 1980s is similar to conditions in Britain in the 1990s.

Why plan?

THE CASE FOR PLANNING INTERVENTION is summarized in Gordon and Richardson (1993). Planning counteracts market failure and markets, because of externalities and monopolies, are inefficient. So planning is necessary for efficiency. Alternatively, the market is relatively efficient, and planning is necessary to improve equity. Generally there is a perceived trade-off between efficiency and equity in which planners are responsible for an appropriate level of equity. Gordon and Richardson (1993, 1998) explain that market failure is greatly exaggerated where deregulation and privatization counteract rent-seeking behaviour, and further that monopoly is more common in government institutions than in markets.

Externalities are better countered, not through regulation by planners, but by improving property rights and by taxes and subsidies to simulate shadow prices. Moreover, public goods can be procured through the private sector, and where these are spatially defined, rent can be collected (Foldvary, 1994). This principle is developed by MacCallum (1997) who argues that proprietary community associations will dominate the future of human settlement, replacing political administration in an attempt to escape from heavy tax ineffectively spent in the cities, (Gordon and Richardson, 1998 after MacCallum, 1997). Malls providing services and security in invented streets are an example. Lastly, market failure must be traded against government failure (Wolf 1979, Mills 1987).

Centralization and dispersion debate

Clearly, agglomeration benefits have to be set against congestion costs which are reduced by low-density settlement. Factories and offices are increasingly situated in suburbs where employees want to work. This means most commuting is now suburb to suburb, offsetting the effects of central city congestion. The dispersion of economic activities is more drastic than implied by concepts such as a satellite cities and urban villages.

New technology in communication accelerates decentralization (Gordon and Richardson, *ibid*). Drucker (1989) says “office work rather than workers travel.” Evidence suggests that most growth in jobs occurs in the outer suburbs away from transit rail stations, even in transit planned metropolitan areas (Linneman and

Summers, 1991). At the same time Central Business District growth was negligible or negative. The top 10 cities in the US grew by just one per cent in the 1980s, and the Census Bureau gave up CBD employment recording in 1990.

Gordon and Richardson attribute the promotion of the resuscitation of CBDs to rent seeking coalitions which attempt to resist benign market forces. These lobbies are encouraged by interventionist governments which misuse tax revenue, which leads to further deterioration of the central city. Rent seeking is the natural enemy of creative destruction associated with economic growth (Gordon and Richardson after Olson, 1965). Downtown renewal projects are seldom demonstrated to be efficient (Sawicki, 1990), including downtown rail transit systems, convention centres, and gentrification of core neighbourhoods as entertainment areas.

These political investments have failed to reduce the decline of downtown areas. Agencies which invest in downtown renewal suffer a declining tax revenue from commercial activity in the recreational development area. Plans for meeting spaces have proved inferior to suburban malls, thus downtowns continue to decline, rail transit systems continue to lose passengers, and convention centres continue to claim large subsidies (Mills, 1991). Many projects are planning disasters (Hall, 1980), but reflect interest group successes.

In the US the oldest and larger cities support the most intrusive government, heavy regulation and deteriorating public services. This drives more economic activity from the central city, bureaucracies are strengthened and the cities increasingly become the resort of the poor and unemployed. In Los Angeles in 1990 almost all growth in jobs was outside the metropolitan activity centres and in the US since 1989 most job growth has been outside metropolitan counties (Gordon and Richardson, 1996).

Nor is compact development more equitable. Suburbanization is the result of the affluent population escaping the fiscal and social problems of central cities. New suburban communities can exclude undesirable households by land use controls which segment population on the basis of income, ethnicity and race, denying less affluent and minority populations access to suburban employment and amenities (Guiliano, 1995). Social equity demands a different approach to land use and transportation

It is not necessary to resolve the debate in the US or to verify statistics or their interpretation. What is clear is that the issues which have been the focus of debate in US are exactly those which are becoming more important in the current agenda of policy debate in the UK. Moreover, solutions which have apparently proved unsuccessful in the US are exactly those which are increasingly promulgated as solutions to be followed in the UK. It would appear that politicians and rent seekers in the UK are now ready to repeat, for their own benefit, the intervention patterns which seem to have been both inefficient and socially inequitable in the US. In view of the evidence from the US, we should think more carefully about proffering without careful analysis land use policy proposals which simply appear plausible or attractive to lobby interest groups.

Suburbanization

In both the US and Canada, declining population in cities seems to be associated with economic growth (Goldberg and Mercer 1986). Various explanations are attributed to suburbanization; for example there are more subsidies for car travel compared with transit. In fact evidence suggests the reverse, and that other transit subsidies (about 30 cents per passenger mile) were 50 times larger and increasing between 1981 and 1994 (US Department of Transportation, 1994). Auto subsidies should allow for congestion pricing and pollution taxation (about 10 cents per passenger mile) plus about the same again for parking subsidies in Los Angeles (Gordon and Richardson, 1995). The subsidies on the three items would amount to 22 cents per passenger mile, raising total auto subsidy to about two thirds of transit subsidy.

Is preference for suburban living a function of increasing incomes or is it due to other distortions in the market? According to Salins (1994), zoning constraints, high density development, and multiple land use, inhibited the rate of inner city reconstruction. The failure to use markets and privatization for the provision of education and other infrastructure services contributes further to the decline of the inner city.

Energy saving

The case for penalizing road transport on the basis of energy saving gets weaker by the day. The current price of oil is well below its 1974 level, as is energy consumption per capita (Bohi and Darmstadter, 1994). According to Simon (1995), all raw materials are becoming less scarce. Oil reserves in the US are 50 per cent higher, gas reserves have increased four times and coal has doubled in contrast with the doomsday forecasts of the 1970s. In the US, energy resource constraints are considered a weak argument for compact development (Gordon and Richardson op. cit).

Suburban isolation reduces demand for inflexible rail transport, and huge subsidies have not halted its decline in the twentieth century. None of the new rail cities developed to take advantage of rail transit systems since World War II demonstrate an increase in the share of rail in the commuting of the 1980s. In fact nine cities show a decline. The Congressional Budget Office concluded, "despite more than 25 years of federal assistance, mass transit carries only about five per cent of people who commute...the other 95 per cent mostly used automobiles."

New federally assisted transit systems have not added to mass transit; instead they have replaced flexible bus routes with costly fixed route services to a few downtown areas, while the growth in jobs and population has been in the suburbs and in the smaller cities. At the same time, transit costs are rising. Transit fleets in general are greatly under-used (Congressional Budget Office 1988, Meyer, Kain and Wohl, 1965 and Pickrell, 1989).

Cervero (1994) says that planning "development near transit....will have little bearing on people's travel choice." In fact shorter and cheaper car journeys could increase the number of journeys and reduce the number of vehicle miles travelled. The relationship between different types of development, particularly compact or suburban, and the total amount of car travel is still unclear, and there is little evidence that new developments related to rail transit systems would divert many travellers from private cars to public transport (Downs, 1994).

Gordon and Richardson added the comment to this evidence that substituting buses for rail would not work either, because most of the trips are too long to attract much patronage. However, the car is rapidly becoming the ultimate Rorschach test of political and social attitudes (Hayward, 1997) as reflected in New Urbanism and neo-traditional designs of communities and neighbourhoods (op. cit. 1998).

Gordon and Richardson explain that industry moves to suburbs following the labour force, so commuting from suburb to suburb reduces journeys and congestion; “suburbanization has been the dominant and successful congestion reduction mechanism.” This is supported by all recent national survey data and by recent household surveys which relate city containment to commuting time. Decentralization is the traffic safety valve according to the evidence.

The reverse of compact development is urban sprawl, a concept used pejoratively in the US and elsewhere to describe ribbon development and leapfrog suburban development common in the UK. Althshuler and Gomez-Ibanez (1993) say that none of the research supports the fear of urban sprawl, except perhaps in NIMBY terms. Peiser (1984) adds powerfully that infrastructure savings in planned, as opposed to unplanned, development were small. Most Americans prefer suburban lifestyles and to attack suburbanization is silly, given the acceptance of consumer sovereignty.

Gordon and Richardson conclude, quoting Baumgartner (1988), that “the moral superiority of core city programmes is highly dubious. They...divert resources towards projects that enrich favoured developers and their political allies supporting downtown projects.” Advocates link downtown capital projects with inner-city revitalization and redistributive agendas. However, their pork barrel and regressive nature is well established. In Los Angeles, downtown projects account for more lobbying activity than the entire California State government.

Parking policy and experience

Parking is central to the problem of planning new development in both cities and the country towns. The most recent experience is reflected both in the research literature, and in policy in California. This experience is encapsulated in the work of Shoup, who criticizes the current policy on parking, which adds to development cost which is then passed on to all consumers

“Urban planners typically set minimum parking requirements to meet the peak demand for parking at each land use, without considering either the price motorists pay for parking or the cost of providing the required parking spaces. By reducing the market price of parking, minimum parking requirements provide subsidies that inflate parking demands, and this inflated demand is then used to set minimum parking requirements. When considered as an impact fee, minimum parking requirements increased development costs by more than 10 times the impact fees for all other public purposes combined. Eliminating minimum parking requirements would reduce the cost of urban development, improve urban design, reduce automobile dependency, and restrain urban sprawl.” (Shoup, D.C, 1997).

Parking cost

“MINIMUM PARKING REQUIREMENTS raise the cost and reduce the density of development (so) the cost of parking is then shifted into higher prices for all goods and services including housing. Everyone but the motorist pays for parking.” (Shoup, *ibid*, 1999). It is comforting to know that, even in California, planners still operate on a very physical basis, neglecting the potential for using markets to economize on resources, and ignoring the cost of physical provision for parking. New buildings are required by law to provide adequate space for free parking but “Minimum parking requirements hinder development, discourage shared parking, increase the demand for zoning variances and degrade urban design.” (Shoup D.C, 1999).

The law in California requires that commuters are offered cash equal to the subsidy cost of free parking. Shoup demonstrates that, as a result, single drivers travelling to work fell by 17 per cent, car poolers increased by 64 per cent, transit riders increased by 50 per cent and walkers and cyclists increased by 39 per cent. In a survey of major firms, miles travelled for commuting fell by 12 per cent, reducing carbon dioxide emissions. Tax revenues increased by 65 dollars per employee per year, as tax-exempt parking subsidies were traded for taxable cash.

Offering cash can benefit commuters, employers, taxpayers, and the environment, by subsidizing people not parking (Shoup 1999). So the developer pays a fee for every parking space not provided, but required by the planners. The tax revenue allows the city to provide parking spaces for the public, setting a fee which could vary by the hour to target a 15 per cent vacancy at all times, so that demand for parking is rationed by price and space is always available.

Shoup explains that the trouble with minimum parking requirements is that urban planners fix these for any land use to satisfy demand for free parking. This results in free parking for 99 per cent of all car trips in the US. Minimum parking reduces the price but not the cost of parking, which adds to the cost of development. This increases the cost of all goods and services at sites which offer free parking. Shoup says the external cost of parking in cities may be greater than all other external costs combined and concludes that planners should organize on-street parking at a price rather than require off-street parking to be free. On-street prices can be set to ensure that there is a 15 per cent vacancy for parking at any time of the day.

It is clear that parking policy is a vital and intrinsic part of development planning in cities and elsewhere. It is also of major importance in any policy which endeavours to control the use of the motor car. Shoup (1999) adds that minimum parking requirements for new developments could be treated as the impact fees, and varied according to the land use associated with the development. Somewhat atypically, British planners in some cities are well aware of these possibilities, and the impact fee at 20,000 dollars per space in a Kingston upon Thames supermarket is on a par with Beverley Hills in California and Hamburg in Germany.

Shoup explains that in-lieu parking fees do not impose an added cost on developers but give them an alternative to providing the parking required by the planners by

paying an impact fee. Sometimes planners set the impact fee below the cost of providing a parking space on the grounds that the full cost would be too high and Shoup observes “when the cost of required parking is hidden in the cost of development, cost does not seem to matter. But when the cost of required parking is made explicit in cash, everyone can see it is too high.” (ibid, p10).

Shoup approves of the proposal in Britain to require the provision of parking spaces, then tax them (Personal Communication, January, 1999) providing a dependable source of tax revenue. Given reservations about the level of total taxation, it is hard to say if the tax it displaces would add to efficiency. But, more importantly, if the car is taxed wherever possible, the total tax borne becomes less than transparent making it hard to find a reasonable level.

It is not possible to do justice to this seminal work on parking policy in the US which is so vital for land use policy in cities and which has deeper implications for efficiency and equity. It is not exaggerating to emphasize that, without a coherent policy for parking, land use planning is barely worth the name. This account of research in parking policy in the US should illustrate its relevance in relation to land use planning reform in Britain.

4. Issues in planning

Regulatory rape

BEFORE CONSIDERING the possibility for change in the UK planning system it may be useful to summarize the cultural milieu which underpins the present system. Only then will it be useful to consider the extent to which possible changes could be radical, or incorporate minor adjustments more likely to be politically feasible. As the above shows, the objective was in, the latter half of the century, to nationalize land at a time when many of the major industries in the UK were run by the state. Nationalization was achieved in a relatively sophisticated way, not through state ownership but by regulation of the control over all development. This took place at a time when most governments in Western Europe favoured highly interventionist and planned economies, and were much more socialist in terms of economic policy.

Meanwhile, contemporary thinking about planning reforms in the UK swings between the sublime and the extreme. The sublime is represented by a fond hope that planning could be less negative in a culture famous for its pessimism and resistance to change. The extreme is represented by the plea for a land tax, following Henry George, to replace current attempts to capture for the state the benefits of development and planning gain. In the latter lobby there is no whisper of the importance of restricting, if not reducing, tax take in Europe to stabilize a new currency, to maintain growth, or to encourage regeneration where tax is preventing it. There remains unchallenged the assumption that tax taken by the state will be spent more effectively with respect to both efficiency and distribution.

The cultural milieu of planning in the UK

Over the last half-century policies have changed, particularly in Britain, with the introduction of privatization and the understanding that the state can intervene adequately through regulation without requiring ownership of industry. Eschewing nationalizing land in favour of regulation of development was a sophisticated arrangement at the time. However the attitudes which now dominate, politically and socially, mean the approach to regulation remains Neanderthal. An example is the retrospective utility windfall tax which adds to uncertainty, thereby raising cost and discouraging new investment.

There is now political allegiance between the right-to-roam lobbies and the rich. The former focus on the notion that resources are free and should be owned by the

state and provided free for all. This approach is reflected in Scotland where water has not been nationalized because the majority feels it is provided free by God. This makes the political difficulties of privatization insurmountable. The rich and bourgeois favour preservation of the environment in which they live, producing the NIMBY syndrome.

This produces a negative approach to planning controls which inhibits the overall rate of the reconstruction development, and economic growth, which sooner or later enrich the poor as well as the better off. Of course there are devastated areas where planners would welcome investment, but which do not attract investors for both social and infrastructural reasons. The case of Sheffield, returning to grass areas where no one will live, is an example to be considered.

The present negative approach to planning may be politically the most acceptable. Support for the status quo exercised through lobbies from both the right and the left of politics is extremely strong, particularly in the richer and more developed parts of the country. In contrast, the reduction of rural deprivation is increasingly seen to depend on non-rural sector investment, and development in the countryside and in rural market towns.

New, but hardly radical, thinking about planning in the UK seems to concentrate on approaches which have been found wanting in the US over a decade ago. Examples include inner city development, and not slackening the green belt, except perhaps for housing. They also include more tax on the motor-car, jokingly said to be hypothecated. Regrettably there is less emphasis on the potential for toll roads and bridges and the swift introduction of road pricing.

There seems to be little consideration of the changing social structures in rich and poor countries. For example, the poor and the young seem increasingly to prefer the controlled environment and entertainment potential of the extensive shopping mall. Meanwhile a countryside considered to be worth preserving may attract at weekends only a clutch of Volvos, a few retrievers and too few people to start a football match. Any beneficial and lasting changes in the planning regime in the UK will have to take account of these cultural and political realities.

There is much experience to show that policy changes take place only when the bank is broken. Clearly Britain can at present sustain a planning regime which inhibits economic growth and raises consumer prices. This may not last forever, and efforts to promote growth may be vital in our next recession, especially if the Japanese recovery experience is to prove relevant in the West. Meanwhile, unless planning can become more positive and flexible, not to mention efficient and equitable, the British will be condemned to live just as foreigners perceive them, in grey human settlements where the speed of reconstruction is slow in relation to current and expected future standards of living. Moreover, planning must anticipate social change to be worth its name.

Planning governance - unpredictable and not transparent?

PLANNING IN THE UK lacks a fundamental statement of objectives, political or economic. Legislation that governs the planning system has nationalized land in all but name and has subsequently tried to capture for the state the increase in the value of land which results from planning permission. The main technical objective of planning seems to have been to control the type and place of development such that it conforms in theory with the scheduled development plan and is sometimes substantially out of date before it is completed. Any appeal against a local planning decision has to be based on the fact that due process has not been followed in assessing whether or not the development falls within the plan. There seems to be no other clear criteria for assessing the desirability of any specific development. Any decision at a local level can be overruled by the Secretary of State on the basis of criteria which are less than transparent, not to say unpredictable.

Objectives of planning in the UK

The basic county plan, with which developments have to conform, seems to be constructed on an intuitive, physical and spatial basis, after taking preliminary soundings from the local parish authorities, both arbitrary and intuitive. Therefore the process provides for political voting insofar as this is reflected in local government deliberations. The county plan and the developments which are deemed to fall within its constraints provide a framework for a political decision process reflecting cosmetic and very rough spatial considerations, without reference to the effect on growth or efficiency either at local or national level. Worst of all, indirect costs of a development are to be absorbed by the developer, who is not similarly credited with the benefits. These include a contribution to economic growth and employment, and to regional and urban reconstruction. As with international attempts to improve the environment, market based instruments are resisted at every stage even after treaty agreement (see the Kyoto agreement on national emission controls).

Any reform of the present system of land use planning is likely to be mild rather than radical and to fall within the present unclear and implicit objectives. In other words, like the planning system, changes are likely to be pragmatic. Any radical change, as the introduction of the poll tax demonstrated, is likely to be resisted irrespective of its merits. As explained above, the culture of planning in the UK is negative and favours preservation above everything else. Arguments that development promotes either local or national economic growth will fall on stony ground if local objectors do not personally benefit, and if the Secretary of State does not feel it is politically worthwhile to alter the local planning decision.

The present system seems generally thought to be relatively efficient in political terms. Another defence of the present system is the difficulty of suggesting an improvement which would stand a chance of approval given the present culture. Some economists would like to see more weight given to economic voting, which they consider to be more sophisticated than political voting. In other words more economic information might underpin the political decision. Indirect benefits as well as costs could be calculated. However any cost benefit analysis promoted in consideration of national social welfare is unlikely to cut much ice, especially at local

level, where the perceptions of prospective winners and losers determine the voting pattern.

The winners and losers associated with a development include local politicians, planners and administrators, developers and their various agents. The governance which determines their decisions is less than clear to the general public. Appeals are increasingly dominated by minority lobbies, sometimes local, but often national. These lobbies will climb trees and bury themselves in inaccessible holes in the ground to obstruct a development which may have been approved at both local and central government level.

Meanwhile the public, as in the US, has a diminishing interest in local politics such that a small minority can be transformed into a majority by the percentage turnout. At the same time there seems to be little accountability on the part of local politicians for the position they take in planning decisions. These are dominated by party politics such that local elections tend to follow the political swing, which in turn reflects current national propensity. Indeed, a recent development (to build warehousing at Alconbury Airport) was resisted by the party responsible for putting in the plan, but which no longer held a majority. It is thus by no means clear that the local planning system is efficient even in reflecting local politics.

Betterment and planning gain

Much of the effort in the planning system in recent decades has been directed at collecting for local authorities the increase in the value of land bestowed by the grant of planning permission for a development. In contrast, infill and extension development creates a gain not subject to development tax (Hall and Ward, 1998). In the post-war period tax has been collected in the form of a betterment or development tax. More recently, tax has been levied by the local authority in the form of planning gain, as some addition to a development in the form of infrastructure or amenity provided by the developer as a condition of planning permission.

Increase in the value of land which did not reflect a direct action on behalf of the owner was regarded as betterment. The contribution made by owners with foresight to buy and hold land, perhaps for many decades, is not regarded as investment to be rewarded. The development value of land is regarded as the difference in value between existing use and use after development, but excluding benefits which derive from planning gain. It is also affected by infrastructure provided by local authorities. So it is not unreasonable to recover a so-called user charge from the developer.

Planning gain is often wrongly assumed to come out of developers' excess profits, and to be captured for the community. As Grant (1999) rightly says, competition ensures that developers will not invest in schemes which do not provide a rate of return commensurate with the risk on each project, so the cost will fall largely on the landowner. Often a developer will hold an option on land receiving planning permission, so the propensity to hold land will be affected, as will the propensity to sell, such that land markets will carry the extra costs of risk. Meanwhile, the funds go to the government where efficient use is unreliable. Gains are not calculated, losers not compensated, and incentives for development reduced.

Any development will also be associated with negative and positive external effects. The negative effect imposes a social cost, and it seems reasonable that the local authority should attempt to internalize it and to recover it from a developer. This is termed in the US as an *impact charge*. External benefits conferred by development are explicitly ignored, but may implicitly affect the bargaining stance. However the extent to which a development enjoys the benefits of adjacent development provided by the private or public sector has been regarded as a taxable component of the development value, albeit with rather weak justification (Grant, 1991).

Of course, the valuation of development after allowing for deductible cost is a nightmare, or a bonanza for valuers, depending on one's point of view. The difficulty of valuation has been the major factor in thwarting land tax in spite of three attempts to introduce it. As a result, the pragmatic approach involves developers being asked to make a contribution to site development as a condition of planning permission.

In due course the courts decided that conditions imposed on developers must be reasonable, such that the developer could not be required to provide a public good that is not an intrinsic part of a development, nor to pay a charge imposed by the local authority for such a public good. Consequently, planning gain considerations whether in cash or in kind are now beyond the interest of the public sector, the courts or appeal to the Secretary of State. As a result local authorities now make private agreements with developers.

As Grant (1999) says, the pragmatic result was betterment tax under another name, but without the associated problems of valuation. The courts are no longer interested in disputes in the context of planning gain, and no legislation has emerged to fill the vacuum. Government prefers regulation which is less transparent and less predictable. Classification of the components of a planning gain or betterment levy, or their justification, have become academic in favour of a levy which is partly a tax, partly a user charge, and partly an impact fee.

It is fixed at a pragmatic level, albeit constrained by a plethora of guidance notes, which after negotiation is bound to reflect the market value of obtaining planning permission. The imposed charge has an upper limit, above which the development will not proceed, and can be levied without costly and contentious valuation. The main disadvantage seems to be that the tax is hypothecated and sometimes generates a public good that the public might not otherwise wish to pay for and may not greatly value. More likely the public good provided is one which is perceived to be buying votes for the local councillors who determine its nature. These implications are important in any consideration of where to go from here.

Planning gain

IN SPITE of the central importance of planning gain and betterment in the planning debate, there is no generally agreed definition of these terms (Boucher and Whatmore 1990). The concept arises when the developers offer an additional asset, service or payment, to the local authority in return for planning permission which they would not otherwise get. The proposal is outside the provision of the local plan, otherwise the developers would be expected to receive planning permission,

albeit after appeal. The variation from the plan may incorporate elements of location or the quality of building. In the past, the developers might obtain planning permission in return for provision of additional assets, rather than the payment of cash, which is now more common. It is assumed that assets so provided do not increase the value of the development.

Planning gain, who gains? who loses? who cares?

Planning gain assumes the developer gets no financial benefit other than planning permission. In other words, the community must gain an asset as a result of planning control. If planning gain is paid in cash, it must be for a specific purpose and may go to local or central government. So, as Bowers (1992) says, planning gain differs from betterment in that it is hypothecated; taxes are levied on developments within the plan, whereas planning gain assumes variation from the plan. Planning gain follows bargaining between developers and the planning authority.

Bowers (ibid, 1992) pursues an analysis on the basis of economic rent which arises firstly where some land is more productive in development, secondly, where infrastructure is necessary and benefits the development (betterment) and, thirdly, where planning control restricts the supply of land and raises the price. It is hard to distinguish, however, whether rents are raised by investment in infrastructure or by restriction of the supply of land, or perhaps both. Sometimes both sources are classed as betterment, which can change on any site at any time through the provision of additional infrastructure or amenities. External diseconomies are used to justify planning control which produces rent, and justifies tax. No account seems to be taken of external economies conferred by a project in terms of economic growth, amenity, and environmental improvement or employment creation.

Bowers concludes that planning gain “is to exact compensation for the social costs imposed on the community by departures from the development plan” (ibid, p1331) and, after analysing Keogh’s (1985) model, that “the bargaining process produces superior social outcomes” but which are “not necessarily superior to the allocations without planning controls” (op. cit p1334). “The danger lies in situations where the authority follows a policy without regard to social costs, or where social costs cannot be estimated as would be normal,” in which case the free-market outcome is the best.

Rent seeking and planning

Bowers assesses an alternative approach in the work of Evans (1982), which regards planning gain as expenditure on rent seeking. Planning controls produce economic rents which stimulate rent seeking. Competition in rent seeking is best thought of as developers competing to acquire ownership of land with the potential for rent seeking (Bowers, ibid p1335). Evans concludes that rent seeking imposes social costs of pursuing planning decisions at variance with the land use plans. Various approaches include designs which anticipate prejudice of planners, use of experts, information tours for those thought to influence local authority decisions, entertainment and even bribery. Subsequently Evans (1988) separates planning

gain from these activities and concludes, “the appropriation of gains to the community in this way is of greater economic value than their dissipation in the form of rent seeking expenditure”.

Bowers says Evans once considered planning control as a method of compensating for external diseconomies but now thinks the planning system is undesirable, “inhibiting enterprise, reducing the quality of urban life, distorting pattern of investment, reducing savings and export competitiveness...wasting resources in useless rent-seeking” and reducing national income by 10 per cent or more (ibid, p1336). Bowers himself concludes planning gain involves “immediate and tangible benefits to offset frequently uncertain and generally unquantifiable costs.”

Moreover, “local interest is in general not adequately accounted for in the planning process. Betterment levies accrue to the national government and not to the local community. Planning gain typically does accrue to the local community and, provided that it cuts into betterment and does not simply compensate for the negative externalities of development, helps to overcome this problem.” So after this very sophisticated economic analysis, Bowers concludes with the question, requiring further research to answer “whether the costs imposed by planning gain outweigh the benefits” (ibid, p1338).

So what are we to conclude from this detailed legal and economic analysis? Regrettably not a great deal. The system seems to offend all principles of good governance. It is patently non-transparent, unpredictable, and unaccountable. The costs of the system associated with rent seeking and the negative effects must be considerable. No one appears to be really satisfied. The aesthetes think “antiquated planning laws have allowed rapacious developers to bulldoze the heart out of our towns” (Scruton R, *The Times, Weekend*, 5 January, 1999). The greenfield lobbies are currently livid at the thought of another half million new houses, some on greenfield sites. Lawyers think the system to be ramshackle; the economists cannot decide without further research if the system is better than the free market, and the planners think the system is negative and needs to be more comprehensive.

Local authorities do not seem to mind much, and presumably think they are collecting some rent, not to mention votes from the system. The valuers and surveyors seem to prefer a taxation system which requires regular valuation. The developers simply deduct the costs of the system, including costs of uncertainty, from the price they pay for land. Large developers who already own land can capture some of the benefits of the monopoly via planning permission exercised by local authorities. The vast majority who depend for their leisure and necessities on urban shopping facilities, and the comfort and entertainment value of the shopping malls, do not care even if the system increases consumer prices. The time is ripe to go back to the drawing board.

The green belt and housing

No assessment of land of policy in the UK can be complete without mention of current stresses associated with the green belt (generally regarded as a political success, although too tight for developers and too slack for NIMBYs). The green belt was first established around London in 1938, and development within it required council permission. The Town and Country Planning Act of 1947 forced

developers to obtain planning permission from local authorities, and several green belts were established in the 1950s. By 1990 it affected nearly 4 million acres, or 12 per cent of the English countryside and defines an area in which there is a clear presumption against development.

There are exceptions for agricultural buildings. The green belt campaign led by the CPRE as the leading lobby group was supported recently by a campaign in *The Times, Weekend*. An area the size of Bristol or 100 square kilometres, is built over each year, adding about 0.8 percent to all land built on. An area greater than London, Berkshire, Hertfordshire and Oxfordshire combined has been built upon since the war. At this rate one-fifth of England will be urban by a 2050 according to *The Times, Weekend*.

In 1995 nearly 6.0 percent (Hall, *ibid*, 1998) of the farmed area in England was set aside and unused but supported by subsidy. In areas under pressure for housing such as Essex, Oxford, Buckinghamshire and Bedfordshire, the European Union set-aside exceeded 10 percent of the farmed area.

The current pressure follows government attempts to accommodate, in 25 years (1991-2016) a projected net increase of 4.4 million, and possibly 5 million, new households. This figure is regarded by *The Times, Weekend* as “guesswork to justify a corrupt alliance between national and local government and the construction industry” and without foundation (*The Times*, leader, 27 March, 1999). Meanwhile 600 sq. km of urban land remains unused (*The Times, Weekend*, 30 January, 1999). Presumably *The Times, Weekend* was unaware of the sources explained in *Projections of Households in England to 2016* which reveals the cavalier level at which such serious matters are debated in the UK.

Government (*The Times*, 31 March, 1999) has now revised the estimate to 3.8 million homes by 2021 which is regarded as a step in the right direction (*The Times*, letters, 2 April, 1999). Meanwhile nearly 1 million houses are unoccupied, no doubt many of them because of current regulation and legislation affecting landlords, which includes the regulation that renting two rooms to different parties who refuse to be treated as partners requires the fitting of fire doors and other expensive modifications. Moreover, 15 percent or 3 million dwellings are in serious disrepair. Mobilising these resources might help reduce the need for building on greenfield sites.

Apparently, the major requirement is for starter homes for singles, one parent families and the old, whereas builders prefer executive houses. It is a consequence of restricting the supply of land that more expensive dwellings will be built where building is allowed. One would expect builders to be better judges of the market than the chattering classes. Objectors say there is nothing to match type of homes and needs — a notoriously subjective concept which may not take into account market reality. For example, singles may not want small houses or flats (Housing in England, 1995/6). John Prescott, Secretary of State for the Environment, has said it is time to stop “the predict and provide policy” on which forecasts depend. The CPRE says “we’re living in a rural policy vacuum” and green rather than recycled land is being built on.

It is now agreed that planning raises land and house prices and densities, but Bramley thinks liberal policy on housing land would not drastically reduce problems (Hall, 1998 after Bramley et al, 1995). By some obscure logic termed the

implementation gap, presumably planning speak for lagged response, the price response to the release of large amounts of land might average between 4.5 and 7.3 percent over a period (Hall, 1998). It might indeed, but more likely the market would anticipate a fall in prices given the threat of a more liberal land constraint. Like Greenspan on American equities, it might be feasible to talk prices down. But Bramley, Eve and Hall, who quote these forecasts, doubt the gain would be worth the environmental and political costs. The question that arises is *worth what to whom?* Are planning decisions now a matter of consensus among the chattering classes?

Planning housing

CURRENTLY, STRUCTURE PLANS are being reconsidered for housing for the next 20 years and will determine what land is built on. Current projections of so-called needs for housing are said to assume immigration levels which have not been experienced since the 1950s. Net flow of population is extremely difficult to forecast, given recent experience. But the assumed figure of 55,000 net for England was exceeded in 8 out of 11 years to 1997 (ONS, 1999). Government also seems to have underestimated growth in cohabitation, which shows that the number of adults living together has doubled since the 1980s. Moreover, reduced housing benefits and charges for education may result in more young people living at home. So we are obliged to head back to the statistical drawing board and a revised policy which deals with the streets of abandoned housing. About 0.75m houses are said to be empty (BBC Today, 15 February, 1999), 0.25 million of them for over a year.

The impact of planning control in the UK, as it affects housing and the green belt, was analysed recently (Monk and Whitehead, 1999). Land release is planned to take account of land needed for housing, the economic cycle, and different approaches at a local level. Had the system of land release been designed to defy analysis of its impact, it could not have been more effective. Household forecasts criticized above are determined centrally after contribution at each planning level, and subsequently disaggregated by county planning authorities using different models to forecast dwelling requirements; in each district the land release figure is translated into actual sites.

The analysis in Monk and Whitehead combines comparative statics with a behavioural approach, and concludes that planning has a general effect on prices and output. The situation is not equivalent to a system without planning; constraints on land supply in one area pushed up prices in all areas (*ibid*, p90). They found that the planning system reduced variation in housing density, and that more land in one place could not fully substitute for constraints upon supply in another (*sic*). The outcome was more expensive, reduced supply, and did not succeed in meeting the goals of planning.

The system is regulated such that it is structurally incapable of ensuring that a national goal is met. Data is insufficient to assess the planning constraint, and

behavioural analysis alone is not enough (ibid, p92). It might be added that in all policy analysis the counterfactual makes opposing interpretations defensible.

The green belt

AS GREEN LAND DISAPPEARS, the problem of decaying cities remains relatively untouched in current policy. These recent developments do not conform with the white paper *Planning for Communities of the Future* (February, 1998), stating “the government remains strongly committed to green belt as a means of protecting our countryside...Protection accorded to the green belt remains as strong as ever.” This contrasts with a more recent statement in November 1999 that “the green belt is up for grabs as much as it has ever been.” (*The Times, Weekend, 23 January, 1999*). The CPRE thinks it easy to relax the green belt on the urban fringe and so it fails to prevent urban sprawl. Against the advice of the government-appointed inspector, the government is giving planning permission for development in the green belt.

Everyone seems to think that estimates of future household needs are wrong, but some experts say this is because they are overestimated, while others say they are so underestimated that, according to the Minister, development beyond the green belt is inevitable. Some think, as described elsewhere in this paper, that transport policy must be integrated with housing. But that actually makes the problem more difficult and does not deal with the divide between local and national politics. In summary, the green belt deals with symptoms, and not with causes which require more fundamental approaches in both political and planning terms. It can always be claimed as a partial success, however, as it is argued that countryside loss would have been greater without it.

Privatization and land reform

Not much interest has been shown in recent years in extending the benefits of privatization to land, as opposed to state-owned industries, apart from the initiative in Scotland announced on 7 January, 1999, involving the compulsory sale at government valuation of large estates, considered to be badly managed, to the crofters living on them. A proposal, as part of this initiative, allowed for compulsory purchase. Rural farm income is about equal to state subsidy (McFarquhar, 1996). Large estates are subsidized both by the state and by their current owners, such that their fundamental market value is probably negative. However, dispossession, even with compensation, of large landowners in Scotland is likely to be as popular as it was in Kenya in the 1960s and currently is in Zimbabwe. This will be seen to settle some old scores going back to the clearances some two centuries back. It will discourage inward investment, but it may give an advantage to Labour over the Scottish Nationalists in the opinion polls as “an impeccably left wing cause (which) makes political sense” (*The Times, 1 January, 1999*).

Corkindale has recently proposed the privatization of land development rights in Britain (1999). However, as with many proposals for privatization, there is little incentive to move from the status quo while the associated transaction costs remain

unclear. Like land taxation, privatization tends to be promulgated on an ideological basis. Of course land remains privately owned, with only development rights owned by the state. So a less radical revision, intended to allow greater play for market forces, would involve gradual deregulation of current control.

There has not been much interest in this direction, except perhaps in the shape of the recurring proposal that planning permission might be auctioned or sold. Developments along these lines are made more difficult by the connection between the specific proposal to develop a piece of land, and the price that would be paid for planning permission. A specific proposal is only one of many alternative possible proposals to develop the same site. The planning authorities would have to exercise choice over the detailed technical development, and specify all constraints when selling planning permission. This does not allow the private sector much creativity in the process of the development.

An alternative might be to allow tenders for a development more loosely specified by the planners. This line of deregulation is not facilitated by the fact that certain developers already own most of the land scheduled for development. Of course, a developer who owns land need not be the developer who eventually builds on it. Nevertheless some progress in this direction may be possible, although the dynamic implications are difficult to assess, as always.

These possibilities are somewhat overshadowed by the DoE guidelines on environment impact statements (EISs), an essential condition for planning permission under a European Union directive which specifies how the impact fee should be calculated and added to the infrastructure fee. However, any fee might make a development unprofitable. There is a strong case favouring preparation of an EIS in physical terms but not the valuation of component in a numeraire subject to contention because of the complexity and the arbitrary nature of valuation which will obscure the components (McFarquhar 1999). It might, perhaps, be better to make physical environment constraints a condition of planning permission, then auction, or ask developers to include environment considerations as a variation on planning gain, and tender a fee for planning permission. Planning permission would depend on the most attractive proposal being acceptable.

As Corkindale says, environment and infrastructure impact fees could be subject to judicial review, as in the Ontario system and the impact fee might be used to compensate third parties. The courts in both the US and the UK have difficulty dealing with the concept of discounting in valuation (Lavers and McFarquhar 1989 and Castle and McFarquhar, 1999). To add the difficulties of cost benefit analysis, including valuation based on arbitrary social prices, would provide a costly diversion for all concerned.

Corkindale suggests that impact fees could be used to compensate third parties, but it is hard to see how these would be measured, and the degree of adverse impact assessed. Airport noise footprint is a good example. How would a line be drawn beyond which compensation would not be payable? Or would it be graduated according to degree of noise suffered? And how would one deal with the problem that property values are usually increased round an airport in spite of the noise footprint? While sympathizing with Corkindale's propensity for deregulation, it is difficult to see how it would work in specific circumstances. Possibilities must be explored, however, particularly in view of the European Union pressure for further regulation.

5. Subsidiarity and tax reform

Local government emasculation.

RELATIONS BETWEEN CENTRAL AND LOCAL GOVERNMENT in the UK have always been unclear and determined more by cosmetics and rhetoric than reality. Local authorities have been treated rather like once-nationalized corporations and provided with a grant by central government to balance the books. Central government determines the pattern and level of local government expenditure, leaving local government with little flexibility except within sector budgets. In such an arrangement there is little opportunity for local initiative, and local government councillors have to do the best they can to avoid unpopularity with influential lobbies, and to buy votes with the resources at their disposal. Local authorities are forced to tolerate a uniform business tax, leaving no room for a relative welcome for inward investment where that is politically agreeable. This means that local government is largely an administrative arm of central government and local politics are emasculated.

The federal, regional and local problem

Recent developments in devolution, giving more power to Scotland and somewhat less to Wales, are proving increasingly destabilizing for the UK constitution. The result of this ill-considered “monkeying about” with the constitution (*BBC, World at One*, 27 December, 1998) has been to create, at least in Scotland, greater momentum for self-government as a state within the European Union, and tax wars are already in train (*The Financial Times*, 7 April, 1999). In the 1999 May election, Government pledged a cut in income tax and the Scottish National Party to repeal it, even though public spending per head in Scotland is 20 per cent above that in England. This is not sustainable, since income per head is now similar in the two countries. Thus Scotland has some marginal tax raising powers, while the Treasury controls spending. Devolution increases transparency and the new Regional Development Authorities (RDAs) in England will mean tax wars there also.

In spite of little demand, eight regional authorities have been created in England to mirror the changes in Scotland and Wales. While there are Ministers to speak for Scotland and Wales in Westminster, who is to speak for England? This new constitutional instability is particularly important for any reform of local government. Indeed some authorities (Cullingworth, 1999) suggest that a regional layer of government between local and central will improve planning decisions. It will clearly be good for the so-called economic rent collectors and for job creation in

the ranks of local government officers. But it is not clear how it can be expected to improve local government planning, either in political or economic terms. At the moment there is no good way of reconciling the need for new investment and economic reconstruction with a propensity for local objection.

This arises because of the paradox of resistance to where developers want to invest, and a desire for local investment where they do not want to develop. Another layer of government will simply create conditions in which local objection is reversed at regional level only to be brought back at the national level, or vice versa. Planning decisions will be more exposed to the vagaries of layers of politics with different interests, like the courts. This type of behaviour was illustrated by the recent decision of the Law Lords in the Pinochet case, voiding their own "final" decision on the basis of an undeclared interest on the part of one such arbitrator after a series of reversals in the lower courts.

Another layer of regional government will not help to clarify how far a development is in the local, national, political or economic interest, but will simply provide a forum for emasculated officials and politicians who have minimal control over taxation and little over spending. The same applies to tax legislation for the new Mayor of London, which remains in full control of the Treasury. (Jenkins, *The Times*, 21 December, 1998) Alternatively, and against the principle of subsidiarity, the local authorities will be even more irrelevant and the nation state will be squeezed out as the RDAs increasingly seek funds in Brussels, where they have established permanent offices. Meanwhile, the European Parliament will take the opportunity to buy votes in the regions, short circuiting national governments anodized by the thought that such funds are budget supplements. So any useful review of planning has to reconsider devolution and tax regimes in recognition of their incentive, as well as their tax collecting potential.

Independence for Scotland should remove its subsidy (equivalent to 2 pence in the pound of the basic tax rate, assuming Scotland retains 90 percent of oil revenue), concentrate political responsibility, and in due course change the investment and tax climate. Subsidies, whether corporate or national, reduce the need to balance the books and increase moral hazard as the multilateral organizations are beginning to learn from the Asian Crisis. Of course, Scotland may simply expect to attract even greater regional subsidy from Brussels. The political attraction of such subsidies has been persuasive in Europe in encouraging the periphery to vote for a uniform tax and currency regime which protects the high cost core against competition from new areas of development. Experience in the US suggests that transfer payments have not been a major factor in reducing divergence in state income per capita over the past century, compared with the dynamic effects of economic growth (McFarquhar, 1997). So the European tax harmonization experiment may prove costly even if, as claimed, it were to reduce tax overall.

Relations between countries are not intrinsically different from relations between local governments within a country. If devolution is serious, local governments must be given more power to generate private sector investment through attractive tax regimes, and by any other means. Local tax must compensate for playing fields which start and remain unequal, otherwise the effect of devolution will be predominantly cosmetic as the experiment in Wales may demonstrate. Post-war Britain has not been keen to grasp this nettle, although it has been stung by it through the unpredictable dynamics of devolution in Scotland and Wales. This

has led to more regional government in England, where there seems to be no general political wish for it.

In the new regime, Federal England comprises eight regions excluding London, with populations ranging from 2.6 million in the Northeast to 7.9 million in the Southeast. Unemployment ranges from 9.5 per cent to 3.8 per cent in the same two regions. Of the 28 county sub-regions, less than half have GDP per capita (ppp) above the European Union 15 average. These regional authorities are currently opening offices in Brussels to compete for the Regional Fund which is replacing Agriculture as the biggest source of European Union spending.

The RDAs will control less than £1 billion per year, compared with £7 billion in Wales and £14 billion in Scotland. So, like the new Mayoral authorities, they will have little clout. Their Boards of businessmen and other government nominees will be quangos, like those criticized by the government in the Health Service. Most of their budgets are allocated to nationally determined programmes (*The Times*, 29 March, 1999). The policy objectives are to reduce regional disparity, already narrower in the UK than in comparable European Union countries, and to raise a region's GDP at least above the European Union average. The tiny budgets will be limited to political and cosmetic spending and reject the lessons of economic history, which shows that growth promotes spatial distribution and the planning system inhibits growth.

If regional government is the only way to achieve non-cosmetic devolution, which involves coincidental responsibility between taxing and spending, it may be a reasonable price to pay. But the consequence should be the abolition of most local government functions which remain, even if parish councils and their urban equivalents are retained. Reform is an opportunity to improve political accountability, relating powers over taxing and spending. To insert a further layer of government will add to administrative costs without resolving problems associated with political disaggregation or the subsidiarity issue, which suggests that the more decisions can be devolved to the local areas, the better.

Tax reform

Since the catastrophic poll tax, there has been limited discussion of reform of local government taxation in the UK. However, the uniform business rate seems bizarre, especially when the government is resisting uniform tax rates and harmonization in Europe. The purpose of the uniform rate was to limit the ability of local governments to levy penal business tax rates and to delay their impending bankruptcy. Protected against bankruptcy, some local authorities, presumably to make the rich pay for extravagant welfare programmes, or simply to buy votes, were spending unsustainably. So the business rate was capped in relation to the band D base rate in council tax. This is an unnecessarily crude instrument, but perhaps it is not surprising that the government felt forced to depend on it, given the exigencies of the time.

A positive tax regime - a local business rate

THE CLUE TO REFORM of local and, soon, regional government planning lies in the rationalization of the current system of taxation. Taxation powers must be more integrated with spending responsibility, which requires genuine devolution. Political accountability must be related more closely to tax and spending decisions. But most of all, the negative propensity of the present system of planning can best be changed by introducing incentives for positive decisions at a local level. For example, business rates and planning gain payments could be used, recognizing that the tax rate sometimes varies inversely with tax take, to reduce local government or council tax. This help might persuade those who consider themselves to be marginally disadvantaged by a local development to support it. At the same time it has to be realized that local governments are just like national governments on a smaller scale. Long-term growth, refurbishment and revival are best achieved by productive investment generated by the private sector, even if with subsidy. Local authorities should be not be prohibited from attracting investment, not least by relatively low tax rates, in the way that Britain as a country has attracted inward investment in recent years.

Clearly tax harmonization, not to mention a common currency in Europe, will encourage new investment in well developed core areas with better infrastructure and other facilities, as experience with the absorption of East into West Germany has demonstrated. Although generally not explicit, the political advantage of uniform taxation is to make it harder for marginal and often peripheral areas to compete within a common currency as in the UK and now the European Union.

The best way disadvantaged local areas could compete to attract inward investment through instant policy intervention would be to reduce business tax rates. To be restricted to improving services which might benefit business is slow and indirect. Business might not consider the service worth the extra tax. This is not to say that relatively low efficiency wages and a culture which is receptive to new enterprise and investment are not vital factors. But this cannot be changed overnight. Just as Scotland now has more opportunity to compete for inward investment by establishing an attractive climate for investment, following recent experience in Ireland, so could local governments if given more responsibility for fixing and spending local tax. In the absence of an ability to compete for new investment, local areas and regions have to depend on transfer payments or subsidies, which simply turns them into the equivalent of nationalized industries.

The implications of the above discussion is that the uniform business rate should go. Other ways can be found to cap extravagances and the suicidal tendencies of some local authorities. For example, existing businesses might be allowed the privilege of continuing the linkage of business rates to band D for the period of their existing rental agreement. Local authorities could set lower business rates where they wanted to attract new investment. Of course it has been argued that business rates are not a factor which affects the location of new investment, just as it was once said that tax came out of profit and had no dynamic effect on consumption or new investment.

If the propensity of business to invest in a particular location is similar to the propensity for the consumption of whisky the rate may not be critical, but it eats

into the profit. For small businesses, business tax is said to account for one third of the profit. The trouble is, business is a sitting target for tax and cannot relocate in the short term horizon of most politicians. A uniform tax would encourage neutral location decisions only if all other factors were equal. Even taxes set to attract investment might not suffice to offset centripetal core forces, but to set a floor at present levels, as is now proposed, is fatuous.

Business rate reform

The national non-domestic rate was introduced in 1990 and the domestic rate replaced by a community charge. In the name of accountability, efficiency depended on the full extra cost of local government spending falling upon the local electorate and on breaking the link between local expenditure and central government grant. Future grants were to depend on the government's assessment of required local authority expenditure termed Standard Spending Assessment (SSA). All additional expenditure had to be raised from the council tax falling upon domestic ratepayers. The non-domestic core business rate fixed by central government, but collected by local authorities, is pooled nationally and redistributed to the authorities on a straight per capita basis, and becomes hypothecated local government revenue. The annual increase in UBR must not exceed the RPI and must maintain real yields at revaluation.

The case for reversing the 1990 reforms depends upon incentives to collect rates, the small proportion of local expenditure financed by local taxation (18 per cent), and the broken link between business and local authorities which followed the nationalization of the business rate. At present a one per cent increase in expenditure above SSA leads to an increase of six per cent in council tax, which may now be more responsive to changes in central government grant than local spending decisions. However, no-one knows what proportion of local authority spending is determined by local authorities or, from a policy standpoint, what it is intended to be. Most spending is determined by law, central government guidance and standard professional practice, such that spending is completely constrained exogenously (Barratt, Personal Communication, February 1999).

Reintroduction of a local and variable business rate would help correct this, depending on a change in policy in which central government caps local government expenditure so that an extra £1 raised from business would reduce central government grants by the same amount. To create an incentive for local authorities to increase the tax base, the equalization procedure, by which the rate completely compensated for a change in the tax base, must be changed. As Denny, Hall and Smith (1995) conclude, despite obvious drawbacks, the most practical method of enlarging the local tax base, given administrative difficulties posed by the introduction of either a local income tax or a local sales tax, might be to return non-domestic rates to local control.

It is sometimes said that differences in the level of business rate between local authority areas leads to distortions in the geographical pattern of business activity and investment. This is a mistake. Comparative disadvantage already exists between regions and local authority areas in terms of their infrastructure, accessibility, labour productivity and availability, so that unless these are to be regarded as conferring permanent disadvantage, poorer areas have to compete for investment by competitive business rates and a local culture amenable to business

investment and success. One strategy must be to reduce the business rate rather than ratchet it to increasing local government expenditures, as is currently proposed. This in turn could increase the tax base and make it easier to reduce council tax as an incentive for local people to tolerate and encourage local growth, reducing the NIMBY potential.

The white paper 1998

Recent government thinking on the national non-domestic rate (NNDR), generally called the business rate, is set out in the white paper issued by the DTI in July 1998 entitled, somewhat preciously, *Modern Local Government In Touch with the People*. The business rate is to be retained, with provision for local authorities to liaise with local businesses in planning local spending and local rates are to remain limited. The key point is that government sees local authorities competing to attract business investment by spending on welfare for a good environment in education, child care, services for the old, and a low crime rate.

Local authorities are, however, constrained by pressures of uniformity audit and “Best Value Initiative.” Moreover, the worst services are often in the inner cities, contributing to their decline. There is no allowance for attraction of investment by local authorities charging a lower business rate and providing perhaps fewer public goods. In other words, businesses are to be saddled with the cost of additional social goods provided by a local authority, which in Europe, and in particular in Germany, does not provide a competitive climate attractive to investors.

Government policy and business rate today

GOVERNMENT EXPECTS business to collaborate with local people “to improve the delivery of existing services and to determine local priorities and spending programmes.” This activity will add to business costs. It further obfuscates the local democratic processes, which are already weak. It extends activity of the state at local authority level, by pressure to increase tax and spending at a time when central government is ostensibly attempting to reduce its role. The process proposed is equivalent to planning gain in which the developer pays a tax for planning permission to provide a facility required by the planners, but not necessarily by voters were they to be asked. Government wants, in the jargon of the day, to strengthen the relationship between councils and local business — a process designed to petrify any prospective small businessmen already operating with hands tied by costly administrative bonds and regulation.

As with much government intervention everywhere, preoccupation is with process rather than results. Some measure of local discretion over the business rate will emphasize, says government, mutual interest and partnership between business and local government. This sounds good, but paragraph 10.5 of the white paper degenerates to the would-and-should language of wishful thinking socialism. The councils would have to agree with the local business community on how the proceeds of local rate income should be used.

This is democracy within democracy, or governance by chosen sectors but with no institution to represent business sector interests. Those who pay car tax do not decide how it is spent; that is decided by the body politic as a whole. Government foresees that sometimes councils and local business communities might not reach agreement on the use of income which, as a result, must be paid into the pool, from where it would be redistributed to all councils. It would be better if local authorities could fix the level of business tax to attract inward investment, creating local growth and thereby increasing the tax base which could be spent in accordance with local democratic decision.

However, the local rate will continue to be constrained by central government and, more importantly, councils cannot increase the annual rate by more than one per cent of the national rate, up to a maximum of 5 per cent over time. This indicates the cosmetic intent with regard to the degree of devolution of tax raising powers and the pointlessness of the process. The white paper goes on to say that government might allow some councils greater freedom to set local business rates. This would ensure that resources are raised locally for locally agreed priorities and would be approved “only in those areas where the council had shown that it was capable of the most effective use of them” (paragraph 10.21).

How is central government to know any better than local democracy if resources are used effectively? Clearly big brother is watching and this government has no greater faith in local democracy than the last one, which attempted to give it a lower status than the Post Office. Perhaps this is understandable, since government has too large a political stake in the major services such as health and education to allow local authorities much influence, so what is left to local authorities is politically trivial. Lastly, government knows that small businesses pay more than 30 per cent of operating profits in rates, which is twice as much as larger companies and 10 times as much as the biggest companies. Government should therefore consider reducing the rates burden on smaller companies.

A recent booklet (CIPFA, 1998) elaborates how the scheme might work. Where local authorities set a supplementary local rate, it must be used for additional discretionary spending after agreement between business and the local community, and without which proceeds go to the national pool. The maximum supplementary rate would be less than half of one per cent of the non-domestic rateable value, based on the national rate of 4.74 pence in the pound, rising to 2.5 pence maximum after five years.

The white paper suggests that the maximum local non-domestic rate supplement may be linked to council tax or stay independent, subject to limits, and with the agreement of local business. Methods for raising and spending tax should be designed to maximize local democratic sanction. However, under the first option, local authorities can set a local non-domestic rate only if they spend above their level of SSAs. The maximum yield would be a derisory £12.5 million, while authorities spending less than the current SSA are excluded from raising the local non-domestic rate.

The alternative option is more complicated. It depends on the relationship between the business rate and council tax in the year preceding introduction. The white paper is not clear if council tax and business rate are defined in terms of tax take or tax rate. But in this option some local councils have to raise spending to qualify, and must raise the non-domestic rate by the same percentage as the council tax.

Revealingly there is no discussion of qualifications for reducing the local non-domestic rate, but option one is preferred by government as it is more similar to existing arrangements.

The analysis concludes that the local non-domestic rate supplement would not be a major source of revenue for local authorities; its purpose is to develop stronger relationships with local communities and include business in the determination of local priorities for spending. To agree with a local authority, spending of the additional local non-domestic rate would no doubt require long negotiation with local authority bureaucrats with little constraint on their time, and dependent on attendance allowance income. It would add greatly to business costs for what amounts to peanuts, even assuming funds were spent productively. To expect serious business participation in such activity is no more than a dream, and if realized, will add to costs and reduce their competitive position in a global market.

A number of vital issues arise (CIPFA, 1998). Is consultation with business by meetings or ballot, and what level of support is needed for action? Will government guidance determine the process of negotiation with local business? Given disagreement, should the Secretary of State intervene? How is the agreement of the business community to spending of the proceeds to be determined? Should the procedure for informing non-domestic ratepayers and other ratepayers about the domestic rate supplement be regulated? Which procedure for councils wishing to break the link between non-domestic rate and council tax is preferred by government? Should special arrangements apply to local authorities where non-domestic rate exceeds say 60 per cent of total? How are public bodies which pay business rates to be treated as regards consultation and agreement on use of proceeds?

It is hard not to conclude that the white paper is an exam question on poor governance. Accountability is fudged by the obligatory processes of consultation, and transparency is minimized. But at least there is predictability in the sense that proceeds will be peanuts. The cost of administration must be such that businesses would accept a tax supplement, however spent (being immobile in the medium term), eschewing agreement just to avoid the time involved.

Local democracy is divided because decisions about facilities to be provided with the proceeds of the non-domestic rate supplement are to be influenced by business, often with no residential status, on the assumption that local authorities should spend more by raising business taxes, but at the same time are constrained from spending more than others. There is no sense of the potential for using low rates of business tax to encourage local investment which in turn will broaden the tax base. There is no consideration of using business tax resulting from new investment to encourage the NIMBYs to accept more development by reducing council tax.

The outlook is bleak. The Treasury wishes to remain in full control of local government finance, as it does with taxes to be raised by the new mayors, apart from a maximum of 5 percent increase in the business rate. Business not only pays this as a contribution to local government spending, but is expected to contribute to the administration of the expenditure. The stakeholder sandwich is so multi-layered that the stake has disappeared.

Land tax

The only recent attempt at radical reform of local government tax, apart from the unsuccessful poll tax, has been resurrected in proposals for land value and community betterment taxation by Lichfield and Connellan (1999). Lichfield and Connellan assume land is a unique resource given by God or nature, unique in the sense that it does not require man-made resources “except for improvements needed to bring the land into use” and further, that land is fixed in supply (except for reclamation) and in location. These characteristics, they say, qualify land for a tax on its economic rent defined as “unearned income,” whatever the modesty of their quotation marks imply.

Land tax revisited

LICHFIELD AND CONNELLAN quote an impressive list of economists, classical and neo-classical, who favoured land value tax including Henry George, who saw a land value tax (LVT) as a single tax to replace other taxes, when he wrote in the 1890s about predominantly agricultural and rural economies. This inspired the Fabian intellectuals, Shaw, Wells and the Webbs, in the 1890s. Contemporary economists, Prest, Gaffney and Tideman, consider what George can contribute to the contemporary taxation debate. This culture explains the pre- and post- World War II drive to capture as tax all or part of the so called unearned benefit of development. Such advocates do not generally mention the contribution made by landowners, the negative dynamic effects of penal tax, and the ineffective ways it may be spent by government.

Lichfield and Connellan (1997) think that (LVT) would encourage development by penalizing owners of vacant sites. LVT could be based on the highest and best use which can be “reasonably envisaged,” subject to what would be permitted by the planning authorities. This could be a nightmare for valuers. Approved conservation sites would be exempted. Individual landowners should not own all the increase in development value which is created by the community. This is the well known case for public ownership and control, which has been central in the cultural attitudes to land in the UK in this century. The language is revealing where tax is described as a hit on development gains following the grant of planning permission. The possibility of a 100 per cent tax on land in its highest and best use is considered seriously and faintly rejected as there would be no incentive to hold land as an asset. Indeed a willingness to hold land might be seriously diminished at lower levels of tax and nowhere is the word inflation mentioned.

The writers recognize that the complexity and cost of previous attempts to introduce LVT have led to failure, so they advocate simplicity and gradualism. House owners would be exempt from land taxation, and business rates would be geared not to existing use but to potential value indicated by potential use in structure plans. If these proposals have been understood clearly, prospects for introducing LVT are not great in a contemporary Britain developing a culture which is less driven by socialist dreams, and more by sensitivity to the potential of enterprise as a contribution to economic growth and distribution.

Lichfield and Connellan think that the current system of planning gain should be scrapped in favour of “an alternative approach with the same purpose,” with tax to be levied compulsory and nation-wide as an impact fee. But, they argue, planning gain is not really a land value tax, although it shifts the cost of infrastructure development generated by development from the community to the landowner or developer. The benefits arising from the development of a site do not come into the equation, nor do the consequences of land taxation, the effect on economic growth, or the efficiency of land markets. This short survey is not sufficient to offer a critique of land value tax, although the thinking of acknowledged experts in this area will influence the debate and has to be mentioned.

At least the present system of taxing through planning gain puts an upper limit on the level of tax and injects some of the benefits of tax at local level for specific purposes. If a tax levied as planning gain, whether paid in cash or kind, is set too high, the developer will not go ahead and the land owners may refuse to sell if the burden of tax is disproportionate.

Conclusion

Most experienced analysts of the post-war history of land use planning conclude that the regime is weak and needs reform. But few make specific suggestions as to where reform might begin and how far piecemeal adjustment might help without fundamental change. What is needed is an entirely fresh approach and creative thinking based on experience but not shackled by the existing system, which enjoys the worst of all worlds. Land is effectively nationalized without the benefit of strategic central planning, while local minorities and national lobbies can resist almost every development, but enjoy no property rights. At the same time the cost of an enquiry, as that for the Heathrow extension illustrates, is enormous, (it cost £80 million, £50 million paid by British Airways, and lasted four years) and delay applies a crippling brake on the economy.

Most of the issues currently emerging in Britain involve problems of which the US has considerable experience. It is almost as if the sophistication of local government planning is a function of the stage of economic growth. The generally unsuccessful approaches tried in California are being repeated here some decades later and therefore it can be argued that reform is inevitably constrained by the culture of the moment.

It is not contested that the planning system in the UK is negative and protection driven, and will continue to be constrained by environmental control, only sometimes desirable, and by increasing intervention from Europe. Added to the desire to capture all the surplus from development for the state, is a strong lobby in favour of ruthless penalties for the motor car. Granted that something should be done to reduce emission pollution, we may have to think again about the motor car.

The current system seems to be more less acceptable politically but derisory low polls at local government elections in both the UK and the US reflect a resigned apathy. In due course, reform must encourage local investment in areas where it is essential for economic recovery. Resistance to development may be reduced if taxes on developers and business rates could be used to reduce local council tax.

The most bizarre and counter-productive aspect of local planning and local economic growth is the uniform business rate, and reform must be a priority to create an environment more sympathetic to change. Competitive business rates would attract new investment, increase local tax base, and create a more sympathetic environment for development. The 1998 white paper proposals restricting local government ability to raise business tax by 1 percent per annum rising to 5 percent on an upward only ratchet, tied to provision of social goods, shows the fatuity of current thinking on devolution.

As regards downtown and inner city regeneration, we have to study the US experience carefully and to think again. The US experience with porkbarrel downtown projects should not be continued here. Reliance on rail transport, although desirable in certain circumstances, does not seem to provide an answer. What is needed is a progressive decline in the price of land, unlikely to be attractive to the great majority with vested interests, including banks, householders, and creditors.

Most of all it is clear that any reform of the planning system needs to be holistic and take into account related problems of transport and housing policy. It will require to be considered in the context of local government finance, appropriate subsidiarity, political accountability and the emerging regional problem in Britain.

The fundamental weakness

The planning system in Britain has created land monopolies by restricting the supply of development land. It has raised the price of land which is developed. The main beneficiaries are those developers who succeed in obtaining planning permission and local councils which have clawed back monopoly profit as planning gain or financial contribution from developers in return for planning permission. This is especially true of the green belt, where restriction of development has raised the cost of housing as well as of commercial enterprise.

The system politicizes the planning process. Although planning officers are assigned the role of umpires, they are in fact both agents and players in land use, with their own self-interest, hobby horses and prejudice. Developers are often required to meet arbitrary conditions to conform to the outlook of the particular planning officers concerned.

Landowners have few rights under the existing system. Although they can appeal in some cases to the Secretary of State, the latter is in the political domain, and is hardly an independent figure. There is a natural inclination on the part of politicians to delay until after forthcoming elections, and to fudge issues instead of making transparent and predictable decisions consistent with good governance.

The planning system amounts to a backdoor nationalization of land. The planners and the state do not need to own land to control its use as they can effectively achieve that using regulation through the planning system. By controlling strictly the use of land, they remove some of the rights of ownership from the actual owners, effectively confiscating some of their property rights without compensation.

The planning system has shown itself incapable of dealing with national policy issues. It can address only local land use issues. Although subsidiarity is desirable if it reflects genuine local democracy, it simply cannot cope with developments which are put forward in the national, rather than local, interest. It has not been able to deal in a satisfactory way with the proposed fifth terminal at Heathrow Airport, with Sellafield, or with Stansted. It will not be able to handle any new development of the railway network, which must soon make its way onto the agenda if government is serious about promoting alternatives to road transport.

The big picture

In 1979 government wanted to focus on the big picture, and discourage local development plans. By 1986, however, controversial decisions had caused sufficient embarrassment to put the government into reverse. In fact development plans are now largely cosmetic, and many are riddled with contradictions.

The problem is that the UK system prevents change and therefore economic growth. It inhibits the expansion of a financial base which could be funding better local services. The present system is low-cost politically, but very damaging in economic terms. It is widespread practice for councils to extract huge bribes from developers, but these do not go to the households affected by the development, but sometimes to support pet projects of local councillors.

Until recently an out of town development might secure consent if the developer constructed a swimming pool in the town centre, and more recently if they made a financial payment which cannot be used to reduce local tax. This arrangement is neither predictable nor transparent, and does not take into account all of the gains and losses, or attempt to achieve any balance of compensation or reward for those inconvenienced by new development.

As a result the present system is easily hijacked by NIMBY elements. They can exert political and media pressure, in some cases against the interests of a majority of local inhabitants, and perhaps against the interests of the nation as a whole. This vulnerability to local pressure groups means inefficient economic planning in both local and national terms.

Policies under consideration for the UK are mostly based on US initiatives which have not worked, particularly inner city regeneration projects, rail transport, and resistance to suburban development in privatized compounds. What is needed here is some elements of the US planning but with greater transparency and predictability.

A national planning court

The first reform to the planning system should take proposals of national significance out of the local planning regime, and confer them on a separate body and set of procedures. We need a new enquiry system and a panel of adjudicators who can be seen to be non-political, and who can take decisions of national interest at arm's length from those vulnerable to undemocratic political pressure.

This would constitute, in effect, a National Planning Court. The new body should be able to direct its deliberations according to a strict timetable, and to deliver its verdict accordingly. State funds could be made available to enable local authorities and other interested parties to be properly represented. Much of the proceedings could take place in small working sessions, rather than in the expensive and time-consuming public plenary sessions.

Light touch regulation

Local land use planning, meanwhile, should use light touch regulation, rather than the excessive and detailed controls currently favoured by local governments and their planning departments. Simple and clear rules are needed, much like the RPI-X formula used to exert downward pressure on the prices charged by privatized utilities. It is simple, easily understood, and has resulted in steady price reductions without government and its regulators needing to be involved in the day to day management and operations of the utilities. Similarly for local planning, there should be a generally understood and accepted tariff of what developers are expected to provide as part of an approval package. This is one of the attractive features of the US system: People know in advance that the area covered by a development will largely determine the number of parking spaces, new roads and slipways, and other facilities which will be required.

No uniform business rate

The Uniform Business Rate should be abolished, restoring to local authorities the ability to determine the business rate in their own area. The original intent represented an attempt by a Conservative government to protect businesses from big-spending local authorities which might jack up their business rates in order to fund services to dependent groups of local voters. It misfired badly, removing a block of discretionary funding from local control, and increasing centralized power. In fact the unified rate seriously limits any interest which a local authority might have in allowing developments in its area in order to broaden its tax base.

Compensation for consent

We need a new system under which developers can compensate affected households in return for planning permission. The system should enable the developers to offer a tariff of compensation to local residents, in which the highest payments are made to those most affected. This would enable local NIMBYs to see gains as well as potential losses from new planning developments. The present system pays any compensation only long after any decision, and determines this in an opaque manner. It should be transparent and up front, and known about before a decision is made, so that local residents can see the potential benefits of new development, and weigh them against the projected costs.

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