



# INSTITUTIONS AND PLANNING

*Edited by  
Niraj Verma*

CURRENT RESEARCH IN URBAN AND  
REGIONAL STUDIES

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# **INSTITUTIONS AND PLANNING**

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# INSTITUTIONS AND PLANNING

EDITED BY

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Elsevier  
The Boulevard, Langford Lane, Kidlington, Oxford OX5 1GB, UK  
Radarweg 29, PO Box 211, 1000 AE Amsterdam, The Netherlands

First edition 2007

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#### British Library Cataloguing in Publication Data

A catalogue record for this book is available from the British Library

#### Library of Congress Cataloging-in-Publication Data

A catalog record for this book is available from the Library of Congress

ISBN-13: 978-0-08-044931-9

ISBN-10: 0-08-044931-X

ISSN: 1745-9001

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Printed and bound in The Netherlands

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*Science* (November 1997); “Intentions and Outcomes: Formalization and Its Consequences,” *Regional Development Dialogue* (1996), and, *Cooperative Autonomy: The Dialectics of State-NGO Relationships in Developing Countries* (Geneva: International Institute for Labor Studies, Research Report No. 100, 1994).

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## Preface

The idea for this book came in a conversation with my colleague, Tridib Banerjee. We were motivated by what we saw as an emerging discourse about public–private partnerships that seemed to be impacting several fields, including planning, public policy, and public management. While this made eminent sense as an area of cooperation where public and private sectors collaborate, it was less clear to us whether and how the intellectual turf of planning would change by this recognition of the need for cooperation. A new institutional perspective that had consumed me for some time and that I had addressed in my work on the theory of the firm (Verma, 1998) seemed to hold more promise than other approaches. Yet, in planning, the new institutionalism was only emerging and in public management, policy, and other fields, while the applications were mounting the theoretical turf had been left to political science, international relations, or economics.

In the School of Policy, Planning, and Development, Tridib Banerjee and my colleague, Harry Richardson, supported some early work through their James Irvine Foundation Chairs and the Institute for Civic Enterprise, under the leadership of Detlof von Winterfeldt, offered additional support. My goal was to make this a collection of essays that engaged the new institutionalism and planning but we soon broadened the idea to include a variety of perspectives on institutions and planning.

Planning academics have had a long-standing interest in institutions and it was not hard to recruit a set of eminent scholars to contribute to the project. In the long time that it has taken for the book to appear in this form, it has undergone transition from other publishers before landing in the efficient and caring attention of Tony Roche of Elsevier for which I remain grateful. Tony's enthusiasm for the new series under Steve Tidsell's direction has been contagious and I am eagerly looking forward to publication. Also, in the intervening years an early panel I had organized at the ACSP contributed significantly to clarify my thinking on the new institutionalism and planning. Michael Teitz's comments as discussant on the panel were inspiring and insightful — hardly news to anyone who knows Michael. But, it was important for me in thinking of this project and taking this further.

My student, Tala Nasr, shepherded the book by prompt reminders to all contributors in her genteel and yet firm way that we had obligations to fulfill. At home, my two girls, Anjali and Priya, do the same for me by disarmingly asking me when the book is coming out. Nothing could be better than to be prompted in this way by one's biggest supporters. The book is dedicated to my mentor, C. West Churchman of the University of California, Berkeley. "West," as he liked to be called, was my coauthor for the "theory of the firm"

paper that we published in *Systems Practice* and until he passed away in 2004, I learnt from every phone conversation with him. Even now whenever I explain to my students the tradition of American pragmatism that starts with William James to Edgar Arthur Singer to C. West Churchman, I am reminded that the greatest thinkers have taken their mentoring role as seriously as they have their scholarship.

Niraj Verma  
Arcadia, California  
November 15, 2005

# Introduction

## Institutions and Planning: An Analogical Inquiry

Niraj Verma

The relationship of planning and institutions is hardly new. By reducing uncertainty, institutions make our expectations more reliable. Institutions such as government or market provide the framework within which planning operates. Other institutions, such as those rooted in cultural norms, mores, and practices, also provide the context for planning. While they may not quite give us control over our environment, by increasing the ability to forecast, predict, and expect, arguably these institutions make planning possible; without them there would be no planning. Given such fundamental importance of institutions it is somewhat of a puzzle that although planning and planning theory has long-standing interest in institutions it has largely ceded leadership of the writing on the ‘new institutionalism’ to other fields. So, for instance, the literature on the new institutionalism is bursting in economics, political science, and other social sciences, and has been doing so for more than a decade and yet it counts only a handful of planning academics among its adherents.

Part of the purpose of this volume is to help to understand this puzzle, first by setting straight this record of planning’s engagement or lack of engagement with the new institutionalism and explaining why this is so, and second, by seeking a broader umbrella under which the inquiry of institutions in planning can flourish. I will operationalize the inquiry by asking whether something special about planning makes it harder to make the new institutionalism a part of its theory or whether it is simply happenstance that, other than a small number of theorists, few planners or theorists have taken an interest in the new institutionalism.

While all 12 essays in this volume shed some light on this and related questions, the most direct answers come through in Michael Teitz’s discussion on the “new institutionalisms.” There is much hiding behind Teitz’s elegant play on words. Its significance may be lost, however, on those who may not have sufficient facility in the new institutionalism,



and perhaps also for those who have encountered the new institutionalism but are unfamiliar with its intellectual history.

Part of my role in this introduction is to trace this intellectual history in a way that puts the contributions of the various authors in perspective. And in so doing I want to clarify just why institutional inquiry has taken the form it has in planning and why and how these essays extend this inquiry. It might be useful to note here that all 12 essays were commissioned specially for this volume. Since the conception to production enterprise has taken longer than anticipated, there may be a handful of planning essays concerning planning and institutions that are not referenced here. But, overall this is as representative and as broad a collection on institutions as any in planning.

## **New Institutionalism in Planning**

The writing on new institutionalism in planning dates back to the early and mid-1990s. Ernest Alexander, whose essay appears here, may well be one of the earliest writers on the subject among planners. Various, Alexander has brought institutions to planning through a transaction cost perspective that derives from the new institutionalism as it was originally formulated in economics by such notables as Ronald Coase and Oliver Williamson (Alexander, 1992, 1995). Alexander's early foray was accompanied by Bolan's (1996) efforts to read the new institutional literature from a planning lens along with important contributions by Seymour Mandelbaum (1985) and Patsy Healey (1999), which linked planning theory and institutions. Patsy's encyclopedic style continues in her essay here as she does a scan of the planning writings on institutions.

But, suppose we stepped back a bit and focused on the social sciences and the role of institutions in them before immersing ourselves in the planning literature. Interestingly, the new institutionalism in its various manifestations in the social sciences is not a substantive theory of institutions that describes what institutions are or what they do. Rather, the new institutionalism is a way of first posing and then resolving a paradox in the field. Although the contrast between substantive and procedural may be special to planning given the many planning theory debates on this dichotomy, one of the clearest expressions of this role of the new institutionalism is found in Dimaggio and Powell's (1991) impressive work on providing an integrated view of the new institutionalism in the social sciences.

I have found the separation between procedural and substantive theory helpful not only in bringing the rather vast literature that comes under the new institutionalism into intellectual relief but also in separating the new institutionalism from other writings on institutions. This becomes quite provocative if we see that there is no substantive way of distinguishing old writings on institutions from new writings that fall under the new institutionalism. Indeed, if we accept that the newness of the new institutionalism is because of its methodological stance, any effort to separate the old and new institutionalisms by their subject matter is likely to be spurious.

In my view, this is one of the most fundamental lessons of the new institutionalism but one that is quite often overlooked, even among many protagonists. What it says is that to assess the import of the new institutionalism we first need to understand its place within the history of ideas and then to see it as a methodological turn in that history.

## **The Method of the New Institutionalism**

Methodologically, when we say that the new institutionalism resolves an outstanding paradox in a field by integrating institutions into the field, we are attaching special meaning to the word *integrating*. Integration means that institutions, which were relevant but still outside the main inquiry of a field, are made part and parcel of the field as a result of the new institutionalism. In the language of economics, new institutionalism helps to transform institutions from exogenous to endogenous status within the field. Although this is well known among new institutionalists it bears explanation.

Suppose, for instance, there was a central theory in a field that explained many important issues but which left out institutions. Suppose also that an important development in the field corrected this central theory in a way that institutional questions could now be addressed without leaving the theoretical edifice surrounding this central theory. That is more or less what the new institutionalism has done for the social sciences. In other words, unlike an outsider's critique that institutions have been neglected; the new institutionalism is an insider's attempt to resolve a paradox in a field by bringing institutions into its ambit.

The difference between these two ways of approaching institutions, as exogenous to the main theory or as endogenous within it, is enormously consequential. For one, because it is an insider's critique it does not call for nor does it lead to a change in the paradigm of a field. Indeed, it makes the entry of institutions possible without compromising analytical rigor. Or, as the cynic might say, it allows business as usual, this time with institutions in tow.

In fields as diverse as economics, political science, international relations, and sociology, this is how the new institutionalism plays out. An early example (and one of the best known) is from economics where the new institutionalism has made institutions endogenous to neo-classical economics. The concepts of "transaction costs" and "asset specificity" are the methodological instruments that make this possible. A similar story occurs in international relations where the new institutionalism internalizes the role of institutions within negotiation theory and makes it instrumental in explaining treaties.

Although its contributors come from different fields and write in different styles the pattern of inquiry that emerges is virtually identical, following a common logic. The following three steps can be used to summarize the logic by which the new institutionalism is integrated into a field. First, a popular theory in the field, which relies on a model of atomistic competition, is identified. Second, a thought experiment shows that the theory can be extrapolated to yield contradictory or otherwise indefensible results. Third, the contradiction is resolved by shifting institutions from exogenous to endogenous status within the governing theory of the field.

We see this, for instance, in new institutional economics (Coase, 1937; Williamson, 1985), where neo-classical economics represents the popular theory of atomistic competition in the field of economics. Here, Coase identified the puzzle or dilemma when he asked why firms or corporations arise at all when it is well known that centralization or bureaucratization is economically inefficient. The puzzle is solved, Coase tells us, because contrary to the assumptions of neo-classical economics market transactions are not costless. Firms (or institutions) arise when the transaction costs of doing business are lower within the firm than in the market.

When we examine the story from a perspective that is a bit distanced from its technique, we see that the effect of the transaction cost understanding of the firm is to facilitate the entry of institutions within a neo-classical calculus, i.e., to make it endogenous to the inquiry within the field.

Moving to political sciences, theorists (e.g., Moe, 1987) show that if we buy into atomistic theories of voting behavior (a) the logical conclusion is that instability and flux should be rampant. But, a paradox results when we see that American political life rather than being in a state of flux, is remarkably stable (b). The puzzle is resolved by making legislative rules (and hence institutions) endogenous within the voting system (c).

Similarly, in case of international relations, the intellectual foundations of regime theory are premised on the complete self-interest and hegemony of each regime. This results in a paradoxical role for international treaties that cross regime boundaries. The puzzle is solved when we realize that international regimes homogenize expectations and reproduce standard versions of expectations which make treaties possible. In other words, by internalizing institutions within the dominant regime theory, we solve the paradox. Table 1 summarizes this logic in the three social science fields.

This foray into the social sciences helps to understand the almost *formulaic* nature of the new institutionalism. Although this is well known among new institutionalists, the formulaic treatment of institutions says something about the differences between planning and the social sciences. *The popularity of the new institutionalism in the social science fields, described above, is as much testimony to the importance of institutions as it is to the prevalence of an atomistic theory of competition that characterizes the governing theories of these fields.*

Unlike the social sciences, planning has no single dominant theory, nor is there a widely accepted atomistic theory of planning. What then does it mean to bring institutions into planning following the example of the new institutionalism? Does it mean that there is no role for the new institutionalism or that there is likely to be more than one new institutionalism?

Table 1: The new institutionalism.

<b>Field</b>	<b>Theory</b>	<b>Puzzle</b>	<b>Resolution</b>
Economics	Neo-classical theory of the firm	Why do firms exist? (Coase)	Institutions reduce transaction costs of using the market
Political science	Social choice theory	Why is politics stable? (Moe)	Legislative rules (and hence institutions) eliminate instability of majority voting systems
International relations	Regime theory	Why do we have international treaties?	International regimes homogenize expectations thereby leading to treaties

And if planning has no need for the formulaic treatment of the new institutionalism, is it because it is ahead of the game as far as institutional awareness is concerned or is it because it is still in its infancy searching for, as it were, that one main theory of the field?

Fortunately, we do not have to answer these questions in their binary formulations. The essays in this collection find fascinating justifications for the new institutionalism in planning and insightfully explore the consequences of its entry within planning theory. While some are more interested in the mechanics of the new institutionalism and inventively struggle with ways of making the exogenous endogenous, others reject the formulaic route of the social sciences altogether. Anchoring themselves into one or another strand of planning theory and then looking outward is their elegant interpretation of the methodological turn of the new institutionalism.

The essays contained here are divided into three categories: perspectives, design, and applications. These are categories of convenience. Those that emphasize perspectives certainly address issues of design, sometimes very explicitly, while those that focus on applications contribute to theory building as well. Each category can also be seen as responding in a particular way to the question of the link between the new institutionalism and planning.

## **Perspectives and Analogical Mechanisms**

What is the role of the new institutionalism in planning? Michael Teitz, Ernest Alexander, and Patsy Healey are theorists of planning with long-standing interest in institutions. Their essays recognize the new institutionalism to be a creature of the social sciences and rightly consider it to be a methodological revolution. But this also makes them insiders and obligates them to respond to the question of mechanism and to explain the difference between planning and the social sciences.

Teitz starts with two parallel histories, one of the social sciences and the other of planning. From the celebrated T.J. Kent's early master-plan approach to communicative planning theory's Habermas-inspired communicative action, Teitz lays out the diversity of planning theories. The peculiar character of these theories lies in their adaptation of theoretical developments in other social sciences and philosophy. Indeed, Teitz argues that planning has always been impure in this sense, an interloper in a crowd of other much larger fields, which adapts theoretical ideas in ways very different from their origins. Indeed, this analogical rather than pure use of theory gives planning its strength and creativity, allowing it to negotiate the tensions confronting its subject matter in innovative ways.

But, if purity is the measure, Teitz does not spare the social sciences either. Delving into the various strands of new institutionalism he points out that the term refers to a diverse set of theories and not simply institutional economics or other mechanistically oriented treatments. The new institutionalism, in his enlightened treatment, is an umbrella that allows a diverse set of theories to thrive and hence is not a narrowly construed corrective to the mechanism of neo-classical economics.

Granovetter's theories of embeddedness is Teitz's example of how differently the new institutionalism manifests itself in sociology as compared to economics but even here the

lack of singularity of the new institutionalism leads to some ambiguity over its meaning and Teitz wonders whether Granovetter is indeed a new institutionalist. The question is a genuine one and it sharpens Teitz's point. Granovetter is not alone and we could just as easily have pointed to Giddens, whose sociological new institutionalism has little in common with its economics counterparts. Although an economist by training, Teitz favors the embeddedness of sociology because it is arguably a better tool to understand the new institutionalism in planning.

In Teitz's hands, the parallel intellectual histories of planning theory and the new institutionalisms is revealing. *It shows that the major difference between planning and social science applications of the new institutionalism is that planning applications are the result of a willingness to take a normative stance.* The normative assumptions may well be seen as its lack of theoretical rigor vis a vis the social sciences. But, this is the price it must pay to maintain its relevance as a field that is interested in changing the world in some way. Moreover, hinting at the fundamental nature of the conclusion, Teitz speculates that it is unlikely that any theory or "theoretical system" in planning will ever be as encompassing as say, microeconomics is in economics. But, theoretical elegance or the Occam's razor of theoretical parsimony is hardly what planning needs and this is far from what it seeks. Its multiplicity of theories, a liability for some, is the source of its real strength as it balances the twin needs of theoretical rigor and practical relevance.

Patsy Healey, a known contributor to the new institutionalism literature writes more as an insider of planning and situates herself in the broad political economy justification of planning as a form of government intervention that aims to right the wrongs of unfettered freedom. A time-honored conceptualization of planning (Friedmann, 1987), the need to intervene in the market has been seen as planning's *raison d'être*. But, as the planning environment — and our justification of it — has changed from an accent on government to a focus on governance, the goal of transformation has replaced that of intervention. Healey's project in this essay is to explain the transformative process and to place the new institutionalism in the context of the transformative goals of planning.

Governance is hardly new to planning. Many ideas in the governance discussion have long previous histories in planning. So, for instance, the history of negotiation, communication, and the resolution of conflicts in planning and its theory, predate the emphasis on these areas as a result of the focus on governance. Although Healey's approach is more formally new institutionalist than Teitz's, both derive their arguments by embedding them in parallel histories of planning and new institutionalism.

Healey's faithfulness to the new institutionalism begins by first positing a theoretical structure that explains how multiple domains of government interact and then develops an analog of the new institutionalism by reconciling the endogenous and exogenous forces that affect these interactions. Her example of a transformative project from her hometown of Newcastle leads to an appreciation of the "soft" infrastructure of governance. At the same time it has overtones of Healey's long-standing interest in how the substance of planning — place, quality of life, etc. — can be endogenized into the processes of planning and governance.

If Teitz and Healey find intellectual history to be a useful framework to think through the institutional questions but differ in the level of formality, they accord to the new institutionalism, Alexander's treatment stands out by its rigorous adherence to the transaction

cost economics tradition. Since his (1992) paper that already established him as an early new institutionalist in planning, Alexander has maintained an interest in transaction costs as a means of reconciling the competing ideas of market and planning or those of private and public planning. While before the new institutionalism planning might have been purely strategic, anchored into strategies that governments used to address questions of market failure, today it can perform a coordinative role between public agencies and private enterprise. Broadly constitutive of Alexander's perspective, this idea is becoming even more relevant today as we recognize the possibility of congestion pricing, smog and emissions trading, and other such newer markets, that go to show that there is no upper bound that can limit the market's role even as we understand that there is no minimal self-organizing market either.

In the past Alexander has used the new institutionalism to explain the emergence and sustenance of an inter-organizational or multinational environment, a theme reflected in the title of his book, *How Organizations Act Together* (1995). In this paper, he revisits this terrain to ask some fairly fundamental questions about the conditions under which the new institutionalism is likely to flourish. The exploration leads him back to his coordinative planning perspective but this time with a difference. The key difference is the entry of an institutional design perspective which becomes the place from where to both observe and manage this coordinative charge of planning.

## **Institutional Design**

To varying degrees, the authors of the previous section engage the new institutionalism as a formal theory of institutions and focus on explaining its role in planning. John Forester, Tridib Banerjee, Seymour Mandelbaum, and Don Krueckeberg are less interested in the formal relationship than in the substance of what is excluded. In varying ways, they point out the neglect of institutions within planning, argue for its inclusion, and show what difference it might make. At the same time, there is a cautionary balance in these essays linked to the difficulties of bringing about institutional change.

In his capacity as the founder of what has come to be known as the communicative turn in planning theory, John Forester looks back on discussions of Habermas inspired communicative action. His motivation is to internalize institutions into this discussion because as he says institutions make the difference between communication as debate and communication as argument. Here, we see the new institutionalism in action because endogenizing institutions is the method of Coase, Williamson, and North.

Communicative action has resulted in many changes within planning, of which an emphasis on negotiation, consensus building, and public discourse is one. Ironically, the focus on "communication" as part of the communicative turn is the most problematic. As Forester notes, to say that the planning process is communicative may be right but it is hardly as insight. Indeed, this reminds us that the debate about the link between communicative action and "communicative planning" is still not settled (Verma & Shin, 2004).

The issue is not that communication is key but how do difficult to communicate issues get resolved. Forester identifies some of these as issues of identity, interests, desires, and fears. The implications seem clear: to see communicative action outside the context of

these issues is to run the risk that the communicative turn in planning will rest just on the acknowledgment of the value of communication. In Forester's hands, the endogenization of institutions into communicative action allows planning to move beyond discussing options — pure communication as it were — to building coalitions and moving toward action. The endogenization takes place, not in a context of unmitigated optimism but with the realization that the realism that institutions bring can just as much make us aware of the ambiguities and difficulties that constrain action.

But this awareness of the possibilities, ambiguities, and the problems of institutions is no empty “understanding.” As early as the late 18th century, at a time of the heyday of French intellectualism, Madame de Stael showed how genuine understanding is psychological and socially consequential: “*Tout coprendre rend tres-indulgent*,”<sup>1</sup> (to understand makes one very indulgent). A possible variation of this — and possibly a Spinoza inspired variation — attributes to Madame de Stael the pithy aphorism: “to understand is to pardon.” In the context of communicative action, Forester reminds us how endogenizing institutions within communicative action can move us from argument to genuine debate about difficult issues and in turn this can move from understanding to action.

Tridib Banerjee's goals are similar to Forester's in that he wants to make planning more institution savvy. His indictment is not directed toward the communicative turn but to the broader institution of planning that he sees as being unable to grapple effectively with the changing environment in which it finds itself. The contemporary challenge of multiculturalism in the context of liberal democracies behooves planning to take the institutional context more seriously. Planning theory's preoccupation with mediation and consensus building — a salutary outcome for some — under Banerjee's critical gaze becomes indicted for obscuring and easing real issues that concern differences. Without open debate and discussion on these differences — even if these differences are “accommodated” in other ways — Banerjee warns us that civil society stops reflecting the realities of its present and ultimately loses its legitimacy, *even in a largely liberal field like planning*.

This latter part of his sentiment remains the most intriguing. Banerjee goes to Habermas, Sennet, Putnam, Boyd, among others to make the case for urgent cognizance and implementation of this problem because the public sphere “atrophies” when narrowly focused associations inadvertently or consciously entrench their differences within their respective groups. In what might presage the discussion on some of these communities that is yet to come (see, for example, the essay by Deng, Gordon, & Richardson later in this volume), Banerjee sees narrowly defined associations, such as interest groups, private communities, and common interest developments as problematic and wonders whether the institution of planning is the cause for their promotion and proliferation. In his provocative view of the world even advocacy and distributive justice, eminently liberal ideas in their outlook, become the agents of polarization and cause for decay of the “conscience of planning.” Regaining this conscience through debate on fundamental differences becomes a key task of an institution savvy planning.

Like Banerjee and Forester, Seymour Mandelbaum is cautious about the state of planning but his contribution here is to inject a note of caution on the possibilities of institutional

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<sup>1</sup>Corinne (Book XVIII, Ch. V).



design. We can partition our communities, Mandelbaum argues, in order to make the problem of community design more manageable. But, there is no institutional analog of this. Institutional cultures cannot hide within sub-communities.

Don Krueckeberg's essay can also be seen as a cautionary tale but from quite a different perspective. For the past several years, Krueckeberg has had an enduring interest in property rights and in how these rights connect with land. His previous writings have focused on the balance between the special characteristics of land and its irreducible aspects and the tension between the "sacred" aspects and the comparative, contractual, and exchangeable nature of property.

In his essay in this volume, Krueckeberg addresses the popular argument made by Hernando de Soto (2000) in *The Mystery of Capital*. In this work and in the *The Other Path*, de Soto (2002), who is the director of Peru's Institute for Liberty and Democracy, makes a strong and compelling case for an institutional attack on problems of poverty in developing country. Arguing that capitalist success is predicated on the institutionalization of property rights, de Soto makes a Lockean argument for increasing the efficiency of land by bringing it under the purview of a system of property rights that allows legal titling for squatters and others who occupy the land and "possess" it but can not use it within the capitalist enterprise.

Krueckeberg's research design to assess de Soto is quite ingenious. Suppose, he argues, that we got what we wanted in developing countries and that the institution of property rights was established in, say Peru, the same way as it is existent in the US. Then what? Will this lead to a just distribution of land? Lockean ideals of property, which justify the efficient allocation of property through a system of rights, are more complex than just land tenure. Locke's theory is often misunderstood, as Krueckeberg tells us, and "narrowly construed about matters of land in isolation from life, liberty and other estates." Drawing on Gopal Sreenivasan's (1995) *The Limits of Lockean Rights in Property*, Krueckeberg compares Locke's and de Soto's arguments to show that while de Soto's argument for land tenure for slum dwellers and squatters in developing countries is on the surface consonant with Locke's efficiency arguments it assumes the separation of one institution — property rights — from other attendant institutions.

Locke's basis for property is labor and in his account tilling the land confers rights to that land. But think of this, for a minute, in the context of a comparison of renters and homeowners in the United States. Homeowners get tax favored status and when they occupy their homes one can say that the Lockean connection between labor and property is reflected. But, what happens in case of owners of rental units? Here, although the labor is by renters, the property is owned by landlord. The renter, Krueckeberg tells us, cannot deduct on her taxes either the portion of labor that pays for the mortgage on the property or the portion equivalent to a share of the taxes on the property. These derive from the renter's labor but benefit the property owner.

Krueckeberg does not stop at a critique of de Soto's argument. Indeed, like de Soto he is interested in institutional design. Agreeing with the spirit of *The Mystery of Capital* that aims to bring about land tenure to the poor in the Third World, Krueckeberg asks us to imagine a scenario where we were to set up a trust account so that for every renter there would be a small equivalent payment, resembling a tax, into the trust. At some point, after a renter's account had accumulated sufficiently s/he would be allowed to withdraw capital from the account to buy a home.



Although motivated by outcomes that are similar to de Soto's, Krueckeberg's essay tells a very different story. As a methodological turn, the new institutionalism is about bringing in systematically excluded aspects into theorizing within a field. In this sense, its objective is to battle the reductionism that characterizes atomic theories in the social sciences. Don Krueckeberg shows that while property rights are important in an institutional approach, to focus on these rights at the expense of other considerations is to still remain within a reductionist framework. Understanding how the rules of property and how its underlying system works is essential if we are to use the new institutionalism in a genuinely non-reductionist manner.

## **Applying Institutional Ideas**

We have seen that institutionalism should be seen as a methodological turn that sweeps institutions within the governing theory of a field. While one set of authors reflects on the nature of planning theory and assess the possibility of doing so, another group argues for the potentials and limits of institutional design. A third group of authors shed light on issues of new institutionalism by applying its method analogically.

In a thought-provoking article that reports results of his empirical work in India, Sukumar Ganapati applies the new institutionalism to the study of cooperatives in a particularly innovative way. The literature on cooperatives has championed the unique nature of cooperatives and how they bring about a marriage of entrepreneurship and social responsibility. It took Jon Elster, the insightful social scientist and philosopher to ask the obvious: if cooperatives are really that desirable, how come they are so few? Although in its form Elster's question resembled the questions asked by the early new institutionalists (for example, the Coasian, "Why do we have firms?"), Elster took a different perspective that emphasized environmental or exogenous factors rather than endogenous factors in explaining the emergence or non-emergence of cooperatives.

Sukumar follows Elster's lead but with two key differences. First, Sukumar's question is more place oriented. Focusing on the evolution of cooperatives in India, he asks why cooperatives emerge in some regions and not others. At the same time, he parts company with Elster and recognizes the role of the internals of cooperatives — factors that might be endogenized within cooperatives — in explaining their evolution.

In a sense, Sukumar walks a tightrope between Elster's and Williamson's theories. If Elster's Marxist analysis attributes explanatory power to the State and the prevailing environment and therefore considers the "internal organizational problems not insurmountable," Sukumar points out that the agency issues cannot enter our calculations without an internal-organizational perspective. That is to say, the internal structures help to minimize the internal agency problems.

But, if this perspective uncovers what new institutionalists have called "principal agent problems" in organizations, Sukumar goes further by denying the polarization of exogenous and endogenous factors or of environment and organization. As his analysis of cooperatives suggests neither is enough to explain the emergence of cooperatives. Housing cooperatives were initially concentrated in the provinces of Bombay and Madras and only in independent India did they grow rapidly in other parts of the country. Sukumar explains

this by turning to the prevailing ideologies at that time, including that of a socialist India that would also remain a fully functioning democracy. Thus, the State gave preferential treatment to cooperatives and even when direct fiscal support could not be continued, it ensured that cooperatives had access to funding. The conclusion: we need both new institutionalists and Elster to understand cooperatives and it is possible to understand them from within a broadly construed perspective.

However, interesting cooperatives might be in a scholarly sense they are far less prevalent than public or private organizations. But, increasingly these organizations cooperate in formal and informal ways giving rise to newer hybrid arrangements. Elizabeth Graddy and James Ferris, both public policy scholars, have been interested in institutions for some time. In their essay, they explore the conditions under which partnering happens and the tensions that are encountered in partnering arrangements. Although they are motivated toward an organizational analysis, the conditional nature of their responses suggests that in its spirit their analysis recognizes environmental factors in addition to organizational ones. Or, to continue in the language of the earlier chapter, they are neither fully with the new institutionalists nor are they completely with Elster.

Indeed, the story that Graddy and Ferris tell is a complex one that shows that there are some quite deep tensions that define the nature of cooperative arrangements between entities. Take, for instance, the issue of interdependence versus trust that the essay highlights. A key factor in many alliances is the complementarity between partners. Each partner has assets that the other needs. Yet, this very strength is likely to make the organizations dissimilar and increase the transaction costs that pre-existing trust between similar partners might well have ameliorated. The nature of the tension suggests that trade-offs become inevitable at some fundamental level and that the theory of partnerships is as much a question of design as it is of finding optimal arrangements.

A similarly complex story emerges when we consider the institutional environment within which inter-sectoral cooperation happens. Graddy and Ferris predicate the likelihood of strong cross-sectoral alliances on the presence of a strong for-profit public sector and relate it inversely to a strong public sector presence in the community. But, these alliances also depend, they tell us, on ethnic diversity (greater diversity makes for more partnerships in the community).

The nuanced nature of their work is both testimony to the complex nature of the field and their own carefulness. The combination of virtues yields a set of interesting hypotheses concerning the environment within which public-private partnerships emerge and the organizational design that supports such partnering. Empirical testing of these claims will reveal the truth, but for now the propositions will have to suffice.

The final two essays by Deng, Gordon, and Richardson and by Sanyal and Fawaz respectively, use the new institutionalism to focus on some core issues at the heart of planning. Deng et al., take a Coasian approach to reflect on a relatively newer phenomenon, that of common interest developments (CIDs). As they describe it, a CID is the name given to “places governed by homeowners’ associations and guided by detailed rules of governance that are more or less equivalent to the administration of neighborhood zoning” (p. 1). Why would a privately developed community need zoning? In their essay, this question serves a role similar to Coase’s “Why do firms exist?” Recall that Coase’s analysis made transaction costs fungible from other determinants of market price. In case

of zoning, Deng et al., respond by making zoning rules fungible from type of ownership (public or private).

Although others, notably Fischel (1985, 2001), have written extensively on zoning and framed it in an institutional context of property rights and homeownership they have done so in an environment of public zoning. Deng et al. take this forward by taking zoning outside its conventional place in the domain of the public sector. At the same time, this approach helps them to address another puzzle in the literature: why are CIDs more likely to be found in newer neighborhoods rather than in older well-established areas?

In resolving the puzzles, Deng et al. invoke a popular intellectual construct of the new institutionalism that has been called “the hold-up problem,” the particular problem of relation-specific decisions when one partner holds up investment or makes less than needed investment to guard against giving control to other partners. And although they recognize that there are many other constraints that affect homeowner preferences for communities, including such things as market supply, bundling of amenities, choice of housing, etc., they argue that institutional factors, particularly political failure and the hold-up problem are salient in explaining the emergence of private zoning and in showing why this is a phenomenon that is happening in the suburbs rather than in older neighborhoods.

Contrast this with Banerjee’s claims in his chapter on the conscience of planning. Interestingly, while the two essays are moored on the opposite sides of the ideological divide that separates planning and markets, they are united in their recommendation that the evidence of CIDs, interest groups, and other private communities suggests that something is amiss with the relevance of the institution of planning. In Banerjee’s story planning has excluded the real issues of the fundamental differences between constituents; in Deng et al.’s characterization, the existence of private communities shows that they fill the need that the institution of planning, seen as a Tugwellian extension of government, fails to fulfill.

The final chapter in this collection is unique in its take on the new institutionalism. There is an ongoing discussion in planning theory on “the dark side on planning.” The main protagonists of this perspective have been European scholars, particularly Bent Flyvbjerg (1998) and Oren Yiftachel (1992). But, while these scholars have seen the dark side as being about the disavowal of power relationships Sanyal and Fawaz expose what we might call the “dark side of the new institutionalism.”

I have found it useful to understand their work in the context of the following question: is the new institutionalism, which brings in additional considerations to bear on atomistic theories of social science, itself reductionist? The question is somewhat surprising because in some accounts the new institutionalism is seen as bringing culture, history, communication, and specificity into what was hitherto seen as a machine-like theory. But, the insight from Sanyal and Fawaz, continue a caution first expressed by Teitz in his chapter and then carried forward by Banerjee, that if the resulting theory is still one of the atomistic behavior, then we cannot avoid the dangers of reductionism.

Sanyal and Fawaz take the case of housing and housing policy, particularly in developing countries. They remind us that the literature on third-world housing, particularly the works of John Turner, emphasized the role of informal settlements in the provision of housing. The institutions in Turner’s story were informal and yet they were effective. Enter the new institutionalism into this story. Sanyal and Fawaz see the new institutionalism as

an ex post rationalization. The earthy descriptions of trust, community, and reciprocity that measured the tone of informality get transformed into the issues of agency and transaction costs. But, this loss is systematic and not merely nostalgic and is aggravated by the increasing popularity of the new institutionalism.

Sanyal and Fawaz's style is engagingly polemical. The story of Hay el Sillom in Lebanon reminds us of the obvious but is salient because the obvious is threatened by the rationalization of the new institutionalism. They tell us, for instance, that social norms function within intricately complex contexts. A local developer is shown as bringing in local notary publics and relying on detailed measurements of property boundaries not because such accuracy or validation was mandated, but because it helps to build trust. The formality of the process already has the informality of the actors and their situation.

Now, none of this is antithetical to the new institutionalism. It is possible to explain this using the language of the transaction costs or the measures of "asset specificity." But, that possibility is part of the problem because it makes for a glib and ultimately still reductionist understanding of the intricacies of informality. Sanyal and Fawaz caution us, that particularly in a word that is changing rapidly and where boundaries between ownership and control and between public and private ownership is blurring, planners need to think of institutions in more refined ways. To do otherwise would make the claim of endogenizing previously exogenous concepts, shaky and perhaps even counterproductive.

In some ways, Sanyal and Fawaz's essay is a fitting way to conclude this book. We started with Teitz's essay that simultaneously secured a place for the new institutionalism and showed its problematic stance. Others dissected it further and applied it to derive insights regarding communicative action, property rights, CIDs and other issues of salience to planning. Yet, it is quite possible to lose the spirit of the new institutionalism and to end up disavowing key sentiments in the tradition of atomistic theories except this time we will think that we have transcended this because we are new institutionalists!

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**PART 1:**

**PLANNING PERSPECTIVES ON INSTITUTIONS**

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## Chapter 1

# Planning and the New Institutionalisms

Michael B. Teitz

Urban and regional planning has long employed the practice of adapting both theoretical and practice innovations from elsewhere for its own purposes.<sup>1</sup> In a professional and applied field, this is hardly surprising, since professions tend to look for theory that is primarily instrumental rather than abstract or sweeping in character. Unlike the academic disciplines, such applied fields offer little scope for “pure” theory within their professional ranks and, even in their academic forms, they usually lack a clear theoretical focus, law with its long history of jurisprudence being a notable exception. Nonetheless, ideas imported from elsewhere have contributed to both theory and practice in planning, though not always successfully. At their best, they have led to innovative and quite original contributions that have reshaped the ways in which urban and regional planners have thought about their missions and their place in the society. In recent years, we may point to the impact of Habermas’s ideas on planning theory, or the effect of innovations in the management of geographic information on practice (Teitz, 1996). Such innovations have stimulated the development of new tools and concepts for planning, as well as enabling planners to see the full consequences of their activity.

This paper explores the question of how theoretical developments in several fields under the broad heading of the “New Institutionalism” may have significance for planning. It discusses how urban and regional planning has adopted the theory in the past, how the New Institutionalism has taken shape across a number of fields within the social sciences, and what institutions and the New Institutionalism might mean for planning in the U.S., both now and in the future.<sup>2</sup>

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<sup>1</sup> I have noted this characteristic previously (Teitz, 1985, 1996). An elegant discussion is by Neil Harris (Harris, 1999).

<sup>2</sup> My focus is on planning in the U.S.A., recognizing that its evolution has been shaped in no small part by intellectual currents elsewhere.



## Theory in the Field of Planning

Academics in planning set considerable store by theory. Practitioners are more skeptical, though their thinking is permeated by the ideas of theorists. Before discussing the New Institutionalism specifically, it will be useful, first, to consider theory in the field of planning from each of these perspectives.

### *Theory from an Academic Perspective*

Virtually all programs for planning education in the U.S., both doctoral and professional, have theory requirements in their curricula, though they rarely agree about its content or role. Over the past five decades, roughly during the period when planning as an academic enterprise grew from a handful of programs to about one hundred, the nature and role of planning theory have been debated and more than once transformed. As teaching in the field during the 1950s emerged from its early roots in architecture, theoretical ideas about planning were of two sorts: the first seeking to theorize the city as the domain of planning, and, the second, addressing the nature of planning itself as an activity.<sup>3</sup> Both were strikingly normative, in line with the history of planning as a utopian and reform activity.

Those that sought to theorize the city drew on sources in architecture, sociology, geography, and design, among other fields, to present a model of the city and of urban development. This model, epitomized by the work of Lewis Mumford, presented itself as a conception both of how cities worked and how they should evolve in the future in order to ensure better human life. In this, it drew on much older roots in utopian thought, ranging from socialists, such as Marx and Proudhon, to anarchists, such as Kropotkin, as well as on pragmatic utopians, such as Ebenezer Howard, and other influential but difficult to characterize thinkers and doers, such as Patrick Geddes, who had enormous influence on Mumford.<sup>4</sup> Insofar, as theory about the city and urban life could be said to be taught in schools of planning, with few exceptions up to the 1950s, it was dominated by Mumford's ideas.

After World War II, theorizing about planning in a broader sense as form of purposive social action, drew on a very broad range of influences, including economics, engineering, public administration, sociology, and philosophy, within which pragmatism, Marxism, and utilitarian belief in science as a guide to policy were especially notable, as Friedmann (1987) shows. The history of planning theory, as it appears within the academic side of the field of urban and regional planning since the 1950s, is dominated by such theory. It is a record of successive waves of more or less abstract thinking, often combined with passionate social advocacy.

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<sup>3</sup> This distinction matches that between theory "in planning" and theory "of planning" set out by Faludi (1973) though it is not drawn for the same purpose.

<sup>4</sup> From this perspective, it is interesting to look at John Friedmann's (1987) influential account of planning theory, written in the late 1980s. His synoptic vision of theory in the field (pp. 74–75) excludes both Howard and Geddes, and includes Mumford primarily in the category of "Utopians, Social Anarchists, and Radicals" and "Social Learning". There is no category of theorists from architecture, landscape architecture, or geography. In effect, the primary thinkers, other than Mumford, on whom the teaching of practice drew, are ignored.

The roots of this style of theorizing within planning may be proximately traced to the New Deal, with its huge expansion of the public sector and the emergence of planning within public discourse and institutions as a favored mode of organizing action. It was not so much about the design and creation of better human settlements, as about the ideological, conceptual, and technical foundations for purposive social action in general. These ideas were brought back to the field of urban and regional planning as prescriptions for better ways to organize society and to formulate and implement ideas for that purpose.

**Early theoretical foundations.** I will discuss this theoretical evolution further below, but first it is necessary to place it in the context of an earlier form of abstract theorizing in planning — the complement to theories about the good city. There were, indeed, abstract theoretical ideas in the older conception of planning.<sup>5</sup> Most important among them was the ideal of comprehensiveness that permeated planning through the first half of the 20th century. Seeing conflicts and apparently chaotic behavior in land use and transportation as problems, planners sought to create a more holistic prescription for the future in the idea of the comprehensive or master plan. This idea, most clearly expressed, perhaps, by T. J. Kent (1964), envisioned a harmonious form of development by virtue of relatively simple principles that essentially laid out an agenda for professional training and practice.<sup>6</sup> By addressing the key elements of development simultaneously, the planner would synthesize a solution that would negate the problems revealed in unplanned development. In retrospect, the ideal of comprehensiveness is clearly flawed. Planners using it could never begin to address the full range of phenomena and influences that affect the quality of urban life. Furthermore, the information necessary to construct a master plan with any real assurance that it was better than other choices was simply not available. Nonetheless, we should not underestimate the simplicity and power of the ideal of comprehensiveness, especially when converted into principles for action to be used in conjunction with disaggregated mandates in the form of legislated master plan elements. In the U.S., the master plan structure has proved to be capable of accommodating additional concerns, such as environmental quality, very effectively. In this sense, it was and remains a powerful theoretical organizing concept for urban and regional planning in practice.

The idea of comprehensiveness was embedded in a larger and more generic conception of planning that proved to be even more important for the history of theory in the field over the past 40 years. As exemplified in the ideas of Patrick Geddes — although actually typical of thought in many fields at the end of the 19th century and going back at least to Jeremy Bentham — urban and regional plans were seen as the product of a process that should ground design in a matrix of empirically based knowledge — in short, science. Geddes' idea of “survey before plan” essentially portrays planning as a rational and ordered process, one that incorporates the validity of scientific knowledge into the creation of designs. In

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<sup>5</sup> In this, I differ with Peter Hall's account in *Cities of Tomorrow* (1988), which views early planning, especially in Britain, as atheoretical. My sense is that in the U.S., at least, theory may have been implicit, but certain key concepts were critical.

<sup>6</sup> Kent's book was the clearest statement of the idea of the general plan in the American context, though it was written on the eve of great challenges to the idea.

common with engineering, public health, management, and other constructive social activities, planning saw its practice as describable by an ordered problem-solving process that could be reproduced and taught. Thus, it is rationality, in conjunction with comprehensiveness, which was the deeper theoretical foundation of urban planning. And it was that foundation that invited repeated forms of theoretical attack by imported ideas that marked academic planning theory for the 40 years following the publication of Kent's book.

However, for teaching, planning up through the 1950s still had to rely on the studio. Partly, this was because of the importance of design, for which the craft tradition is critical in teaching, but also it was because there was no substantial scientific basis for much of planning practice, in contrast, for example, with engineering. As we shall see, the absence of a substantial scientific foundation was to lead to other forms of theoretical challenge also.

**Theory wars.** From the late 1950s through the turn of the 21st century, the field of planning in the U.S. witnessed an unparalleled burst of theoretical activity drawing on a wide array of sources. Although no such intellectual event can be fully explained, my sense is that we should look for its origins in the Great Depression of the 1930s, the New Deal, and World War II. These cataclysmic events changed American life profoundly. In particular, the idea of planning was explicitly incorporated into national policy for the first time, both as programs and as institutions. This impulse did not continue with the same force into the postwar years, but it produced a cohort of intellectuals and practitioners who would reshape thinking in the field.

In this process, the formation of the planning program at the University of Chicago is especially important in two respects. First, it was instrumental in bringing into planning for the first time a significant number of social scientists, such as Britton Harris and John Dyckman. Second, it nurtured Harvey Perloff, whose ideas would do much to reshape the theoretical basis of training for practice in planning over the second half of the century (Perloff, 1957). From this impulse, we can trace the first wave of theoretical challenge to the ideas that had hitherto dominated planning thought.

The incorporation into planning of social science, in the form that it took in the 1950s, with its strong tendency toward theoretically based empiricism, occurred primarily through the schools. As new programs were formed and old ones expanded, the notion that practitioners should be the primary source of faculty seemed inconsistent with broader ideas of what constituted quality in research and scholarship. In this, planning programs were responding to institutional incentives within their university environments. As a result, planning faculties began to include, economists, political scientists, and sociologists, together with a few physical scientists and engineers, mixing with the earlier, primarily architecture — and design-trained, faculty.

The result was not comfortable. Many of the concepts underlying planning as it was previously taught and practiced seemed to have little empirical or theoretical grounding. The notion of comprehensiveness was seen as an impossible ideal, and rationality, though even more firmly embraced, seemed to require firmer foundations than the planners' normative assertions could provide. It is really during this period that modern planning theory actually takes form. Theorists sought to ground planning both in scientific knowledge about the city and in theories of social action that were systems oriented, generic in character, and more likely to be based on the theories drawn from other disciplines.

Foremost among those theories was neoclassical economics. Planning, it seemed, could be solidly based on externalities and market failure, which provided the reasons for public action in a market driven society. Emerging tools, such as econometrics, input–output, location theory, and cost-benefit analysis would provide the empirical grounding for plans. With computing power increasing, it seemed possible to do this with assurance. In massive efforts such as the Chicago Area Transportation Study, the work of modeling social and economic urban behavior moved apace. However, economics was not the only theoretical system invading planning. Sociologists were providing the basis for critique of the concepts such as community, while simultaneously revealing the tragic flaws in long-held beliefs in slum clearance and urban renewal. Political scientists were analyzing urban politics in relation to planning institutions, revealing the weakness of the desire to avoid politics through means such as the planning commission. More fundamentally, they were raising the issue of power in planning decision-making, asking whose interests were actually being served under the heading of the general welfare.

In all this, however, there were two critical problems. First, analysis is not design. Planning cannot avoid the issues of invention and choice. Although efforts to rationalize the basis for design, whether of settlements or of programs, were beginning to be made, that problem was simply too hard. Thus, while social science successfully colonized a good part of the academic side of the field, it made much less headway in practice. The result was that in the schools training tended to bifurcate into “methods” and “studio,” running in an uneasy parallel, with “theory” between the two as contested territory.

The second problem was in many ways more fundamental. Modern planning, since its inception in the 19th century has wrestled with the issue of values. The field has long been torn between the pragmatic search for urban improvement through engineering and public health, and the desire to create the ideal, utopian community, whether in the form of the city or some other social organization. I have suggested that the earlier form of planning resolved this problem uneasily, with idealist rhetoric and a practical coming to terms with the market and politics. By the 1960s, that resolution was unraveling. Criticism of its theoretical foundations by the social scientists made it harder to maintain the validity of planning’s traditional conceptual structure.

But social science would not enjoy a clear field. Simultaneously, dramatic social change in the form of the Civil Rights Movement and the recognition of poverty as a continuing problem were mobilizing social critics and political forces on all sides. This movement, symbolized internationally by the events of 1968, was obviously much broader than planning, but its impact on the field was very powerful. In part, this was due to the recognition of such clear failures of programs clearly identified with planning, especially urban renewal with its dire impacts on minorities and the poor. Another reason for the impact was the role of the concept of community, both in planning and in the emerging social movements of the period. Community became the rallying cry for social mobilization, eventually becoming institutionalized in the War on Poverty. The utopian element of planning thought also centered on community as an ideal, but that element had no real place in the individualist models of economics, which translated community for planning into Tiebout’s notion of choice among alternative packages of taxes, services, and lifestyles (Tiebout, 1956).

The theory revolt of the 1960s may have been inevitable; in retrospect, its force in planning is not surprising, however unexpected it seemed at the time. Comprised of a mixture

of civil rights activism, Marxism, community idealism, and a pragmatic desire to address the evident inequities in American society and in planning, it burst on the field like a storm. Its primary theoretical target was “objective,” neutral, and non-normative social science, together with its rationalist foundations manifested in neoclassical economics. Initially, in place of that structure was offered a primarily Marxian or neo-Marxian structuralist interpretation of historical development, with strong normative and explicit value positions. The central theoretical framework was imported into the field, notably by David Harvey and Manuel Castells, with the latter joining the planning faculty at the University of California, Berkeley, though continuing to describe himself as a sociologist (Harvey, 1973; Castells, 1972). However, it is important to note that the structuralist theoretical framework did not gain a dominant theoretical position, except in a small number of schools of planning. Rather, it is best seen as an initial challenge to planning theory based on conventional social science, which opened the field for other successful challenges that followed. And it may have been critical to the restoration of explicitly normative values in those subsequent theoretical efforts.

I will not attempt to summarize all the strands of planning theory that emerged between 1960 and the late 1980s. Peter Hall provides a sweeping account of them, and John Friedmann elegantly summarizes them and places them in relation to one another and their theoretical origins (Hall, 1996; Friedmann, 1987). Indeed, Friedmann, himself was responsible for significant new theoretical positions in his search for a foundation for planning in those years. Probably, the most important element in these earlier years was the activist, communitarian stance, associated with Paul Davidoff (1965). Although heavily influenced by structuralism, this group focused on urban planning in the context of the local community, especially in the form of advocacy for the poor. As we shall see below, it was important for practice.

Among, other notable theoretical imports that were advanced as grounding for planning were organizational development and social learning, associated with Donald Schon (Schon, 1971). Also, what I have called the social science wing of planning was not idle. It was during this period that policy analysis appears on the planning scene, as well as taking shape in schools of public policy that arose to claim much of the broader policy agenda to which academic planners had laid claim. These schools largely adopted a social science approach, avoiding much of the ideological conflict to which the planners were prone.

Friedmann (1987) ends his historical account of planning theory in the late 1980s, and so misses what may be the most important and interesting theoretical development in the field in the past 20 years.<sup>7</sup> In the final decades of the 20th century, a group of planning academics once again set out to redefine the theoretical basis of planning. Led by John Forester, Patsy Healey, and Judith Innes, they drew on Jurgen Habermas’s (1984) concept of communicative action to refocus planning theory away from either the structuralist or the policy analytic perspectives that had struggled for dominance (Forester, 1989; Healey, 1992; Innes, 1995).

This was not the first time that planning theorists had drawn upon the Frankfurt school of political philosophy. In this case, however, the effort was different. As with any theoretical movement, their specific contributions have been diverse, but what is common is a return to planning process as the central concern, with an explicit concern for what

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<sup>7</sup> Hall (1996) begins to address this topic in the second edition of his survey of the field.

practitioners actually do, and the implications of their practice for equitable outcomes and full inclusion of people affected by planning decisions (see Teitz, 1996 for examples). Thus, they are clearly normative in stance, but their notion of theory differs greatly from that of their predecessors. The communicative action theorists represent an intriguing stage in the evolution of planning theory. They have explicitly sought their core theoretical underpinnings in Habermas, but their work is more deeply focused on the practice of urban planning than that of any group since T. J. Kent. Like so many of their predecessors, they seek to reshape the field through the power of ideas and scholarship. Whether they can achieve this end is still open to question.

Meanwhile, yet another movement has emerged that challenges all these theoretical positions, paradoxically harking back to the planning theory of the pre-1950 world. Various known as the “New Urbanism” or “Neo-Traditional Planning”, as the names suggest, it brings us full circle to an older theoretical vision of planning, albeit with important current elements. The New Urbanism is a movement in the utopian tradition, but with an intensely practical agenda, namely to restore to the planning and design of human settlements in advanced countries the qualities of urbanity in neighborhood and human interaction that its adherents see as present in the pre-automobile era. Thus, it finds itself in opposition to the dominant, suburban, and automobile-based forms of development. Despite its strong linkage with the historic, utopian roots of planning, this too is an imported idea, in this instance, from architecture, and led by Andres Duany and Peter Calthorpe (Duany and Plater-Zyberg, 1991; Calthorpe, 1993). The view of the New Urbanism might be challenged, insofar as much of the New Urbanist ethic can be seen in urban design, as it has continued to be taught in schools of planning. Nonetheless, the formulation of the concept and its vigorous promotion came from outside the field of planning as it has evolved over the past 50 years, albeit from architecture, with which planning continues to be closely linked. That it has touched a nerve among both academics and practitioners seems undeniable.

### ***Beyond Academe: Theory and Practice***

The details of the story of theory within academic planning are complex, but the external sources of theory seem evident. It is difficult to find substantial innovations that are not adaptations of theoretical ideas drawn from elsewhere. But urban planning exists in universities primarily as a professional field. Given the proliferation of varieties of theory, it is reasonable to ask how theory has affected practice and whether the profession has developed its own theoretical foundations.

Studies of planning professionals’ conceptual stances have tended to focus on ethics and behavior, generally not seeking links to theory. Elizabeth Howe (1994), in her analysis of practicing planners, identified three prototypical positions — technical, political, and what might best be seen as a pragmatic synthesis of the two. Others who have described planners’ beliefs come to conclusions that are not that different. Those beliefs reflect the tasks that planners actually face, namely gathering and manipulating information within an intensely political environment, and doing so while operating in the context of private and public organizational structures that are under constant threat and adjustment. Planners specialize according to their opportunities, talents, and predilections. While these positions undoubtedly reflect deeper, implicit theoretical positions, few practicing planners write or speak



explicitly about theory. Their discourse at annual meetings and in conversation tends to reveal the tension between the academy and practice that is common in professional life. They set little store by academic theory, and much of their discourse reflects political realism combined with an idealism that is closer to Mumford than to his theoretical successors.

However, theory does seem to have connected with practice in several important ways. First, the transformation in how planning was taught came about in no small part as a result of the parallel movement into the field of ideas generated during the New Deal. In particular, we should note Harvey Perloff's concept of the "generalist with a specialty" (Perloff, 1957). His idea of the appropriate role and training of planners was well suited to the expansive view of the field prevalent after 1945. It also fit well with the growing presence in planning schools of scholars trained in other disciplines. Both the form of training and the young professionals who went into planning from the 1960s onwards reflected the tension between this model and the older, studio model derived from architecture and landscape architecture. The training and outlook of new professional graduates did change. Although it is not possible to document the impact on practice, there can be little doubt that such an impact occurred.

A second theoretical impact, as suggested previously, is through community allied to the objective of equity. The community focus in planning has deep roots. During the 1960s, it was revitalized by the social upheavals accompanying the Civil Rights Movement and the rediscovery of poverty. Although community theory was often less than rigorous, it provided a logic for action that reached the national level in the War on Poverty. Furthermore, it was articulated both at the city level and in the academic environment by practitioners, such as Norman Krumholz, in his roles as city planning director in Cleveland and as a teacher in a planning school (Krumholz & Forester, 1990). It also found intense expression in Chicago during the brief tenure of Mayor Harold Washington in the 1980s. One can identify in the work of people such as Krumholz, an expression both of community theory and more recently of communicative action theory consciously translated into practice. The recognition of Krumholz by his professional peers suggests that these ideas do have legitimacy and currency in the field, although arguably not enough.

A third connection between theory and practice lies in the domain of the environment. The environmental movement and its concern for sustainability, however difficult that may be to define for operational practice, has been critical for American planning over the past 40 years. Environmental legislation has profoundly changed the way in which planning is done, and through legal standing, it has opened participation in the process. Interestingly, this movement, too, came largely from outside the field, though it resonates with long-held ideas within planning. Environmental theory has not been at the forefront of planning theory, with the exception, again, of the communicative action theorists, who have paid attention to the processes involved in the search for resolution of environmental conflicts (Innes, Gruber, Thompson, & Neuman, 1994). In the schools, however, its ideas have permeated students' values and training. In practice, the field is often at odds with itself, simultaneously needing both to plan for and to restrain development in the face of enormous political and economic pressure. The demand for environmental analysis and plans has provided the basis for professional work on both sides. Thus, in the discourse of practicing planners, environmental ideas and concepts have become both attractive and an important part of practice.

Emerging from environmental pressures, a fourth intersection of theory and practice may be seen in the recognition of “urban sprawl” and “smart growth,” both at the national and local policy levels and in academic planning. Despite — and, perhaps, because of — the fuzziness of these ideas, they have entered the vocabulary of American planners to a remarkable degree in a very short time. Urban sprawl is an old idea, debated since at least the 1950s, when post-World War II suburbanization was at its height. While much of the conceptualization of low-density urban development occurred within geography and urban economics, in planning, the idea meshed well with a preference for higher-density development (Peiser, 2001).

In the 1990s, urban sprawl reappeared as a major issue, giving rise to the idea of “smart growth,” an umbrella term used by both proponents and opponents of regulation and management of urban growth to describe their preferred responses. The debate clearly resonated in planning, interacting with the New Urbanism. On the side of practice, it seems as though the acceptance of the idea that urban sprawl is undesirable is almost universal among planners. They are supported, more guardedly, by planning academics, with some notable exceptions (Gordon and Richardson, 2002), but we are also beginning to see efforts to define sprawl more exactly (Peiser, 2001; Galster et al., 2001). Thus, sprawl is a concept that has become a theoretical underpinning for practice, largely in opposition to the currently preferred mode of urban development in the U.S. Whether this opposition will prove to be evidence of foresight, presaging a deep transformation in urban development patterns is unclear.

A final connection between theory and practice in planning is one that might, at first sight, seem unlikely. Arguably, the most important technical advance in practice in the field over the past 30 years has been the adoption of geographic information systems (GIS) on a wide scale. While it might seem that GIS is simply an improved mapping tool, in fact, this is a case where a change in quantity becomes a qualitative transformation, enabling practitioners to conceive of and execute work that would have previously been unthinkable. In this sense, GIS is a powerful theoretical idea as well as a methodology. GIS has its historic roots in cartography, but its immediate origins are largely in landscape architecture through the work of Roger Tomlinson in Canada and Carl Steinitz, and Howard Fisher at the Harvard Graphics Lab in the 1960s (Foresman, 1998). A group in urban planning at the University of Washington, led by Ed Horwood, also contributed to its early development. Since that time, GIS has been developed across many fields, including landscape architecture, planning, geography, and others. In this instance, planning practice adopted an idea and a technology developed both within and outside the field.

### ***Taking Stock of Theory in Planning***

This lengthy discussion of theory in urban planning suggests that we should view theoretical advances with some care. Fundamentally, the field is too small to expect that it will generate all its own theoretical frameworks. In an intellectual world in which boundaries continue to crumble between disciplines, innovations, both theoretical and methodological, may be expected to flow more rapidly, if anything, in the future. Yet, it is worth noting that as a field of practice, urban planning has stubbornly held on to its idealistic roots. Among the array of theory discussed above, it is not the most rigorously grounded or scientific that have held sway with those who actually do the work of the field. Rather, it is those that resonate most



closely with the tasks that planners face on the ground, whether wresting with traffic or articulating the needs of communities. Positive social science is less influential than normative theories that provide reasons for action beyond those provided by raw politics. With this in mind, the question of how to view the significance of the New Institutionalism becomes more than simply asking how it might be relevant, but also calls for an examination of its consistency with what we know about this small, but unique, field.

## **The New Institutionalisms and Planning**

Urban planning is a field of knowledge, professional practice, and politics related to public and private decision-making about urban life. As such, it can scarcely be said to exist without institutional structures. The role of institutional theory in the field, then, might be expected to differ from that of other theoretical ideas. How innovations in institutional theory affect the field is also likely to differ. This section discusses how the innovation broadly known as the “New Institutionalism” might be relevant to planning, and suggests some potential impacts. First, however, it is necessary to sketch out the idea itself.

### *The New Institutionalism*

During the past two decades, several fields in the social sciences have experienced a resurgence of ideas that place institutions closer to the center of their thought and work. Institutionalism, itself, is an old idea in American social science, dating back at least to the early part of the 20th century. At that time, in economics, there was a reaction to Marshallian economic theory, as critics, such as Richard Ely noted its failure to take into account the political and institutional structures that defined the context for the economy. Many critics had explicit reform agendas. For others, notably Veblen, this style of institutional analysis formed the basis for a much deeper critique of capitalism (Veblen, 1898). Often, they sought both explanation and guidance for policy in a historical analysis of the evolution of institutional structures and organizations in American society. In economics, a strand of institutional analysis continued, but it had decreasing conceptual power in the face of the coherent logic of neoclassical economic theory. Even in macroeconomics, which had long focused on the specifics of financial and currency systems, the coming of Keynes and his successor critics directed attention toward broad, conceptual frameworks. Institutional analysis tended to be confined to areas with a high degree of application. In political science, the story is somewhat different, since the central concern of the field had long been the relationship between dominant institutions — typically, executive, legislative, and judicial — in the political process. Thus, apart from political philosophy, the field did not engage in efforts to construct abstract models and to test them empirically until the later part of the 20th century. However, institutions were mainly considered objects for study, insofar as they shaped political behavior, rather than being shaped by it. Parallel stories, differing in detail, can be told for other disciplines, notably sociology and anthropology.

The dominance of theory over institutional explanations went furthest in economics, in which, by the late 20th century, the neoclassical paradigm was virtually absolute. Despite a flurry of interest in neo-Marxism during the upheavals of the 1960s, both the schools and

the profession were remarkably unified with respect to microeconomic theory. Substantial debate in macroeconomics resulted in neoclassical formulations largely displacing Keynesian theory. The power of microeconomic theory, allied with great advances in empirical analysis, data availability, and econometrics, produced a discipline that was unequalled in the social sciences in the unity of its approach. Applying its concepts and tools, economics expanded its sphere of interest to social policy and politics.

But no theory is without its own cracks and inconsistencies. Neoclassical economics had an uneasy relationship with the problems of economic dynamics and economic development, which came to the forefront after 1945. Finding sure paths for policy toward economic development of poor countries proved theoretically and practically difficult. Furthermore, at the heart of the field, problems of scale, externalities, and market failure still resisted solution. Throughout the 20th century, some economists, notably Coase, had sought to answer the question of why institutions, such as firms, should exist, when they are apparently incompatible with the individualistic foundations of microeconomic theory (Coase, 1937). By the 1980s, a variety of economists had begun to seek explanations that brought institutions back into the field in a variety of ways. Perhaps the most straightforward was to use historical analysis, together with advanced empirical techniques and neoclassical theory, to attack the issues of development and the economic evolution of societies (North, 1990). Much more embedded in the structure of conventional microeconomics was Williamson's effort to take account for hierarchies, organizations, and rule systems in economic behavior through the need to address transactions costs (Williamson, 1975, 1983). In another form, similar attention to rules and behavior occurred in law, where neoclassical theory was colonizing parts of the field, even as the legal environment influenced and fed back into economics. Nowhere in this process was neoclassical theory displaced. Rather, one might say that its users were impelled to temper their theoretical assertions as they recognized the power of social and institutional systems of rules and behaviors. Perhaps this lesson is clearest in the collapse of the Soviet Union, where simple market solutions foundered in the face of social upheaval and the lack of adequate institutional structures.

Although the New Institutionalism is widely associated with economics, it has also been important in other social science disciplines, notably political science, organization theory, and sociology. In political science and organization theory, which I will treat together, its sources are complex, but they show interesting parallels with those in economics, especially in the search for means to deal theoretically with problems of aggregate behavior (see March & Olsen, 1989; Immergut, 1998; and Lowndes, 2001). Immergut sees the New Institutionalism in political science as rooted in a response to an earlier innovation, the "behavioral approach," which came to the fore in the 1950s, partly as a response to the traditional focus of the field on the organs of government.<sup>8</sup> The behavioral approach stressed observation and measurement of political behavior directly as the key to understanding government (Truman, 1951). In this sense, it based its view of government on micro foundations — the revealed preferences of political actors of all types.

The New Institutionalists reject the idea that behavior reveals underlying preferences, arguing that they are not directly expressed in political choices, since the latter are mediated

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<sup>8</sup>This discussion draws heavily on Immergut's (1998) superb review of the New Institutionalism in political science.

through context and institutional structures. Furthermore, they see major issues in the aggregation of individual preferences to collective decisions, arguing that all methods of aggregation are distorting and institutionally mediated. Immergut identifies a third major concern of the New Institutionalists to be normative (Immergut, 1998, pp. 7–8). In this view, if interests cannot be aggregated, then decisions, by whatever means, will not equate to the public interest. Historically, the alternative view to the utilitarian framework of aggregated preferences is grounded in social determinism, associated most clearly with Marxism. Such theories find normative bases in supposedly objective standards, grounded most often in class, gender, or other socially determining categories. The New Institutionalists generally accept that through institutional structures, particular interests will be privileged, leading to concern for justice and reform. However, they have a problem in defining how to set standards whereby justice might be assessed. Thus, they connect to an older tradition in political theory, which is important to planning, as we shall see below.

Immergut's formulation of the New Institutionalist terrain in political science and organization theory suggests three broad schools of thought, namely rational choice, organization theory, and historical institutionalism. Each of these has been relevant for planning in the past two decades. Rational choice theory, in its early form identified with Buchanan and Tullock (1962) who cut across the lines between economics and political science, and more recently with Riker (1982), analyzes collective choices among rational actors primarily in terms of rules for ordering. If a unique optimal aggregation of preferences is not possible, then rule systems are the institutional framework that shape decisions, and it is the task of theory to elucidate their implications for rational choice. Normatively, this should help in the selection of appropriate rule systems for particular ends, for example, in voting. It is notable that this approach tends to be less overtly normative, looking toward strategic choice mechanisms. It is no accident that rational choice theory has more in common with neoclassical economics than any of the others, or that it was influential in planning theory primarily among social scientists coming from that tradition.

Organization theorists, following March and Simon (1958), also rejected the possibility of aggregation of individual preferences into an optimal decision process, postulating instead the role of organizations as enabling the use of bounded rationality and the coordination of diverse actors. In the place of aggregating preferences, roles, hierarchies, and operating procedures become dominant. The solution to sub-optimality is organizational learning, though the question of how the goals for learning are established is never quite resolved. The history of the corporation, and the continuing struggle between the interests of the stockholders and the managers, suggests that this may be quite reasonable. Normative issues, equally, remain subsumed within bureaucratic power and bounded rationality. As with rational choice theory, organization theory found a responsive chord in planning from the 1960s onward, first in terms of social learning, and more recently in strategic planning processes.

The third aspect of new institutional thought, Immergut calls historical institutionalism. This line of thought crosses over into sociological theory and its form of the New Institutionalism, which is very diverse (Nee & Ingram, 1998; Brinton & Nee, 1998). No single line of theory characterizes historical institutionalism. Nonetheless, it may be identified in two ways. First, as with other forms on neo-institutionalism, it rejects the aggregation of preferences, substituting the idea of alternative rationalities, conflicts of power among interests, and the contingency of history. Thus, institutions influence decisions, but they, in turn, are

shaped by their historic context. The relation of this view to Marxist structuralism is clear, but there is also a strong distinction, connecting back to Max Weber. Planning theorists who were reading writers such as Barrington Moore Jr. (1966) or Lowi (1982) were largely not Marxists. Rather, they were attempting to connect structuralism to the dominant pluralist positions of the time in order to find a coherent political economy in which planning could be situated. The Marxist thrust in planning theory at that time had a much more specific model to work with.

Looking at recent historical institutionalism, Immergut (1998, pp. 18–20) identifies several common threads. Its adherents are interested in alternative rationalities, contrasting with the instrumental rationality that dominates Western social science. They view causality as contextual and exceedingly complex, explainable only by dense historical interpretation, while retaining structuralist elements. And they see history as contingent, with chance playing a powerful role. Similar factors, at one time, may produce very different results at another.

The story of the New Institutionalism in sociology has much in common with those above, and I will not discuss it at length. Again, the dominating theme is a turn against models based on the aggregation of individual behaviors, with a range of responses. One that should be specifically noted here is the idea of embeddedness, associated with Mark Granovetter (Granovetter, 1985). Whether Granovetter should be properly seen as an advocate of the New Institutionalism can be debated, but his influence on economic sociology, and through it on economic geography and regional development studies, has been profound.<sup>9</sup>

This brief sketch of the New Institutionalism across several fields conveys something of its diversity as well as its common features. This is not a unitary theoretical framework. Rather, it is best seen as a complex response to efforts in the social sciences to ground theory in individual preferences and choice. Despite the power of these theoretical systems, especially neoclassical microeconomics, there remain important issues of collective choice and social and organizational structures. One may see the New Institutionalism, in good part, as attempting to address those issues, which also go to the heart of planning as a conceptual and practical enterprise.

### ***Institutional Theory and Planning***

What might the New Institutionalism imply for urban and regional planning? At first sight, one might say “not much that is new”. That is not because institutions do not matter. To the contrary, it is difficult to conceive of the idea of planning for collective decisions about urban development without institutions being central (Christensen, 1999). The first section above, did not discuss institutions in relation to planning theory and practice in any detail, but a moment’s reflection will demonstrate that institutional structure has been extremely important to the field. Throughout its history in the U.S., there have been vigorous debates about the institutional framework in which it should be undertaken. One of the oldest debates concerns the “nonpartisan” model implicit in the planning commission form of organization that emerged in the early 20th century. Was this, in fact, a viable way to regulate development in the larger community interest, or was it simply an effective means for dominant

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<sup>9</sup> The discussion by Hamilton and Feenstra (1998, pp. 158–160) is interesting in this respect. See also Nee and Ingram (1998).

economic and political groups to shape the city in their own interests? A related issue that emerged in the 1950s concerned the placement of the planning function within the local government structure. Should it be associated directly with the chief executive, or should it perhaps be an elected commission somehow insulated from immediate politics? Throughout the evolution of the field from the late 19th century onward, its legal framework was vigorously discussed and debated, as institutional innovations, notably zoning and subdivision control, were translated into legislation and confirmed or struck down in the course of subsequent litigation. In many respects, it was this legal and institutional structure that comprised the most coherent body of theory that was transmitted to new entrants to the profession before 1960. The larger theoretical framework of comprehensive planning for the public welfare, discussed earlier comprised the overarching philosophical context.

In short, the practice of planning seems to have been hugely affected by the legal and institutional structure that defines its social role and power. Comparison of urban planning across countries reinforces this view. Even countries as similar as the U.S. and Canada exhibit substantial differences in the forms and practice of planning; even more so is this the case between the U.S. and Mexico. Yet, one might also say that it is not the institutions, but rather the structural power relations, culture, ideology, and value systems that are ultimately determining of the difference. In this view, the institutions are co-determined along with practice. To take it one step further, if one were to take a traditional Marxist view, as many planning theorists did in the 1970s, planning, like other forms of governmental activity in a capitalist society, simply reflected the interest of the dominant class and its institutions were inherently oppressive. The conundrum then was to know what to do within those institutions, other than to attempt to overthrow them, which would be self-defeating if the effort failed. Much the same argument can be applied to the more recent libertarian critique that has a modest presence in the field (Gordon & Richardson, 2002).

In fact, most planning theorists shied away from a fully social determinist stance toward planning and its institutions. Rather, they sought theoretical bases for public action within the social system as it existed, or at least for a conceptual form that was close enough to the existing system. In this sense, one might interpret the theoretical gyrations of planning theory in the second half of the 20th century as a search for foundations having much in common with the New Institutional agenda. For social scientists entering the field from the direction of economics and behavioral political science, the idea that planning could be comprehensive and respond to the public interest seemed to lack foundation. The field seemed to exist by virtue of failures of the market, understood as reflecting individual choices and decisions. Equally, its tasks and institutions were not seen as simply reflecting political behavior, but also expressing the larger common good, inherent in its utopian origins. Thus, the journey described by John Friedman — through problems of aggregation, externalities, rational choice, bounded rationality, learning theory, and the rest — can be seen as a series of attempts to provide a theoretical rationale for the existence of the field and its institutions in the face of perceived theoretical inadequacy. In contrast, the Marxist and neo-Marxist challenges can be seen as attempts to impose on the field a normative theoretical foundation that would both ground it historically and fundamentally change its purpose from the idealist forms and capitalist serving role that were seen as dominant.

It is in this context that we ask what the New Institutionalism implies for planning. Evidently, elements of institutionalist economics have long been present in planning thought, especially in discussions of market failure. Explicit attempts to use transaction

cost theory are less common. Despite Ernest Alexander's interesting papers, the idea has not really penetrated into the field in a way that is evident either in theoretical debates or in practice (Alexander, 1992, 2001). Organization theory continues to have a significant presence in planning, but developments in planning do not seem to be closely connected to developments directly in the larger field (Alexander, 1995).

Historical institutionalism, drawing from economics, politics, and sociology, has been attractive to planners. In many respects, it is a comfortable accommodation for planning scholars, offering the possibility of escaping the trap of social determinism, while retaining structural explanations for observed phenomena. It also provides richness in explanation, taking into account historic uniqueness, albeit at some cost in generalizable, empirically based explanatory power. In the hands of an exceptional scholar, such as Castells (1996), this can be very powerful. Probably, its most powerful manifestation has been in regional development, especially on the boundary with geography. There, an active school of thought has arisen, which would probably not see itself as part of the New Institutionalism, but which has much in common with it, especially through the idea of embeddedness (Granovetter, 1985). While mostly academic in style and activity, this school of thought has had influence on practice, in the field of economic development planning, especially through the idea of industrial clusters as a basis for strategy (Saxenian, 1994; Hill & Brennan, 2000). As a foundational basis for a field of practice, however, this model has deficiencies. Its theoretical structure is discursive, as is the case in most work in the historical institutionalist mode. As a conversation among those involved, it is effective and surprisingly accessible. However, for the most part, it does not yield much in the way of guidance to practice in urban planning, as it is generally understood. In a broader sense, though, there is a great deal of descriptive scholarship on urban planning that might be seen as falling under the broad rubric of historical institutionalism. Mostly in the form of case studies, this work does focus on practice, but its authors rarely see it as reflecting an institutionalist stance. One might ask, then, whether institutionalism has to be self-aware in order to be called by that name.

Finally, it is appropriate to return to communicative action, discussed above, in relation to the New Institutionalism. I have argued that this has been a very important theoretical contribution, transcending its origins by virtue of generating a real school of thought in the field. That school has not gone unchallenged (Flyvbjerg, 1998; Huxley & Yiftachel, 2000; Fischler, 2000). Nonetheless, it has arguably been the most important theoretical initiative in the field in the past two decades, by virtue both of the numbers of scholars engaged, and of their focus on planning practice. In its style and theoretical stance, communicative action has much in common with the New Institutionalism (Healey, 1999). Some of its leading scholars range across into organization theory and collaborative decision making as part of their view of what it implies (Innes & Booher, 1999). What separates them from the varieties of New Institutionalist thought discussed above is their explicitly normative stance toward social justice, to be achieved procedurally rather than directly.<sup>10</sup> As I have noted previously, this is quite in accord with the history of planning thought. Perhaps, this is an appropriate criterion for identifying a

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<sup>10</sup> Patsy Healey, for example, sees the origins of the New Institutionalism in the Marxist political economy interacting with phenomenology and social exchange theory. This is consistent with a more normative stance, but it does not accord with most accounts of New Institutionalism's origins.



version of the New Institutionalism that really is specific to planning. The field could probably do worse.

## Conclusion

The New Institutionalism is an extraordinarily broad array of initiatives in social science. Given its multidisciplinary appearance and diverse nature, New Institutionalist thought cannot be seen as a unitary theoretical structure or as a single intellectual program. That it would be imported into planning is not surprising, given the historic character of theory in this small, professional field. Further, the styles of work and foci of attention of New Institutionalist thought conform well with the subject matter of planning and with the role of institutions — collective decision making structures, laws, and rules — in its very existence.

But, paradoxically, one might argue from precisely these premises that the New Institutionalism, *per se*, is likely to have relatively little explicit role to play in the field of planning. Within academic disciplines, it has served an important function in directing attention to deficiencies in their theoretical frameworks, especially where the aggregation of individual preferences, decisions, and behavior has dominated. For planning, that task is much less clear. The field finds its very existence grounded in institutional design and implementation. Yet, as we have seen, it is difficult to sort out the contribution of institutionalism among the welter of theoretical positions in the field. Its subject matter makes it difficult for any single theory to dominate, even within individual studies. This is not a very tidy state of affairs, especially for some social science scholars, but it is what we have to live with.

I do not expect to see any theoretical system encompass planning in the way, for example, that microeconomic theory dominates economics. We will continue to be contested terrain in which it is possible for advocates of positive science, such as Lewis Hopkins, come to terms with the normative character of much that we do, while others start from the other end of the spectrum with advocacy (Hopkins, 2001). We will see scholars trawling the waters of theoretical innovation elsewhere in search of usable ideas, whether of the New Institutionalism, post-modernism, or complexity theory and adaptive systems (Innes & Booher, 1999). We will also continue to see theoretical innovations emerging from the desire of practitioners for normative and usable ideas in the field. The new urbanism is only the most recent of these. They may be theoretically inelegant or poorly grounded, but they are a form of theory in planning with a long history and a powerful hold. Even the communicative action model, which has gained many adherents in the past two decades is subject to challenge, especially from the structuralist side of planning theory, and also from within its own ranks.

Nonetheless, the field has some real strengths, especially in its political constituencies that are rooted in the desire to regulate development for broader social ends. As population pressure on resources grows, the conflicts will become sharper and the role will continue. Planning will continue to seek both theoretical justification and the means for practical action. The New Institutionalism will most likely be visible in both of those quests, albeit under other labels.

## Acknowledgments

I am grateful to Peter V. Hall for our discussions of this topic, as well as for the term “The New Institutionalisms.” Karen Christensen has been a continuing source of insight about institutional structures in planning over many years. Of course, I am responsible for any errors that may occur in the paper.

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## Chapter 2

# Institutionalist Perspectives on Planning: Why? Where? How?

E. R. Alexander

The institutionalist perspective is only the latest of a series of images of planning, which have varied to reflect changes in planning and how we perceive it. One view goes back to the dawn of human history, when planning was identified with magic in showing desired outcomes. Just as a building's plans show it as its designers intend it to be, cave paintings show the results of the chase, which the hunters and their shaman-painters wanted.

The planner as priest contradicts the association between planning and rationality that has existed since the enlightenment (Alexander, 2000a), but perhaps it is complementary. In planning, complexity and limited understanding veil the connections between causes and effects, and mystification may take over. Imhotep, an Egyptian planner who became a demi-god<sup>1</sup> personifies this image, but some believe that the planner as shaman-priest persists even today (Krieger, 1981, pp. 191–192).

Planning has still been linked to divinity or at least genius, and the image of the inspired planner has extended into the present. From eponymous prototypes such as the Bible's Joseph (the divinely guided planner–administrator) and Hippodamus of Miletus (the classic “inventor” of the grid), we can fast-forward to more recent counterparts like Baron Haussmann in Paris, Le Corbusier in Chandigarh, Ed Baker in Philadelphia, and Robert Moses in New York (Alexander, 1992a, pp. 14–15). This model sees planning as charismatic leadership legitimized by god, genius, or political delegation, assuming an authoritarian regime: a theocracy, autocracy, or oligarchy.

A newer perspective sees planning as a social technology based on scientific knowledge. This view informed the late 18th and 19th century predecessors of contemporary urban planning, rooted in utilitarian and utopian streams of thought. Converging ideas of

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<sup>1</sup> Imhotep (2nd dynasty, about 2100 BC) was responsible for the sophisticated layout and design of Zoser's capital and funerary temple complex, besides being his principal adviser; in the Egyptian pantheon, he was credited with the invention of the pyramid and writing.

planning as efficient administration, planning as social reform, and planning as civic design produced the professional practice that we know as urban or city and regional planning today (Alexander, 1992a, pp. 20–32). Here planning’s rationale and legitimation is the systematic application of knowledge, based on modernism’s faith in scientific progress, and supported by a benevolent technocratic democracy.

With gathering critiques, another view supplanted the scientific–rational model of planning. This sees planning as a practice combining some science-based knowledge with some craft aspects under the umbrella of a normative philosophy (Marcusen, 2000, pp. 261–265). Planning is identified with public intervention, with its rationale based on the market failures diagnosed by welfare economics, and its aim as social reform or transformation (Friedmann, 1987). This perspective views planning as a form of politics in a capitalist-democratic regime, and gives planners the task of pursuing social justice.

The institutionalist perspective shifts the focus from planning as an individual or interpersonal activity, to viewing planning as an aspect of governance (Healey, 1987, pp. 218–220). This view implies a broader vision of planning and its relevant contexts than one limited to public planning and focusing on the state (Alexander, 2001a, pp. 1–4). It is perhaps too soon to clearly identify the incentives for adopting the institutionalist perspective, or for its growing popularity: pragmatic realism may be one.

This image of planning retreats from the normative thrust of the “public planning” model, without necessarily abandoning its values. It also responds to the need for a plausible account of planning in positive, not only normative, terms. The institutionalist perspective premises that institutions are an important aspect of society and provide good explanations for human behavior, and that planning itself is a kind of institution: in Giddens’ (1984) terms a social structure (Healey, 1999, pp. 112–114).

Consciously or not, the institutionalist perspective has informed my explorations of planning. In this paper, I propose institutionalist answers to three key questions about planning: (a) Why do we plan? The answer to this question offers an institutionalist rationale for planning; (b) Where does planning occur? Here an institutionalist analysis explains the place of planning in the complex fabric of society; (c) How do people plan? I will argue that institutional design is an important (and neglected) aspect of planning. Though the textbook on institutional design has not been (and cannot be) written, I will offer some suggestions on “how to do” institutional design.

## **Why? An Institutional Rationale for Planning<sup>2</sup>**

Various answers have been proposed to the question: why planning? This question can be framed for generic planning, from planning as “ordinary forethought,” through planning as an attribute of all intentional action. But when addressed as a societal (rather than individual) activity, planning has usually been identified with public action and intervention.

This perspective has offered different rationales for planning. On the positive side, they include planning as a function of government. The market failure justification, based on

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<sup>2</sup> This section is based on Alexander (1992b, 2001a).

Pigouvian welfare economics, is supplemented by arguments from games and public choice theory and the communitarian case for a public domain. On the other hand, public planning may also be negative: an instrument of social control for implementing hegemonic state policy, or serving oppressive urban regimes.

These are unsatisfactory explanations for planning as a generic societal activity, because their basic premise is fundamentally incorrect. They all assume a clear dichotomy between planning, associated with public intervention, as opposed to the supposedly unplanned market. But (except in extreme cases<sup>3</sup>) “planning” and “markets” are not distinguishable. Institutional economics reveals the fallacy of this dichotomy: planning is not limited to the public sector. An adequate theory should be able to offer a realistic account for planning, and not only as something external or complementary to markets. The “transaction cost theory of planning” does this, but first a brief introduction to transaction cost theory (TCT) is necessary.

### *Transaction Cost Theory*

Integrated TCT extended transaction cost economics (explaining economic institutions) from the market into the public realm. Modifying classic economics to focus on transaction costs, TCT explains institutional adaptations of the perfect economic market. The basic unit of analysis is the transaction: any exchange between parties, from simple exchanges of goods and services for money, to other transactions involving the promise of action of value by one party in exchange for money or other valued resources, or for the promise of reciprocal action of economic or other value.

TCT prescribes *discriminating alignment*: matching transaction attributes with alternative governance structures, to see which offers the lowest transaction costs for all participating actors. Critical transaction attributes include interdependence, uncertainty, and duration: a transaction that is repetitive or extended over time. To the degree that a transaction has these characteristics, the actors may be exposed to various hazards: opportunism, e.g., one party to a contract exploiting the other’s dependence or his own superior information; or moral hazard: an agent accepting unwarranted risks that are divorced from responsibility.

Transactions with various combinations of these transaction characteristics elicit different forms of governance. The completely independent transaction, such as a simple purchase, is highly compatible with the perfect market. “Mixed” transactions, more interdependent, more uncertain, or more ongoing, evoke market adaptations into “hybrid” forms of governance, such as voluntary arbitration, relational contracting (e.g., industry-wide bargaining), and regulated markets, e.g., stock exchanges in the economic market, and campaign financing legislation in the political market. “Idiosyncratic” transactions, with high interdependence, uncertainty and information-impactedness, and which are repetitive or long lasting, stimulate integration into a single organization: the public bureau or the corporate firm.

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<sup>3</sup> Such as the complete command economy (a vanishing species with Cuba and North Korea its only surviving examples) and the ideal “perfect” market (the real existence of which is still debatable).

*A TCT of Planning*

In “perfect” markets, transactions are unplanned. This is true in both economic and political markets. The participants are all small, simple units: firms, households and individuals, legislators, simple political units, and unitary public agencies. Decisions in these transactions are spontaneous, guided only by some basic deliberation and mutual adjustment. This may be quite informal and intuitive, involving information processing and evaluating alternative courses of action in the light of possible contingencies. This is the kind of planning that precedes direct action or concluding a simple economic or political agreement.

Collective outcomes here are unplanned: they are aggregations of individual decisions in these markets. The perfect market, then, is associated with non-planning. In the economic market, outcomes are the systemic results of free competition equilibrating supply and demand. In the political market, collective decisions emerge in an incremental process of partisan mutual adjustment.

Markets do not need planning to make collective decisions; organizations do. Organizations need planning to articulate their objectives and design and evaluate future course of action to meet possible contingencies.<sup>4</sup> They also engage in routine advance planning of prospective operations, essentially a future extension of management. Simple organizations can limit themselves to these kinds of planning, but few organizations are so simple.

Various types of planning can be tentatively associated with forms of organization that differ in their size, complexity, and degree of hierarchy. Larger and more complex unitary organizations engage in formal and systematic strategic planning, but as they increase in scope, size, and complexity, hierarchical control becomes inadequate to identify and implement common purposes. Planning becomes more interactive, to bring the divergent objectives of different units into concert by creating agreed upon frames of reference for future decisions and actions.

This is coordinative planning.<sup>5</sup> If a firm is not a mom-and-pop business, but a large corporation, it cannot set objectives without consultation between its divisions. Implementing its adopted strategy also needs planning, assigning to each unit its essential tasks. Similarly, unlike a small town Public Works Department, a regional transportation agency needs coordinative planning to determine its traffic management strategy, involving interaction with local governments, employers, and other interests. Coordinative planning means devising strategies for deploying the relevant organizational units and ensuring the commitment of each to its assigned role. The structural aspect of coordinative planning is institutional design.<sup>6</sup>

As organizations grow and differentiate, the interdependence of internal and external stakeholders increases. As the distinction between the organization and its environment grows ever more tenuous, coordinative planning comes to involve inter-organizational systems. Much of

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<sup>4</sup> This is no less true for private sector organizations than for public ones. Indeed, in one view, the firm exists to plan: firms evolved in response to the need to respond efficiently to the market’s signals, requiring “decision making (that is) coordinated ex-ante in firms” (Hermalin, 1999, pp. 104).

<sup>5</sup> For a more extended description and examples, see Alexander (1998).

<sup>6</sup> The discussion will address institutional design in more detail later.

what we observe is this kind of planning. The global corporation invokes strategic planning to concert the operations of its subsidiaries, internalizing market transactions or devising accounting frameworks for exchanges between subsidiary units. Economic TCT accounts for large firms and complex corporations that are really inter-organizational systems, and the transformation of what classic economics envisaged as simple, atomized market into what is more realistically understood as a complex organizational environment.

In the same way, the local government's master plan is a framework for coordinating its own units' and its residents' and firms' investment and location decisions in a way the market cannot. A mandatory regulatory system usually supplements such plans. TCT offers a parsimonious explanation for why this quasi-hierarchical system of public agencies, households, firms, developers and other interests, and the planning that goes with it, have come into existence. This is presented in more detail below.

To summarize the TCT of planning:

- Transaction costs, especially those involved in idiosyncratic transactions, are incentives for developing non-market linkages that generate hierarchical organizations and inter-organizational systems.
- Collective market outcomes, economic or political, are aggregations of multiple self-interested decisions and partisan adjustments through systemic market interactions: perfect markets do not need planning.
- Planning, therefore, is part of the response to high market transaction costs, and is a property of non-market forms of organization. In particular, planning is associated with formal organizations, which range from unitary hierarchical organizations to complex inter-organizational systems.
- These organizations exist in the public and private sectors alike, the consequence of market adaptations to minimize transaction costs. Since it is associated with organization, therefore, planning is not only government intervention in the market, but occurs in the market too.
- TCT refutes the "planning vs. market" dichotomy, which would make empirically observed private sector and mixed planning (see below) no more than an irrelevant anomaly.<sup>7</sup> Unlike conventional rationales for planning, the TCT of planning accounts for planning that is more than government intervention, confirming the institutionalist view of planning as an aspect of governance.

### ***A TCT of Land Use Planning and Development Control<sup>8</sup>***

Pigouvian welfare economics have justified government intervention in otherwise unregulated land and property markets. Institutional and transaction cost economics provide more parsimonious explanations, while TCT offers the added merit of applicability in institutional design. Their two accounts for the existence and popularity of public land use

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<sup>7</sup> Which it is according to conventional views of planning still widely espoused today; see, e.g., Friedmann (1993, 1994) and Sanyal (2000).

<sup>8</sup> This section is based on Alexander (2001b).



planning and development control represent two different levels of analysis in a three-level schema of society.<sup>9</sup> TCT focuses on the meso-level: forms of governance and their relative costs. The macrolevel is the institutional environment, the domain of mainstream institutional economics.

Defining public land use planning and development control as “government delineation and/or restrictions of rights over land within certain spatial confines” (Lai, 1994, p. 77) makes them a significant part of the institutional environment of the land development process and the property market. Public planning assigns and restricts land development rights, and development control intervenes in land development, construction, occupancy, and use to enable and constrain transactions in accordance with prescribed rules.

Institutional economics modifies classical economic theory by suggesting that transaction costs inhibit the effective operation of markets without some third-party enforcement of contractual commitments. Voluntary institutions (such as arbitration) also face the problem of enforcing compliance. State administered third-party enforcement, therefore, is essential even for efficient “impersonal exchange” in the classic economic market, and the clear delineation of property rights is a critical precondition for markets to work at all.

Rights over land are a powerful case: the assignment of land uses will generally reduce transaction costs (as discussed in more detail later) and can create or enlarge markets. But recognizing planning and development control as part of the market’s institutional environment still leaves the question open: why “public”? Cannot voluntary enforcement and compliance substitute for parts or all of the governmental regulatory apparatus? This is a valid question, which gets different answers depending on the level of analysis.

At the meta-level the answer is negative. Assigning property rights in land (as land use planning and development control do) is a “sovereign task,” involving commands that can only be issued and enforced by the state. Here institutional economics joins mainstream planning theory in acknowledging public planning as essentially a political activity. This combines with the quasi-judicial aspects of development control to confirm the public nature of land use planning and regulation.

The TCT approach, however, sees the question: why public? as open, even for sovereign tasks, to meso-level examination of the discriminating alignment between transaction attributes and alternative forms of governance. Review of the relevant transactions in the process of producing and transforming the built environment reveals that their potential hazards demand hybrid forms of governance.

A generic model of the land development process,<sup>10</sup> which identifies the relevant parties and their hazards, consists of a sequence of transactions that begins with the first land

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<sup>9</sup> The microlevel, dealing with the individual, is outside TCT’s concern.

<sup>10</sup> The model is generic and abstracted from any particular social context, and includes no specific form of governance (including planning). It is invalid in command economies (e.g., Cuba) and traditional societies (e.g., Mali), where land is a common resource and private property is an exception to the norm. It is also only true to the degree that economic and property rights are subject to the rule of law. But the model can be modified (as it must be in any case) to reflect specific aspects of non-market-type property rights, such as *ejido* (communal) landholdings in Mexico, or state-owned lands in Israel, Hong Kong, and Malaysia, e.g., see Alexander (2001c).

purchase: the acquisition or assembly of undeveloped or open land. Subsequent<sup>11</sup> transactions are financing, land preparation and development, land disposition, construction, and property transfer.

The parties in these transactions, include the original landowner–seller, and other sellers and buyers of land or property who may be, depending on the transaction, landowners, developers,<sup>12</sup> land speculators, builder–developers, and firms and households acquiring land or improvements or building for their own use. They also include financial institutions, contractors, and professional consultants involved in the land development process.

Analysis of the transaction attributes shows that most of the transactions involve large and long-term commitments, and all of them are subject to high (though varying) levels of uncertainty. The main source of uncertainty (affecting all the parties in differing degrees) is the land or property value, due to interdependence between a site’s development potential and neighborhood effects. All the parties involved in the land development process and the property market have a common interest in reducing this uncertainty and avoiding the transaction costs they would incur in the absence of some form of market or administrative support.

This analysis proves the need for forward planning and development control for effective land development and an efficient property market. But it does not necessarily imply third-party governance, i.e. public planning and state-enforced development control or zoning. A repertoire of alternative forms of governance and their transaction-related characteristics (see Table 1) shows the various ways in which land use planning and development control may be delivered.

Third-party governance means statutory public planning and development control, leaving open more detailed review of how such a system might be organized. This includes possible “outsourcing” of public planning and regulatory functions. Planning in bilateral governance involves deliberate intervention in the land development process. This can be done directly by government agencies, or through public–private partnerships, which have become popular development instruments over the last two decades. It is of course also extensively done in the market itself, by large-scale landowner–developers.

In indicative planning, government does not intervene directly but provides indirect market support. Indicative plans show public investments and indicate desired patterns of area development. An indicative plan needs private investors’ confidence in government’s commitment to implement its own decisions, and in the quality of its data. Its success also depends on how it incorporates market-led development that would occur in any case. If it prescribes development contrary to expected trends, an indicative plan needs a political community of interests supplemented by other implementation tools.

The bilateral governance alternative to regulation is contractual development control, which takes two forms. When the state is the landowner, “contract zoning” ensures plan conforming implementation, e.g., Hong Kong’s long-term leasing of Crown land, the Netherlands’ municipally acquired and prepared developments, and Israel’s public

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<sup>11</sup> Not necessarily in sequence or linear order; in many cases, the process includes feedback loops between some stages.

<sup>12</sup> Landowners and developers can public agencies or private individuals or firms acting in these roles in the land development process.

Table 1: Forms and agents of governance in the land development process and property market.

<b>Form of governance Agent</b>	<b>Third-party governance</b> (administrative support)		<b>Bilateral governance</b> (market support)		
	Public/government	Private (delegated)	Public/government	Mixed (public/private)	Private (firms, corporations households)
<b>Task</b>					
<i>Planning</i>	Statutory public planning (government agencies, bureaus)	Professional consultant firms	Public developer–planner (government/public agencies) Indicative planning: (Public planner and/or delegated consultants) Infrastructure, public facilities/open space, indicative designation of private land uses/intensities	Public–private partnership	Developer-initiated planning  Informal planning
<i>Development control</i>	Regulatory: (government/public agency) Zoning, building regulations, other (environmental, hazard, special area designation, etc.)		Contract zoning: Plan as condition of contract of lease or sale between public landowner and developer		Contractual: CCGs between developer/planning agent and subsequent propertyowners

land management. On large privately owned tracts, voluntary development control takes the form of contractual covenants and restrictions (CCRs). Though popular in North America, they are rarer in Europe, and almost unknown elsewhere. Evaluations of their success are mixed, and contextual considerations are undoubtedly relevant to their transferability.

## **Where? Planning in the Social Context<sup>13</sup>**

The conventional perspective associates planning with government intervention and state action, juxtaposing the (planned) public sector with the “free” market. Discussions of planning frequently express this dichotomy, contrasting “market-” and “plan-rationality” or comparing “synoptic planning” to an incremental political market. But more advanced theory (as presented above) and observation suggest that this dichotomy is no longer correct, and if it was it has outlived its usefulness.

Many definitions of planning (e.g., as rational choice, as anticipatory coordination, or as the link between knowledge and action<sup>14</sup>) transcend this dichotomy. Political economists have been debating the respective merits of markets and various alternative forms of organization, and in the policy arena exploration of organizational structures and service delivery systems has ranged from markets through various mixed forms to pure bureaucracies. Increasing complexity has also blurred the boundary between the state and the market. Privatization and “third-party governance” (Palumbo, 1987, pp. 97–99) have diluted the public sector, which is not the exclusive domain of state agencies (if it ever was).

Arms procurement illustrates this interdependence between the public and private sectors. The US combines formal separation and competitive procurement with close cooperation between the Pentagon and major defense contractors in a complex symbiosis. Other countries, like France, openly recognize this interdependency, with government as a major shareholder in defense industries. Elsewhere (e.g., in Brazil and Israel), national arms industries integrate R&D, production and procurement from private subcontractors. This shows how artificial the public–private sector distinction is, even for national defense, surely a public good par excellence.

The market, too, is rarely the “perfect” market beloved of classic economists. It has evolved into a variety of “hybrid” forms blending private enterprise with various types of public involvement in administrative or market support, and includes large integrated corporations often much like (public) bureaucracies (Williamson, 1975). Consequently, planning is not limited to the public sector.

There is planning in markets, where firms and corporations plan their own activities, formally applied in corporate strategic planning (Lorange, 1982). There is planning of markets: the devising and management of artificial markets, such as tradable emission

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<sup>13</sup> This section is based on Alexander (2001a).

<sup>14</sup> Paradoxically, this widely used definition (Friedmann, 1987, pp. 38–44) contradicts Friedmann’s own exclusive focus on public planning.

rights, auctions of telecommunications transmission frequencies, transferable development rights, and interagency resource exchanges as in Britain's National Health Service (Alexander, 1995, pp. 227–234). And there is planning for markets: institutions and policies such as SEC regulation of the New York Stock Exchange, the EU Commission's "Single European Market," or statutory land planning systems as in the UK.

Private firms, as expert planners, also do most of the planning actually done today. They are the "outsourced" providers of governments' comprehensive forward land use planning that backs up their statutory planning and development control. They do almost all the sectoral planning,<sup>15</sup> e.g., for infrastructure and strategic facilities, land development, industrial production, and telecommunications. Planners are as ubiquitous in the private sector as in government: they may be independent expert consultant firms, or they may be an "in-house" unit of sectoral firms and corporations.

Where the "transaction cost theory of planning" provides the theoretical refutation of the planning market dichotomy, the above review offers the empirical evidence. It is clear that planning is not limited to the public sector: it is everywhere. The institutional perspective dissolves the public–private duality, subsuming both under the overarching concept of governance. This view enables us to abandon sterile debate about the relative merits of public intervention vs. untrammelled private enterprise, or between "planning" and "the market."

For the purpose of institutional analysis and design, the institutional perspective applies the tools of TCT to ask a better question: What form (or forms) of governance is most effective for the parties involved in a particular process? TCT's discriminating alignment also offers a criterion for judging effectiveness: minimizing all the stakeholders' total transaction costs.<sup>16</sup> More important is another aspect of judging effectiveness that TCT offers: remediability. This demands comparison between alternative feasible forms of governance, rather than evaluation against some abstract ideal.

## **How? Planning Paradigms and Institutional Design**

How we view planning affects how we think planning should be done. The changing perspectives on planning described above imply different descriptions and prescriptions for planning practice. The rational planning paradigm, dominant under the conventional perspective of public planning, is being eroded by other paradigms associated with newer images of planning, but one thing is generally agreed. Planning is not homogenous: we are in a pre- or multiparadigmatic era, when various forms of planning, or planning "paradigms" are recognized.

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<sup>15</sup> Some sectors, e.g., human services, where most of the planning is done in government agencies, Quangos or NGOs, are an exception.

<sup>16</sup> Net transaction cost minimization may seem just another form of simple economic efficiency, but it can be an effectiveness indicator, supporting other values. If the analysis includes all the relevant stakeholders and their direct and indirect transaction costs, minimizing overall net transaction costs may enhance democracy and participation because the summary criterion will include the positive and negative (saved) transaction costs of their inclusion or exclusion from the process.

### ***Planning Paradigms and Coordinative Planning***

To look at planning in its diversity, I have suggested a contingent framework, which integrates four different planning paradigms: rational planning, communicative practice, coordinative planning, and “frame-setting” (Alexander, 1998b).<sup>17</sup>

**Planning as deliberative** The classic rational planning paradigm sees planning as a deliberative activity of problem solving, involving rational choice by self-interested individuals, or homogenous social units (organizations, agencies, governments) acting as if they were individuals. Rational planning enables the actor to decide on the ends of future action, and what course of action would be most effective. The rational planning paradigm still underlies the most planning methods and technical–professional planning practice.

**Planning as interactive** According to communicative practice, planning is not an individual activity (as envisaged in the rational model) but a social interactive process. Communication between the actors (again, individuals or quasi-individuals) is this paradigm’s focus: planners’ statements, plan narratives, and the rhetoric of planning research and analysis. Interactive approaches (e.g., facilitation, mediation, and conflict resolution) reflect the ideas of communicative practice.

**Planning as coordinative** Defining planning as anticipatory coordination implies that planning is not only about where to go, but also how to get there. In coordinative planning, the relevant units are not individuals or quasi-individuals, but heterogeneous organizations, and its focus is how to deploy them to act at the appropriate time to accomplish mutually agreed upon outcomes. Strategic planning offers some methods for coordinative planning, while its structural aspect is institutional design (which will be discussed below).

**Planning as frame setting** “Frame setting” describes the social process of defining a problem situation and developing appropriate responses. It can range from community “visioning” and strategic or master plan development, through inter-agency policy debate, to the maintenance or transformation of national planning doctrine. Frame setting involves interpretive schemes and metaphorical expression, reflecting the structuring power of ideas through a process of policy discourse. Here the relevant arena is a community: a policy network in an issue area or a territorial planning community.

These four planning paradigms are complementary, not conflicting: each involves different kinds of actors or roles, doing different kinds of planning at different stages or levels in the planning process. In the rational and communicative practice paradigms, the actor is the individual (or quasi-individual) planner or decision-maker. In coordinative planning, it is a heterogeneous social unit — an organizational subunit, an organization, or an inter-organizational network; and in the “framing” model of planning, it is the relevant policy or planning community.

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<sup>17</sup> See Alexander (2001, p. 253, Note 23) for the reasons for developing this framework, rather than adopting one of the existing taxonomies of planning models or paradigms.

From the institutionalist perspective, two of these paradigms are especially relevant. One is communicative practice, where Healey's and Innes' work in particular has traversed the course from interpersonal communication through modes of community discourse to what are essentially processes and structures of governance (Healey, 1992, 1997; Innes, 1995; Innes & Booher, 1999). The significance of this planning paradigm is foundational, as advocates of communicative practice turned into leading proponents of the institutionalist perspective on planning.

The other is coordinative planning, which of all these paradigms is the most compatible with the institutionalist approach because its principal actors, organizations, are themselves a kind of institution. Unlike communicative practice, no one has proposed coordinative planning as a newly dominant paradigm for planning (to supplant the traditional rational model, or even in competition with its recent rival), but coordinative planning has always existed, perhaps for nearly as long as planning itself. Coordinative planning is implicit when planning is defined as anticipatory coordination (March & Simon, 1958, pp. 158–169), and is a widely recognized aspect of planning today (Faludi, 1996, p. 70; Harris, 1996, p. 485).

### *Coordinative Planning and Institutional Design*

Coordinative planning focuses on the level of analysis that is of particular interest from the institutionalist perspective: the meso-level between the microlevel of the individual actor and the macrolevel of whole societies. This is where we find formal institutions and their structural manifestations<sup>18</sup> as formal organizations and inter-organizational networks.

Coordinative planning involves organizations interacting to concert their future decisions and actions in pursuit of mutual goals.<sup>19</sup> In this process, planners have to identify the agencies, organizations, and constituencies participating in the relevant inter-organizational network, and define their roles and interactions in the context of developing an agreed on implementation strategy. This leads to detailed program or project design, specifying the necessary resources (funding, incentives, legislation, regulations, etc.) to ensure that all the actors perform their prescribed tasks.

Implementation strategies may include creating new organizations or restructuring existing ones, and they may demand framing new rules (e.g., legislation or regulations) or amending old ones: this is how coordinative planning subsumes institutional design. At the same time, coordinative planning gives planners an active implementation role: interacting with the relevant set of organizational participants, and assessing their respective constraints, incentives, goals, and values. In acquiring this knowledge and synthesizing it into project and program plans and strategies for the effective and timely deployment of participating organizations, coordinative planning provides the “missing link” between planning and implementation (Alexander, 1998, pp. 304–305).

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<sup>18</sup> Organizations are themselves institutions, and can reflect other formal (e.g., laws) and informal institutions (e.g., societal norms or associational bonds) alike.

<sup>19</sup> Mutual goals are not necessarily identical with common goals: they can also include organizations' particular objectives (Alexander, 1995, pp. 67–68).



The development and implementation of any major or strategic<sup>20</sup> policy, plan, program, or project involves coordinative planning.<sup>21</sup> Because these undertakings are too large and complex for any single agency or organization to be able to accomplish alone, they demand concerted decision-making and coordinated action by several (often many) organizational actors. Most significant societal activities demand coordination. These range from complex public and private sector delivery systems in health, education, and human services, through mixed public-private projects, e.g., urban development and strategic infrastructure, to national or global private enterprises in almost every sector, from aerospace through pharmaceuticals to telecommunications (Alexander, 1995, pp. xiv–xix).

Intrinsic to coordinative planning is institutional design. Institutional design is the devising and realization of rules, procedures, and organizational structures that will enable and constrain behavior and action so as to accord with held values, achieve desired objectives, accomplish set purposes or execute given tasks.<sup>22</sup> By this definition, institutional design is pervasive at all levels of social deliberation and action, including legislation, policymaking, planning and program design, and implementation.

Acknowledged sociological definitions reflect this view, which recognizes institutions as ranging from the US constitution to the Thursday night card game at O’Brady’s bar.<sup>23</sup> It is also implied in (the rare) work on institutional design, from devising common resource pool associations (Ostrom, 1990) to designing principal-agent relationships (Weimer, 1995).

Clearly, much strategic planning in general, and coordinative planning in particular, includes institutional design.<sup>24</sup> If the policy or plan includes new programs or projects (how will these be organized and implemented?), requires new organizations, the reorganization of existing ones, the creation or transformation of inter-organizational linkages (e.g., how will the actions necessary for plan implementation be concerted among the involved organizations?) or demands new or amended legislation or regulations, it needs institutional design (Alexander, 2000b, p. 165).

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<sup>20</sup> These terms are relative to the context; relevant dimensions include scale (geographic, territorial or project size), scope (resources and diffusion of impacts), and the level of decision-making; major or strategic projects rank high on these dimensions from the relevant decision unit’s point of view, whether the latter is at the national, regional, or local level.

<sup>21</sup> I use the term coordinative planning designedly, rather than the apparently equally appropriate synonym: collaborative planning (Healey, 1997). This is because in an accurate definition, coordination subsumes antecedent collaboration (Alexander, 1995, pp. 6, 23), and implies a structural-institutional aspect that emphasizes on cooperation or collaboration tend to neglect.

<sup>22</sup> I could not find any clear definition of institutional design in any of the previous discussions of or references to institutional design (e.g., Brandl, 1988; Innes, 1995; Weimer, 1995; Bolan, 1996; Tewdr-Jones & Allmendinger, 1998, pp. 1980–1982) though some definitions are implied.

<sup>23</sup> Some of the discussion is at odds with this definition, limiting its concern primarily to the higher levels of governance (e.g., Bolan, 1991) or asserting the failures of “constitution writing” (Flyvberg, 1998, pp. 234–236). This is consistent with a multilayered sociological model that identifies institutions only with the highest societal level (Scott, 1994).

<sup>24</sup> In another view, institutional design is one of several forms of planning (Meadowcroft, 1997, p. 179). Innes (1995) even suggests that: “planning is institutional design”; I would not go so far: some planning is not institutional design.



***Institutional Design: The Setting***

What is the setting for institutional design? For the would-be practitioner of institutional design, how can he identify and analyze the context that is relevant to the issue at hand? What does she need to understand about its setting, which will enable her to frame the design problem in a way that will generate usable and creative proposals? These questions have no categorical answers.

It is difficult to provide much useful guidance for institutional design. Even answers to these questions, which are only descriptive–analytical and make no normative demands, can only be tentative generalizations. There are two reasons for this. The first, and perhaps most important, one is that the bulk of any institutional design problem is unquestionably situation-specific: the answers to these questions will vary widely depending on the particular case.

The second is ignorance: the lack of any real knowledge in this area, based on systematic research, study, or evaluation of experience. This is because the idea of institutional design, as something conscious and deliberate, is relatively new, though actually it has been going on for as long as the kinds of projects that require institutional design have existed. Though they did not know it, Joseph, in setting up Pharaoh's system for grain storage and distribution, Jefferson and Madison and the other framers of the US constitution, Baron Haussmann in devising the financing and implementation of his Paris boulevards, and the British officials who designed and legislated the "New Towns" program, were all doing institutional design.

But the novelty of the institutional design means that its knowledge base can only be eclectic: pieces of information, snippets of theory, and gleanings of methods borrowed from established disciplines and practices. It can also only be preliminary: any item of knowledge must be qualified in terms of its relevance and utility for institutional design practice, which is untested. With these caveats, I suggest two topics that can contribute to understanding the institutional design setting and thus, indirectly, to formulating the design problem at hand.

The first involves defining and analyzing the setting itself, viewing the institutional design issue generically as a problem involving organizational or (more likely) inter-organizational coordination (IOC). The second identifies a factor that is critical in the relationships between all the significant actors in the relevant setting: interdependence. Appreciating interdependence and understanding how it affects and structures the institutional design setting may be an important conceptual tool for institutional design.

***Organizations and Inter-Organizational Sets, Fields and Networks***<sup>25</sup>

The organizational perspective can be helpful in understanding the institutional design setting.<sup>26</sup> From this perspective, there are two ways to appreciate the relevant environment. One is from the point of view of a focal organization: the organizations in its environment with

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<sup>25</sup> This section draws on Alexander (1995, pp. 26–30, 199–203, 329–333).

<sup>26</sup> This assumes that organizations are the relevant actors in coordinative planning, implying that most institutional design problems involve this level of intervention. In some cases, this may not be true: the individual or organizational role may be the relevant level, e.g., in devising principal–agent relationships, or an entire polity may be the relevant level, e.g., in constitution writing or drafting legislation.

which it interacts or has significant relationships are its *organization set*. This provides a useful basis for analyzing inter-organizational relations and behavior in the relevant setting.

Another way of defining an institutional design setting is to identify the relevant organizational actors by some common objective or area of mutual involvement associated with the design issue. Organizations interacting in the context of some common purpose or joint activity make up an *action set*. To address an issue of metropolitan–regional planning and governance, for example the relevant action set is all the governments, agencies, and organizations involved in these activities, and other stakeholder organizations. The policy issue network or policy system, the advocacy coalition, and the implementation set are “subspecies” of action sets.

A broader approach to an institutional design setting can view it as an *inter-organizational field*. Such fields may be delimited by some common orientation, e.g., “the aerospace industry” or “tertiary hospital services,” or using some geographic-jurisdictional unit or territorial boundary as a surrogate for its context, e.g., the inter-organizational field of community organizations in Oakland, California, or the organizational environment of Swedish universities.

At a lower level of abstraction, the institutional design setting may be an *inter-organizational network*: two or more interdependent organizations with common goal-directed activities. These networks take different forms, including alliances, federations, and corporate networks such as the consortium, joint venture, and corporate system. They can be arrayed on several dimensions: competitive or symbiotic linkage, obligational or promotional purpose, medium and objective of cooperation, from solidarity support through processing and production of goods and services, to economic or political objectives. Such networks range from athletic federations through intercollegiate accreditation associations and blood banks, to aerospace consortia and Japanese corporate *keiretsu*.

Inter-organizational networks are very complex. Important characteristics are interdependence, size (number and size of the member organizations), structure (combining centrality and connectedness), complexity (heterogeneity and differentiation), autonomy (openness and resource dependence), and purpose or mission.

Even these six dimensions form a set of possible combinations that is so large as to defy systematic analysis: one reason why institutional design cannot be institutional engineering based on scientific knowledge. But this heuristic can be helpful in understanding inter-organizational networks, and we can see these combinations in commonly found networks from local human services networks to mature promotional networks and formal associations of common interest organizations, e.g., investment pools and marketing cooperatives.

**Interdependence** Understanding and recognizing interdependence is important for institutional design. Interdependence is a salient characteristic of the inter-organizational networks that are the settings for most institutional design. Research and experience suggest that there is an association between the kinds of interdependence among actors in a social unit or members of an inter-organizational system, and how they have institutionalized their links. This knowledge (discussed later) can be valuable for practitioners of institutional design.

There are three basic kinds of interdependence. Two of them are of less concern for institutional design. One of these is *ontological interdependence*, primarily discussed in

philosophy, but with quite practical consequences. Ontological interdependence has to do with identity: the individual's conception of self as defined by some external "other," and, by extension, the relations between host communities and strangers.

Modern sociological models of host-stranger relations, dooming the stranger to disappearance either by his transience or by integration in the host community, were reflected in 1950s urban renewal's disdain for minorities and the "melting pot" integration of immigrants. Later views, recognizing the stranger's pervasiveness and permanence in the post-modern society, have affected diverse policies ranging from education (e.g., bilingual teaching) to land use (e.g., creating ethnic "theme" neighborhood centers), and changed national policies on immigration and citizenship.

The other is *communal interdependence* (the human version of ecological interdependence), which is the result of socialization and cultural transformation into communal bonds of what may have originated as functional interdependencies among individuals and societal units. Here trust, affiliation, association and shared values elicit altruism, reciprocity and cooperation from members of "constitutive communities": a family, a neighborhood, or a nation. Non-territorial communities: scientific and professional networks, cultural and linguistic communities, ideological and religious groups, and emergent nationalisms, are all linked by communal interdependence that blends ontological and functional interdependence.

*Functional interdependence* is important for institutional design. While ontological interdependence is universal and abstract, functional interdependence is real and intrinsic to all societal units, from individuals through organizations to whole communities. Functional interdependence is the inevitable result of complexity: any undertaking that is too complex for one social unit to complete on its own involves functional interdependence.

It takes very little complexity for one person to need help: the bricklayer needs his mate, and the midwife often assists in childbearing. The division of labor (spanning biological species and human societies, and usually taken for granted) is one manifestation of functional interdependence. Functional interdependence is conceptually simple, especially when it is disassembled into its basic components. But in reality these are often combined and integrated into very complex systems, even ecological biosystems, and it is one source of the communal interdependence discussed above.

Functional interdependence is associated with organization, generating work groups, teams, organizations and inter-organizational networks. Probably this is why organization theory has been concerned with functional interdependence. The simpler forms of functional interdependence are usually related to task integration (Alexander, 2001d, pp. 317–319).

Sequential interdependence is one; it exists when one unit's product or output is the input for another. The interdependence between Bridgestone (manufacturing tires) and Ford Motors is a simple example. Less intuitively obvious is the link between ETS (the source of US entrance examinations to higher education) and North American universities. Even simple sequential interdependence, if involving heavy investments in idiosyncratic transactions, will elicit formal coordination and control, and may ultimately result in vertical or horizontal integration. Petrochemical refining complexes are a classical example of vertical integration of serial technological linkages.

The other is reciprocal interdependence, where each party's output may be a critical input for the other. An example is a pharmaceutical corporation's link with an R&D lab

(in-house or independent institute) whose discoveries enable the development of new products. At the same time, the lab's research program is geared to the corporation, which also supplies the lab with data for test design and human subjects for clinical testing. Consultant–client relationships, too, are based on reciprocal interdependence.

More complex are intensive and pooled interdependence, which address collective action rather than task performance. Intensive interdependence involves complex mutual real-time adjustment in common activities. The relationships between units of an R&D team in IT software or hardware product development are an example, where intellectual property ownership sharing can become a coordinating mechanism.

Pooled interdependence is the result of actors' mutual commonality: competitive, symbiotic, or commensal. Examples of the first are trade associations among the firms competing in a regulated sector, and informal networks of human service agencies sharing a common client population. Symbiotic interdependence may result from technological complementarity, e.g., the link between computer chip producers and hardware manufacturers in the computer industry. Commensal interdependence means common dependence on the same resources, e.g., the market dependence of competing firms in a mature sector, or a group of agencies funded from the same program (Alexander, 1995, pp. 31–36; 2000b, pp. 168–170). Below, I present some knowledge about interdependence, which might be applied in institutional design.

### *The Architecture<sup>27</sup> of Institutional Design*

Like any design, institutional design must be a synthesis between analysis of the context and the problem, and invention, assembly, and adaptation of design solutions from repertoires of known exemplars. Here we can envisage a multistage process that addresses two levels in turn. The first is the macrolevel, essentially answering the question: what are the appropriate forms of governance for the identified task in the relevant context?

The second stage of the institutional design process covers the meso- and micro-contexts, and is relevant if the institutional design issue is framed as a problem of IOC demanding appropriate structural solutions. This stage, then, addresses the question: what IOC frameworks, systems, or structures “fit” the institutional design setting and tasks?

**Discriminating alignment: transactions and forms of governance** For the macrolevel, institutional design can draw on knowledge aggregated in integrated TCT (see above). The first stage must be institutional analysis of the design setting. For this purpose, the setting is viewed as a process that consists of a sequence of transactions involving the identified

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<sup>27</sup> This term reflects the structural orientation of this approach to institutional design. That is not to deny the importance of process and interactive aspects, which other approaches (e.g., Bolan, 1991, 2000; Innes & Booher, 1999) emphasize, but to suggest that the structural–organizational aspect of institutional design has been neglected, relying on apparently informal and non-structured forms of interaction and coordination, which analysis of experience revealed as unwarranted (Alexander, 1995).

members of the organization set or the relevant action set of organizations or inter-organizational network.

A transaction-based model of the relevant setting enables detailed analysis of the critical transactions to identify their salient characteristics and thus associate them — and by extension, the whole process — with appropriate forms of governance (see TCT above). This was done, for example, for land use planning and development control systems, where the relevant setting was the land development process and property market (Alexander, 2001b, 2001c).

At the same time, the institutional analysis draws on the generic repertoire of alternative forms of governance that integrated TCT proposes: at the one pole, the “perfect” market; at the other, the integrated hierarchical organization. Between these are various “hybrid” forms of governance: bilateral governance that provides voluntary market support for problematic transactions (e.g., institutionalized arbitration), and third-party governance giving administrative support to otherwise chaotic markets (e.g., regulated stock exchanges, land use regulation).<sup>28</sup>

For a specific institutional design issue, understanding the relevant setting transforms this repertoire into an array of possible forms of governance that are specific to that context. These offer a selection of feasible institutional design solutions, in the sense that they exist and are the subjects of evaluated experience. Table 1 showed this array of possible forms of governance for land development and the property market, ranging from statutory planning and development control to voluntary CCRs (Alexander, 2001b, pp. 65–70).

The final stage of institutional design at the macrolevel involves discriminating alignment: finding the form of governance among this array, or designing a system of governance combining various forms, that is the most effective for the setting and mission. This demands estimating the prospective transaction costs of all the parties involved in the modeled sequence of transactions under alternative feasible governance regimes, and selecting the one that minimizes their total transaction costs.<sup>29</sup>

**“Fitting” IOC structures to settings, networks and tasks** For institutional design at the meso- and microlevels, the concept of IOC structures (Alexander, 1995, pp. 47–265) provides the elements of an architecture of institutional design. Again, at this stage, the first step in the institutional design process must be to identify the issue or problem and get to know the relevant setting.

Analysis of the setting will include

- (1) Identifying the organization or action set, or the critical organizational actors in the organizational field, or the members of the inter-organizational network that is the

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<sup>28</sup> These forms of governance overlap with and extend into the next level (which shows IOC structures), as respectively: market, voluntary structures (partly under solidarity frameworks), mandated frameworks, and organization (Alexander, 1995, p. 55).

<sup>29</sup> For a more detailed discussion of transaction cost minimization as a criterion of effectiveness, see Alexander (2001b, pp. 55, 68, 72; 2001c, pp. 6, 13) for an example of (partial) application to the case of land use planning and development control in Israel.

institutional design setting, and describing their mutual relationships, including their interactions with their organizational environment.

- (2) Analyzing the relevant inter-organizational network to develop a “profile” based on its characteristics on the salient dimensions identified above and the types of interdependence linking its members.
- (3) Identifying the network’s basic mission or tasks, and framing the institutional design issue.

The next step is to draw on a generic repertoire of IOC structures (Alexander, 1995) to “design” or specify a set of alternative feasible IOC structures or more complex IOC systems specific to the relevant setting, which might respond to the institutional design problem identified above. Evaluation of their appropriateness and prospective effectiveness could draw on developing knowledge about IOC structures and their environments as summarized below.

**The “goodness of fit” approach to institutional design<sup>30</sup>** Above, I pointed out the problematic of institutional design in reference to descriptive-positive understanding of its setting. This is no less true for normative prescriptions for “good” institutional design. Most previous study has been taxonomic or purely descriptive, and often at high levels of abstraction. Systematic evaluation linking IOC structures to outcomes is absent. Consequently, there is little useful knowledge about IOC structures’ performance.

We have to recognize that institutional design cannot aim to be scientific; it can only be a kind of art or craft, based on deduction from experience. Current knowledge offers only one incontrovertible conclusion: there is no “one best” IOC structure for all situations. Another insight is that IOC structures need flexibility: some “success stories” are less tributes to a particular IOC structure than to its adaptability to constraints and opportunities.

These findings imply a less rigorous model, one suitable to the kind of craft institutional design seems to be. I call this “goodness of fit,” suggesting that an IOC structure’s effectiveness is a function of its appropriateness to its context and tasks. “Goodness of fit” reflects a more synthetic, even intuitive, approach to institutional design; because the design object — institutions — and its setting are too complex for systematic analysis and prescription.

Another aspect of complexity is the (usually) multiparty nature of institutional design itself, making a simple goal orientation difficult. Indeed, one of the challenges confronting institutional design may be to elicit consensus among the member organizations about their common purpose. Such design problems often also embrace a multilevel environment, ranging from the macrolevel involving governance, to the meso- and micro-levels demanding new or transformed IOC structures or the design of whole IOC systems. These are “wicked” problems that defy manuals or optimization.

Complexity also limits our capacity to develop categorical design rules. Even the simple model here (Figure 1), identifying the factors that effect the “goodness of fit” of IOC structures, involves several interacting elements, linked in non-deterministic ways that are

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<sup>30</sup> This section is based on Alexander (2000, pp. 167–173).

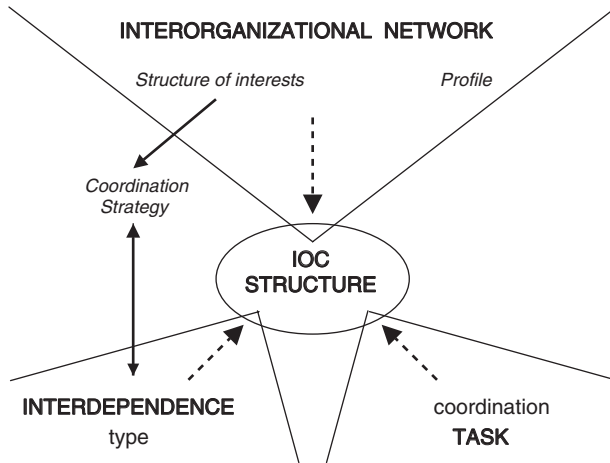


Figure 2: Dimensions of IOC structures' fit (Alexander, 2000a, p. 168).

poorly understood. And just one of these — the inter-organizational network — is so complex as to make this model useless for formal analysis. Nevertheless, it may have heuristic value, so that applying the model to a given institutional design situation may suggest which IOC structure may be most effective.

The kind of *interdependence* between the members of the inter-organizational network is the first factor affecting an IOC structure's fit. Certain types of interdependence are associated with particular IOC structures, and there is a logical relationship between types of interdependence and the kinds of inter-organizational networks they elicit. This is mediated by the link between particular kinds of interdependence and their related *coordination strategies*.

Simple kinds of interdependence can be handled by less-institutionalized IOC structures: informal dyadic links and designated liaisons in relatively informal inter-organizational networks. Pooled interdependencies may demand more institutionalized IOC structures: inter-organizational groups, designated coordinators or a coordinating unit as the network's administrative core. Intensive interdependence is even more complex, and demands adjustment from conventional monitoring and control to cultural or structural-economic coordination mechanisms. Unlike task-related or transactional interdependencies, collective-action interdependencies may demand meso-level coordination as well as micro IOC structures, suggesting more complex integrated IOC systems.

*Coordination strategies* provide a logical link between interdependence, IOC structures and inter-organizational network characteristics. Sequential interdependence demands the systematic programming of predictably interdependent activities, and hierarchical decision-making for adaptive real-time adjustment. This implies IOC structures ranging from informal liaison (e.g., for simple dyadic links) through formal coordinators (e.g., the project manager) to coordinating units. Their fit for a particular situation depends on other factors, including network size and complexity and the nature of the coordination task.

Reciprocal interdependence, more complex and uncertain, implies more integrative coordination strategies: management by exception and residual arbitration. These may



require more institutionalized IOC structures: formal boundary-spanning or coordination roles, or a coordinating unit. Intensive interdependence demands highly integrated common decision-making mechanisms, from mutual monitoring and feedback to organizational frameworks such as shared property rights. These suggest various IOC structures, from coordinating units to whole IOC systems, but here meso-level IOC structures (e.g., alliances, consortia, joint ventures) are more likely to evolve.

Managing pooled interdependence requires clear communication and decision-making procedures, and monitoring and control to ensure compliance. This can demand relatively institutionalized IOC structures ranging from an inter-organizational group (for governance) supported by a coordinator or a minimal coordinating unit for a small relatively simple network, to whole IOC systems for large, complex ones. Such systems often involve formal mutual organizations: associations and federations.

The next factor is the *inter-organizational system* or *network*, which has two aspects. One is its structure of interests: “team,” “foundation,” or “coalition” (Grandori, 1997). In the “team,” member organizations have common interests and agree on what needs to be done and how to do it. This implies quite informal interactions and relatively uninstitutionalized IOC structures, since consensus makes complex incentive or compliance mechanisms unnecessary.

A “foundation” has parties with differing preferences, and member organizations have divergent goals. The network’s interdependence is here recognized in common mutual goals, and *ex ante* agreement on rules and procedures. Foundations demand more institutionalized and hierarchical IOC structures: a lead organization and contracting–subcontracting network, formal franchising, consortia for joint research or complex industrial projects, or formal mutual organizations.

Sometimes conflicts of interest, uncertainty, and cognitive complexity prevent organizational actors from knowing up front how their respective preferences will affect the allocation of rights and resources later. This needs a “coalition”: an adaptive network with incentive structures that can reassess purposes and adjust to new objectives. It may be based on shared property rights (e.g., a R&D joint project) or benefits (e.g., a policy advocacy alliance). Because it lacks any predetermined rules, the coalition has adaptive coordination strategies and uses *ad hoc* decisions, negotiated management, and conflict arbitration. If formalized at all, coalitions use highly incomplete forms of contracts, such as joint ventures, and require less-institutionalized IOC structures.

The other aspect of the inter-organizational network is its “profile,” which summarizes its relevant dimensions: size, structure, complexity, autonomy, and mission. The complexity of inter-organizational networks defies simple classification and associations between their characteristics and IOC structures, but some relationships can be implied.

For example, more structured networks tend to be more autonomous, because their high connectivity demands more interaction with the outside environment. Dependence and openness are also related: the more a network needs resources from its environment, the more links to that environment there will be. Interest structure and profile dimensions can also interact: high connectivity may be related to network “embeddedness,” implying a “team” and informal IOC structures. An inter-organizational network’s profile is a useful descriptive, even diagnostic, tool, and, as we can see, it is suggestive of relationships between inter-organizational networks and IOC structures.



Finally, there is the *coordination task*. Obviously, different kinds of tasks will call for different IOC structures. Unfortunately, this is not a simple relationship, because it interacts with the other factors presented above. Coordination tasks range from information exchange (facilitating mutual adjustment) through operational and managerial-administrative coordination to anticipatory coordination (joint planning and developing common policies).

To the extent that its task is information exchange, an informal IOC structure can be quite effective, and relatively uninstitutionalized IOC structures will be a good fit. Operational coordination is adaptive coordination to implement pre-assigned tasks. Activity interdependencies can determine task coordination mechanisms and thus the IOC structures' fit. Boundary-spanners or a coordinator can handle sequential or limited reciprocal interdependencies. Complex multilateral interdependencies may require an inter-organizational group, such as a project team or a task force. But other factors (e.g., network size, complexity, and mission) affect IOC structures' fit for operational coordination too.

Rather than specific and immediate tasks, managerial/administrative coordination addresses the decisions and actions of units or organizations over a period of time, setting the framework for the operations of task implementation. Greater complexity and duration may demand more institutionalized managerial/administrative IOC structures than operational coordination. On the other hand, managerial/administrative coordination may involve more bargaining and negotiation, and less authority and control, than operational coordination, so less hierarchical IOC structures may fit better.

In anticipatory coordination, the respective importance of information exchange, bargaining, and control will differ from their relative roles in operational and managerial/administrative coordination. Allowing for other factors, negotiation is much more likely to be the way member organizations interact at this level, and plan the frameworks for lower-level coordination and their IOC structures. This suggests that more institutionalized IOC structures will be most appropriate: formal inter-organizational groups or coordinating units.

## Summary and Conclusions

Institutionalism offers a new perspective on planning, which provides plausible answers to three key questions about planning: why do we plan? where do we plan? and how do people plan? The "transaction cost theory of planning" provides a rationale for planning that answers the first question. Accounting for non-market forms of organization, TCT associates planning with hierarchical organization.

This also answers the second question: where does planning occur? Planning is not limited to public intervention, as some prevailing images of planning imply. Rather, planning is an integral activity of all hierarchical organizations and inter-organizational networks, whether they are operating in the market, in the public sector, or both.

Consistent with institutionalism, TCT reveals the relationship between planning and governance, and transaction analysis of land development and property markets offers a strong rationale for land use planning and development control. But institutional analysis shows that these are not exclusively public activities, and offers a repertoire of alternative forms of governance that can be applied in the institutional design of planning systems.

Answering the third question, I argue that an important (but neglected) aspect of planning is institutional design. Though a “Handbook of Institutional Design” is infeasible, would-be practitioners are given some guidance, including concepts useful for understanding the institutional design problem and setting. Limited available knowledge on forms of governance and IOC is summarized in a heuristic model for institutional design, which addresses the “fit” between coordination structures, their designated tasks, their inter-organizational networks, and the types of interdependence in their institutional environment.

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## Chapter 3

# The New Institutionalism and the Transformative Goals of Planning<sup>1</sup>

Patsy Healey

### Planning Ahead or Planning Within

The planning enterprise has always been focused on the future, on encouraging the new to replace or emerge from the old. As Friedmann (1987) argues so persuasively in *Planning in the Public Domain*, it reaches towards transformations in the socio-spatial and institutional dimensions of how we live. For Fainstein (2000), the transformative dynamic is the search for ways of attaining a better quality of life. Such an enterprise presumes some institutional position from which to articulate and prosecute a transformative agenda. The conception of this position has long been a contested territory in planning thought. In this paper, I seek to show how what is often referred to as the ‘new institutionalism’, and particularly the more social-constructivist variants of this broad wave of ideas, addresses the issue of the context and positioning of efforts to plan strategically for socio-spatial transformations. I first position this wave in relation to the previous approaches in the planning field. I then review the conceptual landscape of the ‘new institutionalism’, to identify the social-constructivist position within it. From this, I develop a framework for analysing particular instances of strategic planning effort. I use this to describe and evaluate a strategic planning exercise with transformative potential in my own city of Newcastle. I conclude with general comments on the analytical and practical implications of this variant of the ‘new institutionalism’ for the planning enterprise and its transformative goals.

In the mid-20th century, planners were confident of their position. Whether they were engaged in producing master plans for cities and towns, or promoting rational process models for policy making, they presented themselves as out in front of contemporary governance practices.<sup>1</sup> Grounded in professional expertise (the master planners) or scientific

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<sup>1</sup>For this attitude in the UK, see Keeble (1952) and Gower Davies (1972).

management principles (the rational process planners), they sought to create new products and processes which, by their quality and relevance to new social forces, would displace the old. With this forward-looking perspective and confident belief, little attention was given to political and institutional dynamics and to what their transformation might actually involve.

From the late 1960s, a number of planning theorists sought to pull the vanguard of innovating planners back to an understanding of institutional context,<sup>2</sup> not least because of the evident failure of some planning efforts. Some sought to classify contexts. Others conceived of organisations as located in some kind of ‘action space’ in which they had certain autonomy. These contributions positioned the ‘planning agency’ in an institutional landscape of multiple agencies, continually adjusting to each other, as in a market (Faludi, 1973; Friend et al., 1974). Lindblom (1965) crystallised this conception through his notion of organisations involved in ‘partisan mutual adjustment’. Rather than in the vanguard, the planning agency in this conception of context was engaged in a struggle for the survival of the fittest. The ‘planning agency’ itself was seen as a formal organisation, a coherent entity, with clear boundaries between itself and its ‘environment’. By skilled and committed effort, such agencies could succeed in achieving substantive material changes in socio-spatial conditions and could devise new governance processes.

The urban political economists of the 1970s upset this conception. They analysed the role of planning agencies and planning ideas from the perspective of class struggle for control over the means of production and exchange (Fainstein & Fainstein, 1979; Castells, 1977; Paris, 1982; Harvey, 1985, Chapter 7). This introduced a strong distributive consciousness into planning theory, while emphasising the significance of the politics of conflict and struggle. For these analysts, the primary forces of transformation lay in struggles between labour and capital, and between community and state. In this context, the state was commonly portrayed as the creature of the forces of capital, or of governing elites. Planning agencies were associated with the state. The future-oriented transformative rhetoric of planners, it was claimed, served as a mystifying masque, legitimating agendas and practices which served dominant class interests. The planning enterprise was in effect hijacked and attached to system-maintaining purposes rather than to transformative orientations.

These ideas linked planning theory to richer and broader debates on how to view society, social order and social change. Whether or not the various models of class struggle and the role of the state promoted by urban political economists are accepted, the contribution of this body of thought was to force awareness of the significance of wider ‘structural’ driving forces and conflicts shaping the opportunities and constraints on planning efforts in promoting transformations. This awareness firmly positions the planning enterprise within the dynamics of political-institutional landscapes and confirms its nature as deeply political. The challenge, developed during the 1980s and 1990s, has been to explore how transformation can be encouraged from this ‘inside’ position. This forces the analyst of planning activity and the shaper of normative planning ideas to explore the complex and

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<sup>2</sup>See for example, Bolan (1969), Dyckman (1966) and Etzioni (1973).

contradictory interaction of the driving forces of governance change and the power of agency to innovate and change the trajectories of these forces.

This challenge has been taken up from many directions in the planning field. From political science and urban sociology, there has been an explosion of analyses of urban governance and planning activity, which has highlighted the role of elite actors and their networks in promoting and resisting change. Regulation theorists have gone in search of the transformations in local 'modes of regulation' expected to parallel shifts in economic modes of production. In the UK, at least, they have found a whole array of different modes in different parts of a local government landscape (see Jessop, 2000, 2001; Painter & Goodwin, 2000). Urban political scientists, inspired by Clarence Stone,<sup>3</sup> have sought to discover if there is any coherence in local governance sufficient to identify a 'local governing regime'. Others have emphasised the role of discourses and practices, materialities and mentalities and the social processes through which both are constructed. In the planning field, this micro-politics of institutional practice was initially uncovered by those studying the implementation of planning policies from the 1970s (Pressman & Wildavsky, 1973; Barrett & Fudge, 1981; Sabatier, 1986), and developed further by the empirical work of those associated with communicative planning theory.<sup>4</sup> Such analysis has been given a major thrust forward by the intellectual inspiration of Foucauldian power dynamics, with its focus on embedded disciplining routines and practices,<sup>5</sup> by social constructivist analysis with its emphasis on the power relations embodied in policy discourse,<sup>6</sup> and by the analysis of how organising ideas and technologies are produced and 'translated' as developed in actor-network theory.<sup>7</sup>

The result of this infusion of ideas is that there is now the foundation for a much richer understanding of how planning activities might relate to the wider governance context within which they are inherently located. The argument over whether the planning enterprise is system-maintaining or system-transforming has been dissolved into a more specific inquiry into the circumstances in which a particular initiative in a specific situation has or might release transformative potential, and in what direction, and when, in contrast, it may merely act to reinforce and maintain established practices. This richer understanding also shifts the attention of the planning imagination from a focus on specific material projects and material outcomes to a focus on interventions in the design of the institutional infrastructure which frame what project ideas come forward, how they get evaluated and who gets involved in governance processes and through what modes or styles of governance. The relation between planning activity and its context thus moves beyond notions of planning as a vanguard of social change, or a bastion of a separate scientific objectivity, or an 'action space', or a cog in someone else's machine, to an activity in which context and activity are co-constitutive and co-generative (Gualini, 2001). Governance activity, and hence planning activity, comes to be understood as variable and contingent in its focus and modalities. Such activity is inherently situated in a specific

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<sup>3</sup>See Stone (1989), Harding (1997, 2000), Stoker (1995).

<sup>4</sup>See Forester (1989, 1999), Innes (1992, 1995), Innes and Booher (2000), Innes and Gruber (2001), Healey (1997a, 1997b, 1998), Healey et al. (2003), Hillier (2000) and Gualini 2001.

<sup>5</sup>See Fischler (2000), Richardson (1996, 2002) Jensen and Richardson (2000) and Huxley (1994, 2002).

<sup>6</sup>See Hajer (1995), Vigar et al. (2000), Vigar (2001) and Gomart and Hajer (2002).

<sup>7</sup>See Latour (1987), Callon (1986), Murdoch (1995), Murdoch et al. (1999) and Tait (2002).

institutional space, with concrete manifestations of power and possibility, and with a particular pattern of 'moments', which could allow transformational trajectories to get established. This has major implications for the evaluation of the likely impacts of planning interventions and for the transfer of experience from one situation to another. It means that analysts of planning activity and those designing planning interventions need to develop the capacity to grasp and describe the 'situatedness' of planning activity.

One route to developing this capacity has been through exploring how individual planners accomplish the work of situating themselves in dynamic situations, in which they make particular contributions but in continually constrained situations.<sup>8</sup> Another route has been to focus on the co-constitutive process itself, examining the interaction between specific instances of practice and the ongoing evolution of the institutional infrastructure of governance in particular places. This emphasis on the constitution of the specific relation between activity and institutional context provides the focus of attention of the wave of ideas which has become known as the 'new institutionalism'. In the next section, I briefly introduce these ideas, focusing in particular on the social constructivist contributions.

### *Understanding Institutional Embeddedness*

The 'new institutionalism' can be found in the disciplines of economics, political science and sociology, and especially in work related to issues of governance and organisation. The evolution of institutionalist theories parallels in several ways the development within planning theory of analyses of implementation processes, of the political economy of planning and of communicative planning theory. Each stream of thought has produced its own 'maps' of the terrain and its evolution, although these maps do not necessarily coincide. Economists tend to trace the evolution of 'institutionalism' from the work of Coase (1960) and Williamson (1975) focusing on 'transaction costs'.<sup>9</sup> Political scientists and organisational sociologists make a contrast between an 'old institutionalism' characterised by Selznick's (1949) work on the Tennessee Valley Authority with a re-discovery of the significance of institutionalisation in the work of March and Olsen.<sup>10</sup> This represented a deliberate challenge to the rationalism and behaviouralism dominant in these fields at the time. In recent years, there has been some crossover between these strands, particularly through March and Olsen's work and North's theories of path dependency (North, 1990).

There are a number of common concepts and debates among all these strands. Firstly, institutions are typically (though not universally) distinguished from organisations. Institutions are the frameworks of norms, rules and practices which structure action in social contexts (Giddens, 1984; DiMaggio & Powell, 1991). They are expressed in formal rules and structures, but also in informal norms and practices, in the rhythms and routines of daily collective life. They structure the interactional processes through which preferences

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<sup>8</sup>See the work of Forester (1989, 1993, 1999) and Hoch (1994).

<sup>9</sup>Within Europe, there is also a rich stream of 'evolutionary economics', which has much closer links to urban political economy and social constructivist analysis, see Hodgson (1998), Amin and Thrift (1994) and Moulaert (2000).

<sup>10</sup>See March and Olsen (1984), March (1996), Peters (1999) and Lowndes (2001).



and interests are articulated and decisions made. They are a kind of 'soft infrastructure' of the governance of social life.

Secondly, and consequentially on the first point, the focus of institutionalist analysis is upon interactions, not decisions *per se*.<sup>11</sup> This underpins not only the institutionalist economists' interest in transactions, but makes a link to the interest in communicative practices in planning theory (see above). Further, these interactions do not occur in a vacuum, or a clearly bounded 'action space'. Organisational environments, argue DiMaggio and Powell (1991, p. 13), 'penetrate the organization, creating the lenses through which actors view the world and the very categories of structure, action and thought'. This is not a one-way relation. Interactive processes are both shaped by their institutional inheritance and help to shape it, in mutually constitutive and generative processes (Gualini, 2001).

Thirdly, although some 'institutionalist' analysts have focused on the nature of variation in the historical inheritance of institutional discourses and practices, and in particular how the resultant 'social capital' may structure opportunities and constraints on economic and political innovation (see North, 1990; Putnam, 1993), many institutionalists are concerned with how institutions change and the role of intentionality in promoting such change (DiMaggio & Powell, 1991). This links the visible world of actors, performing in formal and informal social arenas where collective action is mobilised and realised, to the deeper structuring of their social relations, i.e., to the relation between structure and agency, between macro and micro levels of analysis.

Fourthly, while some institutionalists focus on the micro-politics of interactions between specific actors in particular arenas, the 'new institutionalism' also has an important research focus on the governance capability to address particular kinds of social action problem. This links to the agenda of planning and policy analysis through the concern with the ability to realise substantive programmes and projects, such as water management innovations (Challen, 2000), changes in transport policy (Vigar, 2001), local economic development (Raco, 1999; Wood et al., 1998), and sustainable development (Wood et al., 1999; de Roo, 2000). In this work, the term 'governance' is used to convey the array of mechanisms for structuring collective action, whether by government, by business associations or by associations arising from within civil society (Cars et al., 2002).<sup>12</sup> Transformation in governance, the re-configuring of 'institutional capacities' and designs, is understood not merely as a task for actors with interests and leadership qualities, or the mobilisation of coalitions to achieve formal changes in law and organisational structure. It is also about transforming the deeper frames of reference and cultural practices which structure how people make sense of their collective worlds and engage cognitively and bodily in their day-to-day routines (Hajer, 1995; Healey et al., 2003; Innes & Booher, 2000).

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<sup>11</sup>This contrasts with the emphasis in the rational planning paradigm, and see also Faludi's enterprise in the 1980s (Faludi, 1987).

<sup>12</sup>The term 'governance' is used with various meanings in European policy debate. For some, it means a shift of governing action 'outside' the formal organisation of democratic states, and its desirability is hotly contested (see Jessop, 2000 and our discussion in Cars et al., 2002). The meaning used here is as a broad descriptive term.



As most of those mapping the 'new institutionalism' emphasize, none of these points is in itself new. But they have been reinforced by broader developments in the social sciences, which provide analytical and interpretative muscle to 'institutionalist' research programmes. These resources also lead to different trajectories in institutional analysis.<sup>13</sup> The simple classification used by political scientists Hall and Taylor captures the range relevant to policy analysis and planning particularly well. They distinguish between those who emphasise historical evolution and 'path dependency', whose work focuses especially on comparisons between national institutional forms and who draw on North (1990); those who focus on the reduction of uncertainties about transaction costs for rational actors with interests and preferences, who draw on Coase and Williamson; and those who focus on the role of institutions in sustaining identities and cultural practices as well as in performing specific functions, and who emphasise the significance of paradigms, systems of belief, frames of reference and the logics of power (Muller & Surel, 1998, p. 48). These last, sometimes referred to as 'sociological institutionalists', draw on the consolidating work in organisational studies of Powell and DiMaggio (1991), who in turn build on the insights of sociologists Giddens (1984) and Bourdieu (1977).<sup>14</sup> The distinction between the analysts of 'path dependency' and 'sociological institutionalists' lies in the significance given by the latter to cognitive processes and cultural identity, not as 'givens' — assets or attributes, but as forces and outcomes in continual social production.

A major epistemological difference divides the 'new institutionalists', whether in economics, political science or organisational studies. On one side are those who work with rationalist notions of individual actors, with interests and preferences, who operate in institutional contexts which provide opportunities for, or inhibit, their projects, and who engage in a variety of transactions with different kinds of costs to prosecute their interests. Such conceptions allow the use of the tools of economics and of game theory to analyse and predict outcomes of different choice situations (see, e.g., Scharpf, 1997). In the planning field, work along these lines is associated with Alexander (1995), Sager (1994, 2001a, 2001b) and Pennington (2000). On the other side, are those who, like DiMaggio and Powell, see interests and preferences, transaction processes and costs as multi-faceted and socially constructed, as part of the processes through which rules, norms and routines, discourses and practices are created, become embedded as 'taken for granted' and then again maybe questioned and changed. Such processes are about the production and embedding of symbolic resources as well as material welfare (Zucker, 1991), about culture and identity as well as functional performance. In the planning field, this work is represented by Gualini, Healey, Hillier, Innes, Jensen and Richardson and Reuter,<sup>15</sup> and is linked to the parallel studies in interpretive policy analysis (Hajer, 1995; Hajer & Wagenaar, 2002; Yanow, 1996). There are also close links between this social-constructivist 'institutionalist' work and other research in urban politics and sociology on power and governance, the social

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<sup>13</sup>See DiMaggio and Powell (1991), Hall and Taylor (1996), Muller and Surel (1998) and Peters (1999).

<sup>14</sup>The connections between this stream of work and that developing in regulation theory (see Jessop, 2001; MacLeod, 2001), and in actor-network theory (Murdoch, 1995; Murdoch et al., 1999) are increasingly close and acknowledged as part of an 'institutional turn'.

<sup>15</sup>In addition to the works already cited in the text, see Jensen and Richardson (2000), Richardson (1996, 2002), Healey (1999), Hillier (2000, 2002) and Reuter (2000).

dimensions of technology and policy analysis. These focus on how new ideas and practices may be shaped and resisted not merely by individuals but by discourses and practices embedded in social contexts.<sup>16</sup>

## **Towards an Institutional Account of Governance Transformation Processes**

It is this social-constructivist family of ideas which, in my view, is particularly productive for examining how planning practices are institutionally situated and what their contribution to transformative agendas might be. Some of the 'new institutionalist' literature suggests that the diffuseness of the intellectual discourse has limited its leverage in developing research agendas. Yet the elements of such a research agenda, and its practical relevance, are not hard to isolate. A critical element for the analysis of transformation processes is some conception of the interplay between deeper, embedded cultural practices and the conscious and visible world of routine and strategic interactions. There are many ways in which this has been expressed. I draw on Schon and Rein's conception of levels of cognitive framing (Schon & Rein, 1994), on Giddens' conception of the interaction of structure and agency (Giddens, 1984), and on Dyrberg's Foucauldian re-formulation of Lukes' three levels of power (Dyrberg, 1997). These all suggest the value of a three-tiered analytical conception of institutionalisation processes.<sup>17</sup> I develop this insight through three levels: specific episodes; the 'mobilisation of bias' in governance processes, and culturally embedded assumptions and habits in governance cultures. These are not to be understood as empirically separate phenomenon. Actual experiences of governance interaction are constituted by the way these levels intertwine. Yet each level moves with a different dynamic, the first level in the day-to-day time of immediate human interaction; the second level at the timescale of 'strategic actors', seeking to fix and change the parameters of the first level. The third level operates at a slower pace, reflecting social norms and customs, often understood as 'natural behaviour' in the consciousness of actors. To this concept of levels, I add the interplay of exogenous and endogenous forces in driving changes at all levels. Some of the dynamics of governance episodes, processes and cultures arise from tensions, contradictions, inventions and struggles generated within and between the levels. These may be inhibited or reinforced by external forces, arising from economic dynamics, political changes or environmental pressures, which may affect different levels along different timescales. I now elaborate each level in more detail.

At the level of *specific episodes*, the visible world of people and positions, is the interaction of actors in specific institutional 'sites' or arenas where ideas are expressed, strategies played out, 'decisions' made and power games fought out. Key actors here may be champions of change or bastions of resistance; strategically skilled or passive rule-followers.

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<sup>16</sup>For contributions particularly relevant to the planning field, see Lè Gales (1998), Painter and Goodwin (2000), Pierre (1998), Murdoch (1995), Jessop (2000, 2001), MacLeod (2001), Jones (2001), Raco (2002) and Cars et al. (2002).

<sup>17</sup>A similar three-level conception is used by Bryson and Crosby (1992, p. 91), drawing on Giddens (1984).

Many planning and urban governance studies tell stories of these interactions.<sup>18</sup> Game theorists may also seek to analyse them mathematically (Scharpf, 1997). Through involvement in such episodes, people learn the discourses, practices and values embedded in governance processes. They may also seek to challenge and change them, through participation in arenas generated by social movements, or innovative governance forms, such as new partnerships or community-based initiatives.

All institutionalists stress the importance of penetrating below the level of specific episodes to the underpinning structures which give arenas their particular 'practices', and which provide actors with more or less resources. Analysis at this level seeks to peel away the surface of interactions to reveal the way '*bias*' is *deliberately mobilised*<sup>19</sup> in governance processes. Such analysis emphasises 'strategic projects' for mobilising actors, developing discourses and changing practices. It focuses attention on the networks which actors have access to; the extent to which those actively involved and clearly represented in the arenas relate to the array of those with some kind of stake in an issue, — the stakeholders; the policy agendas and discourses which frame debates, conflicts, interests and strategies; and the policy relations and routines — the practices which structure the day-to-day interactions and choices of strategic behaviour and which shape how discourses and practices themselves are changed and diffused. Studies of transformation processes which focus at this level emphasise the significance of conflict between policy communities, between policy discourses and over practice modes (see Hajer, 1995; Vigar et al., 2000; Healey et al., 2003; Coaffee & Healey, 2003). They also emphasise deliberate projects to mobilise new 'movements' for change, whether initiated from within established governance arenas or by social movements of one kind or another. This work informs the design of policy systems, of community planning or land use regulation, for example.

For those institutionalists who recognise the significance of *cultural determinants* of discourses and practices, however, it is important to delve deeper still into how and why particular modes of governance persist. For many such analysts, as noted above, the focus of attention was on national cultures, as in the path-dependency analyses, which drew on North (1990). More recently, those interested in the nature of localised inheritances of 'social capital' and their impact on economic activity have identified the complexity of the cultural embedding of institutional practices in specific places (Belussi, 1996; Amin & Hausner, 1997; Malmberg & Maskell, 1997). This work focuses on culturally favoured 'modes of governance', which underpin practices; on the cultural conceptions which foster some discourses more than others; and on the norms and traditions which sustain formal structures as these play out in specific, spatially situated institutional 'locales'. The analysis of these deeper structures has informed the attempts to apply Foucauldian genealogical analysis to how power relations are maintained 'beyond' that of any individual actor or particular discursive struggle, and neo-Gramscian analyses of what it takes for a new policy discourse, such as the neo-liberal agenda, to become hegemonic.<sup>20</sup> In his analysis of discourse transformation in environmental policy, Hajer (1995) emphasises the importance not merely of

<sup>18</sup>See, for example, Meyerson and Banfield (1955), Altshuler (1965), Grant (1994) and Flyvberg (1998). All these case studies also seek to get below the surface of their accounts.

<sup>19</sup>This refers to Schattschneider's (1960) analysis of 'the mobilisation of bias'

<sup>20</sup>See Fischler (2000), Huxley (1994), Imrie (2002) and Jensen and Richardson (2000)

discourse structuration but its institutionalisation into discourses and practices across a wide institutional landscape which a policy effort has to reach to have transformative effects. Tolbert and Zucker (1996), discussing organisational transformation, refer to the way innovations at the level of specific episodes and that of the mobilisation of bias 'sediment' down into these deeper structures. Episodes which transform and efforts to mobilise new kinds of bias, this suggests, need to draw on the resources in this deeper level and at the same time generate 'sediments' which endure within the dynamics of deeper structures.

This conception of levels gives a fluid and dynamic meaning to concepts of 'path dependency', emphasising the importance of situated empirical analysis of the relations between historical legacy and transformative energy. Underpinning forces may hold some positions, discourses and practices in place well beyond any immediate functional purpose. Or the ongoing interaction between actors and the strategic manoeuvres to mobilise bias generate 'sediments' which may wash away, leaving little trace in discourses and practices. Yet they may remain to exert a significant structuring effect. The conception provides a rich way to analyse the dynamics of the interaction of context and innovative action. What it lacks is an explicit connection to the *wider social dynamics* in which governance processes play out. This involves a theorisation of social dynamics. Some institutionalists provide this through a link to political economy models, with their grounding in struggles over the prevailing economic order. Others view social dynamics as constituted through multiple forces, the specific empirical combination of which is contingent and inherently unpredictable. In this context, people are skilled innovators and adapters to changing contexts over which they have limited control but which yet they shape. This underpins the contributions of those drawing on complexity theory to drive their institutional analyses (Innes & Booher, 1999; de Roo, 2000).

My own position draws on urban political economy to the extent of recognising that there are powerful driving forces which generate struggles over governance form, and that these play out over time through and across all the levels outlined above. These may arise from the dynamics of economic activity, for example, in the shift to post-Fordist production processes and the globalisation of economic relations. Or it may arise from political changes, such as the new opportunities and challenges generated by the creation of a supra-national politics in the European Union. Or it may arise from shifts in socio-cultural attitudes and aspirations, which underpin the spread of a re-valuing of environmental qualities and the pressure for more richly democratic governance processes. The tensions and contradictions within and between these driving forces generate multiple dialectical processes in which stability is hard to achieve. This suggests the interesting hypothesis that stable 'regimes' of governance are the exception rather than the norm. Offe's conception of governance activity in continual 'restless' dialectical search for a resolution to inherent conflicts may be a more appropriate metaphor (Offe, 1977; Jessop, 2000). Such a perspective also focuses attention on analyses of institutional change as a continuous process, sometimes proceeding faster, sometimes more slowly, with different levels potentially changing at different speeds.<sup>21</sup> In this context, there is always a chance that an institutional innovation will 'make a difference'. But exactly when, where and with benefit to whom is a matter of risk assessment for policy-makers and empirical inquiry for analysts. The practical implication is

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<sup>21</sup>We have tried to analyse this in our work on a partnership in Newcastle (Healey et al., 2003; Coaffee & Healey, 2003).

that those who seek to pursue institutional transformations need to develop the capacity for continuous monitoring of their institutional context in all its levels and interactions.

Table 1 summarises the above framework. It also adds a normative dimension. What is there for the planning enterprise to contribute to all of this? As I have argued elsewhere (Healey, 1997a), I believe the planning contribution to be in part a consequence of ‘position’, a vantage point from which relations transect and intersect in specific spaces and, in so doing, accumulate a recognition of ‘places’ and their qualities. But it is also a consequence of a value stance. The planning tradition has repeatedly asserted the substantive values of social justice, material well-being, environmental sustainability and protection, and the importance of democratic voice to citizenship and identity. These interlink with the procedural values of inclusivity, innovation and creativity, fairness and reasonableness and of developing a grounding in a rich and well-argued knowledge base. The planning enterprise is therefore involved in ongoing struggles in all kinds of places over appropriate modes and cultures of governance as well as over specific socio-spatial outcomes, expressed in concepts of the ‘good city’ and ‘good governance’ (see (Sandercock, 1998; Friedmann, 2000; Fainstein, 2000)). The third column in Table 1 represents an attempt to provide a framework to evaluate the extent to which emerging governance forms may express any of these ‘planning’ values.

## **Dissolving a Governance Culture: A Report on a Work in Progress<sup>22</sup>**

I now illustrate this approach with a case study of a deliberate effort to transform the discourses and practices of a local authority, Newcastle City Council, in the North East of England. This is in itself a challenge, as it requires an introduction to the ‘story’ of the case.<sup>23</sup>

The case concerns not just any local authority, but one in which professionalised departmentalism, ‘command and control’ delivery practices and a tradition of paternalist, clientelistic relations between voters in some wards and their councillors had woven a complex fabric of networks, bureaucratic and political practices. This governance culture was forged in the struggles in the early 20th century between capital and labour, which, in mid-century, produced the national level machinery of the British welfare state. Locally, the Council could consider itself as representing the people’s welfare agenda — delivering homes, jobs and education services for their citizens, and particularly those in poverty. The heartlands of council support lay in neighbourhoods with a long experience of being in and out of heavy manufacturing work, subject to the fluctuations of the national and international economy. Sustained by a strong community identity, forged in the Labour movement and in the neighbourhood experience of collective survival, residents looked to the Council to address many dimensions of their daily lives.

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<sup>22</sup>This brief account draws on a number of studies of Newcastle governance undertaken over the past 10 years. See especially O’Toole (1996), Davoudi and Healey (1995), Healey (1997b), Lanigan (2001), Healey (2002), Healey et al. (2003) and Coaffee and Healey (2003).

<sup>23</sup>Situating and constructing the narrative of empirical accounts is a major challenge for institutionalist research. See Flybjerg (2001) on case study narrative, and Eckstein and Throgmorton (2002) for methodology and several examples.

Table 1: Planning and dimensions of governance interactions: an institutionalist perspective.

<b>Levels</b>	<b>Dimensions</b>	<b>Valued in a planning perspective</b>
Specific episodes	Actors — the key players — positions, roles, strategies, interests	A wide range involved Strong voice for locale and place Strong voice for citizens/consumers
	Arenas — the institutional ‘sites’	Accessible for many Openness
	Interactive practices — communicative <sup>a</sup> repertoires	Transparent Foster innovation and creativity Fair and reasonable
Mobilisation of bias in governance processes	Networks and coalitions	Broadly based, open and accessible
	Stakeholder selection processes	Inclusionary, in terms of acknowledgement and voice
	Discourses — framing issues, problems, solutions, interests etc.	Integrative from the perspective of daily life in specific places Openly contested Knowledgeable, accepting multiple forms of knowledge
	Practices — routines and repertoires for acting	Accessible, facilitative, valuing local and external knowledge, transparent, honest, fair, sincere, capable of decisiveness
Culturally embedded assumptions and habits	Range of accepted ‘modes’ of governance	Openness, responsiveness, goal-achieving, respectful of multiple identities, reasonable, just, fair
	Range of embedded cultural values	Social justice, environmental sustainability, material well-being, democratic multi-vocal citizenship

Table 1: (Continued)

<b>Levels</b>	<b>Dimensions</b>	<b>Valued in a planning perspective</b>
	Formal and informal structures for policing discourses and practices	Fair, just, reasonable, balancing local voice with measures to avoid exclusionary practices
Wider social forces	Reinforcing or calling into question any/all of the above	Resisting oppressions Promoting a focus on the long term and on socio-spatial justice and sustainability

<sup>a</sup>Communicative is here taken to mean conveyed in language and in other bodily expressions.

They were often tenants of council housing. They relied on the local authority for the quality of schools and for a range of social welfare services. They expected their local authority to look after the public realm in their area — the streets, parks and common services. They looked to the Council to help to bring back new jobs to replace those lost by international economic competition and re-structuring. They voted for the Labour Party and expected their ward councillors to act as their representative ‘within’ the council, to sort out the problems they had with all or any of the above. The result was a co-existence of clientelistic ward politics and a professionalised, departmentalised service delivery machine.

But in the late 20th century, the Council found itself caught in a pincer movement. The manufacturing economic base in the region, and particularly the numbers of jobs, as with many old industrial cities in Europe and America, was seriously undermined by global shifts in the region’s core industries. As a result, job prospects became even more limited for those with few qualifications, with expansion instead in the service sector and in what was understood as ‘women’s work’. Unemployment escalated, especially for men, undermining the Labourist social fabric and creating a fertile ground for alternative economic activities, some informal and some threateningly illegal. In many neighbourhoods, struggles over whose law and whose order should prevail divided streets and families. In this context, many looked to the Council to provide more support and protection. But national policy in the late 20th century cut both the powers and resources available to the Council, while shifting a substantial slice of what resources there were into a whole array of special projects, meant to pioneer new ways of doing governance and distributing resources. Instead of the benign and secure provider of resources to neighbourhoods in difficulty, and despite the best efforts of many individual council officers and councillors, residents found themselves with a reduced quality of service, and in competition with each other over access to the resources that flowed through the projects. They also came to learn a great deal more about the Council’s complex organisational tapestry. Fuelled by national politics and the media, the image of a benign local



authority working in voters' interests was replaced by a myth of the Council as self-serving, inward-looking and arrogant, unable to listen to the issues raised by residents in the partnership arenas generated by the various projects. Councillors still got elected, but the numbers bothering to vote plummeted.

But residents were not the only groups who became critical of the Council. Business interests, articulated primarily by representatives of the traditional major firms, complained that the Council was a Byzantine bureaucracy and unable to act strategically to support the re-positioning of the local economy in a new global capitalist landscape. National government, a powerful force in Britain, tended to support these business interests, providing encouragement to the creation of arenas for local authority-business partnerships. The national level promoted all kinds of initiatives to transform local authority practices, to make them more business-friendly and 'customer' responsive, culminating in the 'modernising' agenda of the new national Labour government, which came to power nationally in 1997. This advocated more integrated local authority working, more strategic policy-making and more consultative policy practices (DETR, 1998). In terms of the governance dimensions outlined in Table 1, the Newcastle situation had become extremely unstable by the late 1990s. At the first level, there were new actors and new arenas generated by the various partnerships and special projects. These had in turn introduced new repertoires of interaction, replacing the 'council knows best' practice with more open, discursive consultative processes. At the third level, and linked to the wider changes in economic opportunity, social organisation and expectations of governance, the departmentalised service delivery practices and clientelistic ward politics came under sustained challenge, from national government, business groups, some Labour councillors themselves and from residents of the poorer neighbourhoods who could no longer rely on service delivery and problem-solving capacity.

It is in this context, and as a result of some internal political changes in the Labour-dominated council that the council embarked in the late 1990s on a strategic project of self-transformation. There were conflicting expectations of this effort. Some sought to re-establish the strong position of the Council. Others sought to create new modes of democratic practice and re-construct the Council's support base in the neighbourhoods. Some emphasised the need to transform the Council's policy agendas and to make its delivery mechanisms more effective and efficient. Another motive was to make the most of national resources targeted to 'innovation' in urban policy and modernising local government. A few also wanted to capture the political limelight, with a view to a future career in national government. All these various motives swirled around a double initiative, which in 1998 produced a structural re-organisation of the council into fewer, larger, apparently more integrated, directorates, with new senior officers recruited from outside the area, and an effort to create a strategic plan for the city, to provide an orientation for the overall work of the council and to re-position the Council in the mental imagery of the business sector, national government and residents. The Council aimed to show itself as forward-looking and pro-active, demonstrating hard-headed strategic leadership to address the area's serious economic and social problems. In terms of the levels in Table 1, it set about a deliberate effort to re-mould the 'biases' within its own governance processes and disseminate the impact into the wider governance landscape. In this effort, the emphasis focused on the re-moulding of discourses.



It is only possible to provide a sketch of the evolution of this initiative, which remains a 'work in progress'.<sup>24</sup> It initially involved the creation of a strategic team within the local authority, close to the new Chief Executive and including the new senior directors, a largely 'outside force' brought inside the Council. It included episodes of consultation with an array of stakeholders before the first statement of the strategy was produced in early 2000, entitled in confident boosterist tone, *Going for Growth* (Newcastle, 2000a). The aim of this statement was to be clear and selective, focusing on the key issues the area faced and the key actions the Council proposed to undertake. These were primarily to do with re-focusing the city's development agenda. For many years, the emphasis had been on making land available within the city for industrial development, in the hope of replacing the jobs lost with ones suitable for the workforce, supplemented by initiatives to improve the housing stock and local environments in the poor neighbourhoods which were becoming increasingly dilapidated. In addition, the city sought to develop 'greenfield' land near the region's very successful airport for suburban housing and business development. This strategy had been expressed, if rather weakly, in the city's 'unitary development plan', which guided its land use planning function and had been approved by central government. But national planning policy had changed to put much more emphasis on 'brownfield' development.

Meanwhile, the city was losing population, especially from the inner neighbourhoods. Those who had the resources were leaving for areas beyond the city and those who took the jobs in the new industries were typically commuting in from outside. So the city faced a future with a declining population, which meant a declining resource allocation from national government and increasing demands on services as those who did not move were proportionately those in most need of services. One consequence was increasing vacancy in the housing stock in some neighbourhoods, a stock owned by the council, by housing associations, by individual home owners and by some landlords who were deliberately buying stock cheap, deteriorating street environments and buying up properties as people left. Demolishing 'voids' (vacant property), developing 'brownfield' land and 'Going for Growth' became metaphors for a brave project of social and economic transformation of a city facing an alarming decline scenario. The objective was to create new development opportunities in the locales of the poorer neighbourhoods, which would generate more socially mixed communities, with more spending power to sustain better quality schools, shops and services. Through this strategy, it was hoped to retain more people in their neighbourhoods and attract those currently moving out to better suburbs and small towns to stay in the city. A key concept in 'Going for Growth' was a classification of neighbourhoods in terms of traffic lights — red for 'weak areas', yellow for 'intermediate areas' and green for 'strong areas'.

The challenge for the Council was not only to structure a new discourse of hope and opportunity. They had to persuade funders and investors to believe in it. They needed the support of residents for the changes in the neighbourhoods. The initial response in the local media was positive, as was that of business representatives and national government officials in the region. It is unclear how far these strategies penetrated resident consciousness. The next steps involved providing more detailed strategies for the two areas where the poorer neighbourhoods clustered and where problems of vacancy were highest. Inspired

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<sup>24</sup>This was written in 2003. Since then, there have been changes at both local and national levels.

by the opportunity provided by a national review of urban policy (UTF, 1999), the Council hired a consultancy with a national profile (it had been involved in the national study) to undertake a 'master plan' for one of these areas. This used the vocabulary of 'urban villages' and a hierarchy of districts to suggest development opportunities and priorities, expressed in a well-established professional design vocabulary. The Council put the strategy, along with one prepared internally for the other area, into consultation documents which emphasised the need to demolish some property in order to create opportunities for new investment (Newcastle, 2000b). Produced for consultation in mid-2000, the result was an explosion of protest in the neighbourhoods concerned (Healey, 2002).

There were many reasons behind this explosion. Partly, there was an element of deliberate strategy. Several council officials and councillors believed 'there was no alternative' to providing large development sites within the neighbourhoods, creating thereby the physical spaces for the social engineering project. They anticipated opposition and believed a tough but clear policy would help to ride it out. Many outside the Council interpreted this as yet another manifestation of the Council's arrogance and failure to listen (business as usual in a new suit). Local political activists saw the chance to mobilise opposition to the council and promote the Liberal Democrat cause.<sup>25</sup> Some residents read the plans to imply that their houses, on which some had expended a great deal of care and effort despite the surrounding decline, would be demolished. But many residents in the neighbourhoods, especially those who had been drawn into one or more of the many 'urban regeneration' initiatives in the past, felt a sense of betrayal. Instead of being listened to, these master plans and the demolition involved were being imposed upon them. This is expressed in one telling exchange in the media in summer 2000:

*Councillor: 'There's no point in saying 'No' to demolitions. We have to go ahead with the radical strategy'*

*Local community spokesperson: 'We know there have to be demolitions. We're not completely opposed to what the Council is trying to do. We just want to be included'*

Extract from Radio Newcastle: 3.8.00

To return to the analysis, the Council, in its strategic intervention, had focused too much on discourses of development and change, and too little on the historical legacy of the practices of its complex relation with its citizens. It had given too much attention to keeping the big players on board, and too little attention and respect to the multiple stakeholders represented among its citizens. The overall strategy was too narrow and crudely articulated, while the master plans were too alien in tone and style to relate to those most affected. Neighbourhood residents felt abused and taken-for-granted, their faith in the Council yet further undermined. Many also felt deeply unsettled in the fundamentals of their existence (their homes) and their daily lives (their local environments).

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<sup>25</sup>The Liberal Democrat's are the third party at national government level, but have been making inroads into the Labour party's local base in a number of Northern industrial cities. In 2004, they won control of the City Council.

But conflict and struggle are not necessarily negative features of transformative processes. The scale of the protest, and the media attention it attracted, both locally and nationally, threatened the support of the 'big players' as well as the Council's own political base. It forced the Council to review not just its 'discourses' as developed in the master plans, but to re-consider its practices, and particularly its relations with neighbourhood residents. This reconsideration, which involved some difficult politics with risks taken by officers and shifts in positions by councillors, has been unfolding in a range of new and old arenas since autumn 2000. A new and more junior group of officers from across the Council were brought together to lead a process of intense discussion with a whole array of stakeholder groups, from small groups of residents discussing conditions in particular streets or the prospects for particular groups of shops and open spaces, to discussions in newly established Area Committees,<sup>26</sup> and the involvement of all kinds of groups, from ethnic minorities to young people with police records. It included discussions with officers involved in the detail of service delivery in different departments, to help them understand where their actions make a difference. There is also an informal group of stakeholders who represent 'key influentials', whose public opinion of what the Council was doing could affect the way these efforts are perceived by others.<sup>27</sup> There was a very visible impression of a bubbling up of transformative energy into the surface level of actors and arenas, with the aim of shifting governance practices, as experienced and as perceived.

Inevitably, there are many who feel that these efforts are merely yet another strategy by the Council to regain its position and carry on with 'business as usual'. This fuels a continuing critical chorus in the media, among activists, and in encounters between residents and Council staff and politicians. For many officers within the Council, the whole 'Going for Growth' exercise seems remote from their activities, which carry on in under-funded and unappreciated pathways full of 'hoops' they are required to jump through created by national government requirements. Despite this scepticism, however, the transformative energy released by the 'Going for Growth' exercise and its ramifications has the potential to re-mould much of the 'bias' in the culture of the Council's own organisation. The pin-cer movement, affecting the rhetoric of urban policy and the actors involved at the level of 'specific episodes', and the deeper movements in underlying perceptions and expectations, creates an institutional 'moment', which generates a relentless pressure for change. How much of this activity will 'sediment down' into deeper levels, become institutionalised, into the future 'mainstream' governance culture of the city will only be known many years hence. An institutional analysis of the governance dynamics of the locality would suggest that 'business as usual' inherited from the 1980s and 1990s is an unlikely future pathway. Yet some surprising elements from the past may provide resources for the future. For example, the traditions of community solidarity and clientelism have not disappeared and provide an expectation of an easy face-to-face interaction between residents, their councillors and officers. They may shout at each other, but they still expect to communicate.

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<sup>26</sup>The idea for these had been promoted by the national government's strategy for 'modernising' local government, see Coaffee and Healey (2003).

<sup>27</sup>I was a member of this group until mid-2002.

Perhaps this provides a social capital inheritance, built up in a very different political economy, on which new and richer democratic practices may build.

Using the institutionalist framework devised in Table 1, Table 2 attempts to express the transformative project underway in Newcastle governance, as sought by the pro-active transformers. It reflects much of the contemporary analysis in the UK about the development of UK government institutions and local government in particular.<sup>28</sup> It also seeks to realise much of the normative planning agenda indicated in Table 1. But this pathway into the future was not deliberately chosen. It has evolved as a result of the pressure of multiple forces acting on different levels. Initially, issues of the process of transformation were given little attention. The focus was on substantive objectives. These were crudely articulated and focused on the Council's own financial and management dilemmas, faced with declining population and income. The 'traffic light' vocabulary was linked to the future of the Council's own housing stock (Healey, 2002). Under mobilisation pressure from citizens and activists, a rich and multi-dimensional re-configuration of interaction processes is now underway. But this is slow work, as those involved learn new practices. Experiences and images built from past practices and sustained by national media myths will live on for a long time. Meanwhile, the parameters of the substantive agenda remain very much as established in the *Going for Growth* strategy. The new processes are shaping the detail, providing a finer grain to the 'traffic light' map. The concept of the 'red, yellow and green' areas is becoming embedded as a framing idea in the way officials and residents think about their areas. Alternative concepts for understanding the socio-spatial dynamics of neighbourhood change and the development of the city are unable to get much leverage in this context. It may take another strategic episode before a richly dimensioned strategy about the city and its many places can emerge from the process innovations currently underway. This serves to emphasise that the relation between discourses and practices is not linear. Unless appropriate practices to 'carry' a new discourse are in place, it will be difficult for it to disseminate. If they are in place, then a different kind of discourse may emerge. But these processes of converting practice innovation into mainstream practice routines take place over long time spans and in complex ways. They are also continually affected by wider exogenous forces. These add to the conflicts over transformation processes, reflecting in particular the contradictory impulses for change generated at national government level.<sup>29</sup>

How then does institutionalist analysis assist in understanding cases such as this, and in particular the transformative potential of the various initiatives? The master planning tradition, revised in the US recently under the banner of a 'new urbanism' (see Fainstein, 2000), would have concentrated upon the logic of the spatial structures proposed in the *Going for Growth* document and the master plans for neighbourhood change. Analysts in this tradition would not have looked for the policy struggles and perspectives underlying this content. The rational decision-making tradition would have focused on analytical robustness and the relation of solutions to aims. Both traditions would have highlighted the 'thinness' of the strategy statement, in terms of spatial organising concepts and in terms of

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<sup>28</sup>See Stewart (2000), Stoker (1999) and Wilson and Game (1998).

<sup>29</sup>See Jones (2001), MacLeod (2001), Stewart (2000) and Stoker (1999).

Table 2: Transformation in governance: Newcastle City Council at the millennium.

<b>Levels and dimensions</b>	<b>From ...</b>	<b>To ... (as expressed by the transformers)</b>
<b>Specific episodes</b>		
Actors — the key players — positions, roles, strategies, interests	Key Councillors and Officers 'in charge'	Councillors, Officers, Representatives of Residents' Groups, Special Social Groups, Business Interests, Special Interest Groups, etc.
Arenas — the institutional 'sites'	Council committees; Officer meetings	Local Strategic Partnership, Area Committees, resident neighbourhood meetings, etc., linked back into formal committees, etc.
Interactive practices — communicative repertoires	Traditional council style (meetings structured by agendas and papers produced by officers, circulated beforehand; party caucus meetings)	Listening and learning practices in many contexts Different repertoires used in different situations
<b>Mobilisation of bias</b>		
Networks and coalitions	Party networks;— key politician officer–business networks; officer professional communities	Residents' networks drawn into governance processes Professional communities more open and able to exchange concepts and practices
Stakeholder selection processes	Established local and national governance elites	Broader range acknowledged, able to have voice, listened to Dominant voices have to learn to tolerate a wider range of voices
Discourses – framing issues, problems, solutions, interests, etc.	Housing, jobs, education, social services — service delivery	More attention to quality of place; to everyday life experience of places More attention to social cohesion and environmental quality as well as economic competitiveness
Practices — routines and repertoires for acting	Top-down; individual relation between council and resident with-problem; fixing problems;winning resources	Policy-driven decision processes Respectful consultation in all initiatives Facilitative attitude from council officers and members

Table 2: (Continued)

Levels and dimensions	From ...	To ... (as expressed by the transformers)
<b>Culturally embedded assumptions and habits</b>		
Range of accepted 'modes' of governance	The council as provider Professionals as the service providers Pork-barrel/clientelistic politics	The council as service deliverer and facilitator Policy-driven modes of decision Strong place-focus
Range of embedded and cultural values	Solidarity between workers and political representatives Community support for individuals	Recognition of diverse values lifestyle ambitions Awareness of shared experience of urban life
Formal and informal structures for policing discourses and practices	National government requirements Media	More legal, financial and intellectual authority for local authorities
<b>Wider social forces</b>		
Reinforcing or calling into question any/all of the above	Industrial economy, large firms, working class culture	Varied service economy Varied lifestyles and socio-spatial expression Weak interest in formal politics but stronger involvement in local governance initiatives Ability to define National Government initiatives

precise knowledge of local conditions. The IOR School would have given more attention to positioning the strategy in relation to contestation over values and over what other agencies might be doing. The urban political economists, standing 'outside' the position of those producing a strategy to get critical distance, would evaluate the strategy in terms of how far it changed the distribution of material resources and life chances.<sup>30</sup>

Sociological institutionalists would not neglect any of these issues. What the analysis highlights is the complexity of the multiple dynamics affecting governance episodes, processes and cultures in a locality and the necessity to penetrate the fine-grain of interactions to understand the effects which transformative forces and transformation initiatives actually have in specific instances. There are potentially many different actor-networks, arenas, discourses and practices, each with their own time spans and spatial scales. A

<sup>30</sup>The *Going for Growth* strategy has in fact been criticised from this direction, as pursuing the needs of capital more than community, and promoting 'gentrification' processes (Byrne, 2000).

strategic planning activity represents an attempt to draw some of these together, to merge (integrate) their discourses and practices into some shared collective exercise with the power to frame both discourses and practices. Its ambition is to shape social worlds and identities, and through this process, accumulate the power to endure. A strategic approach to such a 'transformative' enterprise would focus on a careful prior assessment of the array of actors, networks and stakeholders, the evolution of the discourses and practices through which issues are identified and solutions proposed and the knowledge resources, relational resources and mobilisation capacity (Healey, 1998; Healey et al., 2002) embodied in these discourses and practices. It would focus, in other words, on a critical assessment of the dynamics of the 'soft infrastructure' of urban governance and the potential for shifts in modes of governance and governance cultures.

## Conclusions

There is now an increasing appreciation of the significance of the 'soft infrastructure' of governance in shaping material development, attitudes and identities and the experience of 'place'. This appreciation underpins major research programmes in Europe on the reasons for variation in local economic performance (Cooke & Morgan, 1998; Crouch et al., 2001; Moulaert, 2000). For the planning enterprise, it enriches Friedmann's interest in the transformative role of planning and Fainstein's call for a return to planning's concern with the quality of human life in places (Fainstein, 2000). Fainstein concludes that the expressions of 'hope' contained in images of the 'good city' need to be translated into practical possibilities. The 'new institutionalism', and especially its sociological variant, provides fine-grained analytical resources for those innovating and evaluating such initiatives. In this paper, I have sought to develop these through analysing the dynamics of governance activity, and planning initiatives within these dynamics, in terms of different levels of interaction, each affected by endogenous and exogenous forces, but moving to different mixtures of forces on different timescales. Substantial transformations occur when all three levels shift in a similar direction. In the Newcastle case, while all the levels were actively changing significantly, the timescale and directions of change were conflicting and uneven. The energy poured into 'change initiatives' was as a result consumed in complex eddies and whirlpools rather than generating a transformative torrent.

In conclusion, how does the 'new institutionalism' and in particular the strand which I have emphasised in this paper, advance our understanding of the transformative dimensions of planning activity?

Firstly, it warns against any simple idea that a trajectory for the future of an area can be designed and predicted. There are just too many dynamic forces involved, intersecting and conflicting with each other in complex ways. Yet actions informed by ideas about future possibilities can have effects in shaping the future. The 'soft infrastructure' of governance clearly influences future possibilities. This suggests that those seeking to transform trajectories should look at the way these infrastructures currently shape policy and action and where opportunities for change are situated. Rather than designing trajectories too precisely, planning attention would do better to identify 'moments' and 'arenas' where stakeholders encounter each other to exchange and develop ideas about trajectories.



Secondly, planning could usefully give more attention to the interaction of the inheritance of actors, arenas and networks, discourses and practices and modes and cultures of governance in a locality with all kinds of exogenous forces, since these mould the power of agency. This power may be encapsulated in the person of a charismatic strategic actor. But it may also be embodied in qualities of local governance capacity, the institutional capacity and social capacity of a place (Cars et al., 2002). New strategic ideas rarely come from nowhere. They are borrowed, refurbished, carried forward in all kinds of ways. Ideas developed to serve one set of purposes and interests may shift through time to serve other purposes, other interests and in doing so take on new meanings. This emphasises the importance of discourse analysis in planning, as both a critical activity and a practical tool to scope the institutional landscape and its opportunities for change (Richardson, 2002).

Thirdly, the approach focuses on more than the formal arenas of government or formal procedures for undertaking planning work. It can examine any set of actors, arenas, discourses, practices and cultures of governance. It can explore mobilisation processes within public office as well as activist mobilisation of forces antagonistic to formal government. It has the capacity to span traditional divisions between sectors — public/private; state–economy–civil society. It can therefore explore how boundaries such as these are constituted and transformed.

Fourthly, for those engaged in planning work, sociological institutionalism stresses that the planning task is not merely a technical exercise. The giving of advice — about institutional redesign, about the process and content of a strategy, about the design and evaluation of a specific project, involves setting an idea loose into an institutional context, where it may have all kinds of impacts in the array of arenas and practices which it reaches. Many planners know only too well how their advice comes back to hit them or haunt them in unexpected ways. But their impact, as with all actors, is not merely confined to their substantive advice. The manner of its giving is also important, both to how the advice is received in different arenas and what is conveyed about the role of professionals, experts and government officials. The challenge for planners, as for all those professionally involved in ‘shaping’ governance processes in some way, is that the language of advice and the practice of giving advice will be received differently among different groups and in different arenas. What planners say and how they act is therefore critically important to their opportunity to ‘make a difference’, but they have to learn how to speak and act in diverse institutional arenas.

Fifthly, in the complex and dynamic governance landscapes of localities, there are always struggles of some kind going on between modes of governance and governance cultures, at all levels of power dynamics. The planning enterprise cannot avoid being positioned within these struggles and is typically associated with the promotion of particular modes and agendas. This demands a reflective capacity to identify the dimensions of these struggles, and the various levels at which they are conducted. It requires an ethical and political capacity to take a position within these struggles. If the normative agenda identified earlier has any merit, this means that planners cannot just accept the definitions provided by those around them. They have to adopt a critical position, on the watch for hidden discriminations and illegitimate, unfair and oppressive practices and actions likely to undermine the quality of life and environment as experienced in specific places.



The planning enterprise is thus, in the social-constructivist version of the ‘new institutionalist’ perspective, positioned as part of a continuous process of governance capacity formation in specific places or ‘milieus’ (Crouch et al., 2001; Cars et al., 2002). Its ability to ‘make a difference’, through its intellectual and practical contributions, lies in the critical skill of identifying emerging material and mental realities, the way these may sustain or change existing discourses and practices, and where, in a complex institutional landscape, an intervention may open up progressive opportunities and close off negative ones. It involves a recognition of the interplay between discourses and practices, policy agendas and policy processes, and a search for opportunities and arenas where disparate actors come together to review collectively the emerging qualities of their places of existence and the governance processes which help to shape these. The contribution of the planning enterprise to creating the future should be in helping to open up institutional spaces within which transformative energy gets released, in feeding transformative initiatives with knowledge resources, technical capacity and repertoires of practicing, in highlighting value issues at stake and in shaping emergent possibilities. Neither ‘in front’ of governance practices, nor apart from them (Mazza, 2002), but acting ‘inside’ them, the planning enterprise need not decay into a mere cog in someone else’s machine. Governance processes are not a machine, but complex continually emergent dynamics in which small contributions matter and large-scale projects may easily fail. The ‘new institutionalism’ provides a key resource for understanding these dynamics and recognising the transformative potential of all kinds of contributions in all kinds of governance arenas.

## Acknowledgements

My thanks to Goran Cars, Susan Fainstein, Sara Gonzalez, Jean Hillier, Asa von Sydow and Niraj Verma for helpful comments on an earlier draft. Note that this paper was written in 2002. Since then, I have developed some of the ideas in other papers.

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**PART 2:**

**INSTITUTIONAL DESIGN**



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## Chapter 4

# No Longer Muddling Through: Institutional Norms Fostering Dialogue, Getting the Facts, and Encouraging Mediated Negotiations

John Forester

This chapter shows how subtle institutional structuring of planning processes presents both traps and opportunities for citizens and planners alike. Recent studies show that planning practice is pragmatic and improvised, context-dependent, and inevitably rhetorical. Patsy Healey (1993a,b, 1997), Charles Hoch (1994), Judith Innes (1995), and James Throgmorton (1996) have explored the politics of information, the ethical dimensions of planning deliberations, and the richness of a public participation in planning that shapes identities and preferences no less than products and outcomes (Forester, 1999a). Nevertheless, these students of planning — and the so-called “communicative planning theorists” more generally — have paid too little attention to the institutional pressures that shape planning processes (Nielsen, 2001).

City planners need to learn not just about “the facts” of proposals, though. They need to learn not just about the reputations and “identities” of citizens, either, for they need to learn, in addition, about the practical options of “what can be done” too. But when time is short, and when problems are complex, these requirements of learning can conflict with one another. The planners’ work of learning about the “facts” can displace their building of the trusted relationships they will need as the bases for cooperation with others. Worse still, too much attention to either “getting the facts” or “relationship building” can preempt their crafting of the creative options for effective action. This chapter will explore these practical dangers that reflect, as we shall see, subtle institutional challenges facing planning practitioners.

### Ambiguities of “Communicative Planning”

Consider the most common of planning situations. On the Southside of Westville, some residents meet one evening with a member of Westville’s City Planning Department to

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Current Research in Urban and Regional Studies

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ISBN: 0-08-044931-X

discuss the local traffic situation. A proposal to develop a shopping plaza nearby seems to threaten lots of new and unwanted local traffic. The developer's plan for the plaza is still a bit fuzzy, and the City's response seems fuzzier still. Residents wonder what will happen, who they can trust, what they can do, and if their representatives on the City Council will help them (but they have divisions among themselves!) or just "promote development."

The ambiguity of "planning processes" that involve meetings, many meetings, such as this reflects the deeper complexities of the guiding of future action itself — for sensitive planners always need to learn not only about "traffic problems" to address, "residents" whose lives and neighborhoods are at stake, but more too: effective steps, policies, or agreements that those residents and their representatives and local developers, perhaps, can implement to address those problems. The ambiguities raised by such ordinary planning meetings are persistent, subtle, and deeply systematic too: they are not incidental ambiguities, but deeply institutional ones.

Consider the ordinary problems of complexity, duplicity, posturing, and suspicion present in many planning meetings. On any given occasion, a community resident can speak forcefully about a project proposal, and a planner might well wonder, "I wonder what she said that for?" This question is common enough — a matter of everyday interpretation and the planner's need always to learn on the job — but the question also poses systematic ambiguities (cf. Forester, 1989; Healey, 1992).

So, for example, in our meeting on the Southside of Westville, the planner could well wonder and ask about the particular person speaking, their fears, their anger, their willingness to share information, or even listen to the planners' views: "What's bugging her? I wonder what she said that for. Where is she coming from?" These questions reflect the need to understand the person who has spoken, perhaps her motivations, feelings, aspects of her background or "culture," elements of her "identity."

But the very same resident's (or, community member's) statement about the project proposal can lead the same planner to ask, "Where'd she get that idea, that information? Why would she worry about that? I wonder what she said *that* for." These questions focus not on the person speaking but on what she's claiming to be the case, what "the facts of the matter" seem to be, what sources of knowledge and expertise seem relevant.

But a planner's need to listen critically is not that simple either, for the same Westville community resident's claim can lead the planner to wonder, "What does she want from the city, or from the developer? What is she asking for, really, that the city or the state or the developer can provide? What did she say that *for*?" These questions focus less on the person speaking, and less on the facts to which she is referred, but on the possible negotiations that she envisions with others. These questions worry less about personal authenticity or posturing, factual accuracy or exaggeration, and more about the strategies that the parties at hand could craft to address the interests at stake in the case at hand.

So we face some bad news. Not just citizens' rhetorical claims, but the planning processes themselves, more generally, are systematically ambiguous in just this way: the very same community resident's claim can raise questions for planners about (i) the character of personal identity, (ii) the "facts" of problems, and/or (iii) the options potentially to be negotiated.

But then we face some good news too: that planning processes pose these "systematic ambiguities" means that they pose "regularly predictable" needs to learn too. As a result,

planning theorists and practitioners alike confront two challenges: first, to learn how to learn in these predictably different ways, about people, facts, and negotiable options, and, second, to understand the associated problems of process and “process design” — if planners are not needlessly to fail on the job.

We can explore this potentially confusing but fertile ambiguity of planning processes if we distinguish three modes of valued “discourse” that planners in any case like Westville’s can practically promote: (i) a discourse oriented to mutual understanding that we might call “dialogue,” (ii) a discourse oriented to getting the facts that we might call “information-gathering,” if not quite “scientific study,” and (iii) a discourse oriented not just to making decisions but to acting together, one that we might call “mediated negotiation” or consensus building. Consider each in turn.

### *Dialogue*

“Dialogues” can take many forms, but typically, these processes bring together stakeholders or parties to speak and listen to each other, to learn about each other’s perspectives, to learn about each other’s fears and values. So, for example, we hear of dialogues such as “study circles” or “public conversations,” or an “issues forum” — meetings designed to enable members of different viewpoints, religious faiths, ethnic, or racial communities to listen to and learn from each other (Sears, 1997; Herzig & Chasin, 2006).

We often hear broad appeals to dialogue from religious and community leaders who know that disputing community members may never have had the occasion to speak and listen to one another without posturing in the same room. These dialogues seek to weaken stereotypes to help community members treat each other as real people rather than as types. Religious or educational institutions might host these dialogues; counselors or trained facilitators might convene and manage them; community members become their own experts because they are there sharing their own views, their own feelings, their “local knowledge” (Corburn, 2002).

These dialogues often try to reach less for agreements upon action than for a quality of interpersonal recognition and understanding, a sense “of where they are coming from,” a sense of each other’s life experience, commitments, senses of honor and obligation, responsibility, and value. To achieve anything like this level of “understanding” between citizens of differing genders, races, and classes is no small accomplishment, but to act without it threatens to reduce community “participation” simply to community recrimination, suspicion, name-calling, and antagonism.

Dialogues are personal, subjective, inevitably and importantly emotional, and they challenge conveners and facilitators for all those reasons. In their telling, personal histories may become not just particular but eccentric. They can be not just relevant to and focused upon topics at hand but they can be tangential and distracting as well. Their subjectivity can promote empathy in some but dismay in others. Their strong emotions can lead to insights into fears and commitments, but these emotions can also threaten others who are wary of potentially hurtful anger. Nevertheless, these dialogues promise to improve communication, to enhance understanding, to build respect, to nurture trust, to encourage hope in future cooperation.

But what about being less touchy feely and being more “objective,” “getting the facts” of the matter?

### *Information Gathering, Getting the Facts*

Processes of information gathering typically differ from dialogues. Trying to get the facts about a problem at hand can easily displace patient listening to personal stories. What matters here appears for many people to be less “what someone thinks” and more “what’s really been found to be the case,” “what the study’s shown.” In a provocative article, Scott McCreary and his colleagues contrast two predominant styles of information gathering, the “blue ribbon panel” and “adversary science,” to a mediated negotiation process that they call “joint fact finding” (McCreary, Gammon, & Brooks, 2001). Scientific organizations or courts, they tell us, might host such information-gathering processes. Scientists or court-appointed hearing officers might convene them. “Scientific experts” play key roles in attempting to define what shall count as good information and, ultimately, as knowledge.

We can think as well here, of course, of familiar processes of “public hearings,” officially intended to gather relevant “public comment” and “information.” In such hearings, the officials who convene them often limit participants to a few minutes each to present their concerns and any relevant information; the organizers of public hearings prize “evidence” rather than “testimonies,” information rather than stories. Appeals to “fact” trump expressions of feeling. Methods of scientific testing and “verification” — traffic counts or toxicological data analysis, for example, trump “having been there” or “having lived in the neighborhood for thirty years.” In these processes, officials or professionals or citizen board members may well suspect that environmental problems are complex and that what looks right to the untrained eye might just not be right after all. So testing the soil, air, or water quality, modeling the traffic flows, “doing the numbers” under various economic scenarios, for example, all matter and can be subjected in turn to careful, methodical, sometimes scientific scrutiny (cf. Fischer, 1980; Fischer & Forester, 1993). In public disputes, these participants know, emotions run hot, perception is often partial, so let us be careful, the thinking can go, not to be swayed by forceful emotional appeals, let us get the facts!

So much, then, for the facts, but what about getting something actually done; what about recommendations, decisions, implementation?

### *Mediated Negotiations*

Mediated negotiations differ in important ways from both dialogues and information-gathering processes. Of course, any mediator needs to worry about how adversaries who are negotiating with each other can very easily fail to understand each another, and in so doing fail to understand what they might really accomplish in their own negotiations. Any mediator needs to worry too about the quality of information on which the parties base their agreements, or those agreements will never stand up, never last. Most of all, though, mediated negotiations need to reach beyond “understanding” and fact finding to try to craft practical agreements that the parties can actually implement to satisfy their real interests.

Mediators prize understanding and evidence, to be sure, but neither as much, potentially, as the collaborative satisfaction of parties' interests. So, mediators do even more than the work of dialogue and information gathering: they work to discover behind rhetorical "positions" a real array of differing interests and as significantly differing priorities that the parties wish to satisfy. By managing a process in which parties together can "trade," can help each other to satisfy those *differing* priorities, mediators can enable the parties to explore *what they might now agree actually to do*. Independently respected institutions like religious, non-governmental, or some (not immediately involved) governmental organizations might host mediated dispute resolution processes. Skilled mediators, or community members with mediation skills, are required to convene and manage these processes. Participants bring to these processes not only their personal views and values, emotions and commitments, not only their local knowledge and their distinctive expertise, but also their abilities to act, and their abilities to commit to future actions that will satisfy real interests (Susskind, Larmore, & McKernan, 1999).

Unfortunately, however, studies of "communicative planning" have not distinguished these practical processes very well. These processes are all, to be sure, deeply communicative, but one prizes interpersonal understanding, another prizes well-tested findings, and yet another prizes participatory commitments to action. So, no one should be surprised to find that each of these three processes can displace, pre-empt, or conflict with the other two. Worse still, in planning situations characterized by suspicion, inequality, posturing, ambiguity, and complexity, encouraging "participation" will do nothing to prevent confused and disruptive conflicts between these efforts to promote dialogue, information gathering, and negotiated agreements. Simply to bring parties with histories of suspicion and resentment together assures nothing, and badly managed meetings in the context of past conflicts can simply escalate conflict, worsen relationships, and reduce real chances for effective action. So, any planner who wishes to convene community meetings "in the planning process" should not only have a clear idea of what those meetings might accomplish, but they should have the actual skills to help community members effectively to reach those ends, such as recognition and understanding and improved relationships, better information and an analysis of "the facts," agreements upon action to satisfy stakeholder interests, and so on (cf. Forester, 2006).

## **Practical Conflicts between Forms of "Communicative Planning"**

Although these three forms of discourse can overlap, they can also make very different practical demands upon community participants. So not only planners, but community participants too, must have a clear sense of what they hope their meetings will accomplish. If one group of citizens hopes for mutual understanding in a planning process, while another group wants clearly specified operational agreements about action steps, *both groups* are likely to be unhappy. Both groups are likely to leave the process even less satisfied than when they entered. No ill will need be present here at all. Just these mismatched expectations can set the parties up to fail, unless the planners who convene and manage these meetings are both sensitive to these differences and actually competent to handle them too.

If several participants in a complex environmental case, for example, have goals of learning about “the real facts of the case,” they will have different agendas, expectations, and worries from other parties who might well have come instead to learn “what can really be done now,” parties who have come to reach a practical settlement or even “to get down and make a deal” about how finally to go on. If still other parties come to listen and learn about each another but can not really commit resources or authority to implement particular options, then each of the parties can easily find themselves “the good guys,” while finding themselves also terribly frustrated by the conflicting expectations of others. One says, “I’m not here for emotional understanding — I want to know about the ecological effects on the lake!” while another says, aside, “Why should I trust those environmentalists? They seem to care more about the fish than about our jobs,” and so on. If planners cannot manage meetings — or in theory talk, “facilitate discursive processes” — that work through such differences, the consequence will be little planning, less action to show for it, but much resentment that will undermine future planning efforts.

To avoid such problems and encourage practical and rich deliberative meetings instead, planners and citizens alike must distinguish these three potentially conflicting institutional forms of “communicative planning”: those enabling the testing of evidence, the recognition of identity, and the crafting of agreements on action. So this chapter asks planners and citizens to re-assess the challenges they face in the deceptively simple “meetings” they attend all the time. To see how planners might actually do this work, we turn below to the practical insights of experienced mediators of public disputes.

## **Different Forms of “Communicative Planning” Require Different Skills**

So, local (“transportation” or “environmental” or “economic development” or “land use”) planning processes might take three different forms: these might be dialogic processes oriented to interpersonal respect and understanding, or scientific processes oriented to generating well-tested factual analysis of situations at hand, or they might be negotiation processes oriented toward real actions to satisfy stakeholder interests. These differing kinds of planning processes and “meetings” reflect subtle but powerful institutional influences. They embody differing norms, require differing skills and competencies, build upon differing cultural repertoires (or “capital”), and so they will likely produce quite different results. Clarifying these distinctive possibilities might not guarantee more effective planning — but certainly failing to distinguish these differing processes could easily lead to institutional failure.

Practically, then, planners need to learn not just very generally “how to run meetings,” but how to design institutional processes as well. Yet with time short, trust limited, and conflict ever-present, finding out “what can be done” (or, more abstractly, “learning”) is hardly simple, because practical choices need to be made: an investment in “getting the facts” may make “getting to know the people involved” *more* rather than less difficult. For example, as I began this chapter, a neighborhood planner described just this tension for me: “I am trying to build relationships and partnerships with neighborhood organizations,” she wrote, “but the administration’s main priority is to gather information and input on the comprehensive plan.” Similarly, “learning about joint action steps” can call for another form of con-



versation or inquiry (e.g., mediated negotiations) that planners can easily ignore if they focus too narrowly on “information collection,” or even on “building relationships.”

McCreary et al. (2001) make a related argument when they contrast blue-ribbon panels and adversary science to a mediated process they call “joint fact-finding.” Suggesting the limits of blue-ribbon panels, they write:

Still another problem arises when those affected by a decision cannot observe or understand the deliberations of the scientists. Because they are excluded, do not understand the science, think the panel is using the wrong information, or believe the panel is asking the wrong questions, these people may call into question the legitimacy of the process. Distrusting or disbelieving the advice of the panel, they are unlikely to support the scientists’ policy recommendations.

But adversary science has its problems too, they suggest:

Wherever the venue, it is not uncommon for opposing counsel to attempt to undermine both the credibility of the others’ expert witnesses and the data or conclusions they put forward. This process does little to clarify the scientific issues at stake.

Unfortunately, in real time, the ideals of one institutionalized form of conversation or discourse can be the worries of another. For example, if planners or citizens hope that a meeting will produce agreement about scientific issues or findings, they might encourage the use of scientific methods and their standards and techniques of establishing “fact.” If planners or citizens hope instead, though, that a meeting will produce a working agreement about a policy or a plan of action, they might encourage mediated negotiation methods of trading across differing interests to generate an acceptable agreement by the stakeholders to act. But then, if the planners or citizens hope that a meeting will produce neither fact nor policy but first of all mutual understanding, they may well try neither to be scientific nor to negotiate but instead to elicit personal stories and emotional candor, and they will try not to argue and refute, not to bargain and trade, but to listen and empathize instead.

While scientific argument prizes refutation and focused criticism, such pointed, critical argument often threatens rather than promotes interpersonal dialogue. Similarly, while policy discussions often thrive on the arts of negotiated compromise, scientific discussions often shun the imprecision of concessions, and in dialogues, the issues of personal identity often appear to demand respect, not compromise. These differences of purpose become differences of approach and timing, hope and expectation; these are differences not just of “theory” but of what actually happens face to face given limited time, resources, and trust.

So, the virtue of one form of discourse can be the vice of the other: no wonder planners get into trouble. A virtue of interpersonal dialogue can be its embrace of ambiguity so that parties recognize one another’s identities, but a virtue of scientific discussion can be its severe reduction of ambiguity. A virtue of legislative deliberation can be a form of negotiated compromise, but compromise appears to threaten both the scientific inquiry and moral claims of identity. Dialogue thrives on value claims, and deliberation and mediated

negotiations may thrive when parties “exploit their differences” in interests (help each other on matters they prioritize differently), but just such discussions of values and interests can threaten appeals to dispassionate science (Forester, 1999b; Susskind & Cruickshank, 1987; Van Eeten, 1999a, b).

So each of these forms of conversation depends upon distinct norms, standards, and conventions (and thus institutional infrastructures; Forester, 1993) that help parties know what they are doing and learning together, as they seek understanding, or the facts, or practical agreements. These clusters of norms, standards, and conventions reflect underlying social and political institutions of authority and conversation, institutions of mutual recognition and legitimacy, institutions of codified and publicly accessible inquiry. We can recognize these institutional aspects of planners’ conversations most starkly when these meetings, these practical discourses and inquiries, break down. For example, when dialogues in public meetings flounder on the rocks of “disrespect” or “racism,” we recognize how these conversations embody (but may very well fail to embody adequately) norms of mutual regard and recognition, standards of dignity and human equality, implicit institutions of citizenship, and rights and responsibilities. When fact-finding in public meetings flounders on the shores of “inadequate data” or “ineptly used methods,” we see how these conversations embody (and again may fail to embody adequately) norms of openness and publicity, conjecture and refutation, the implicit but governing norms of the institutions of scientific inquiry. When mediated negotiations in public meetings flounder on the reefs of “excluded parties” or insufficiently authoritative representatives, we see how these conversations embody (or, again, fail to embody) norms of voice and consent, authority and legitimacy, and norms implicitly at stake within the institutions of political participation.

So planners and citizens alike can easily find themselves pulled in quite different directions. Because scientific discussions prize reliable explanation and tested propositions, planners and deliberating citizens must be analytically astute! Because community dialogue prizes mutual understanding and recognition, planners and citizens must be skilled facilitators at times and almost always sensitive listeners! Because public deliberations can weave both of these processes together in mediated negotiations to clarify and satisfy diverse interests, planners and citizens must at times also be skilled negotiators and even mediators! These are common enough, but nevertheless, tall demands.

In real time, the actual demands upon planners and citizens to learn about people, about problems, and about action possibilities pose not as abstract theoretical dilemmas but practical problems: who to call, what sort of meetings to arrange and how to manage them, whom to invite (and not invite). How practically can these demands be met? We can learn both about these practical problems and their possible resolutions by studying the work of experienced mediators of public disputes, the task to which we now turn.

## **Challenges of Mediation**

Like planners who convene and work in between disputing parties, the mediators of public disputes must also learn about problems at issue, people in contention, and possible actions (Susskind et al., 1999; Susskind & Cruickshank, 1987). But unlike planners, mediators often have their feet closer to the fire: they have been hired to move beyond processes

of fact-finding and dialogue to manage processes of reaching practical agreements. Because many planners also wish to move beyond fact-finding and relationship building to crafting participatory agreements, planners can learn a great deal practically from the improvised practice of skillful mediators. So we would do well to ask how mediators do this work when, as we have seen, the demands of learning about “the facts” can pull in different directions from those of learning about “the people,” and both of those demands can conflict at times too with crafting mutually acceptable options for action.

Consider, for example, the work of astute listening that any planner and any mediator must do, a listening that goes well beyond the attentiveness we have learned in the third grade of elementary school. In conflictual settings, such listening is practical and also highly political work because the meaning and intentions and claims of stakeholders are always shaped by processes of power and identity, because what is said and what is meant are often not the same, because what is said is often highly selective in factual, emotional, cultural, and gendered ways (Forester, 1999a). Without careful, diplomatic, and critical listening, planners could hardly work competently in a world of bureaucratic conflict, diverse community interests, political disputes among elected officials no less than between constituencies, negotiation games played by developers no less than anti-development groups. Without equally insightful listening, mediators of public disputes could hardly be competent as they work with widely diverse parties with still more diverse interests and values, with a full range of negotiating styles and emotional nuances, all reflecting complex political, community, and personal pressures (Forester, 1999b, 2006).

But the differences between planners and mediators can be instructive too. When a planner listens, she may focus on the perceived “facts of the matter” (what a developer or community resident claims to be the case) or on the attitudes, feelings, and fears of the resident or developer, or on some sense of future possibilities. The same is true, of course, for mediators, but with a difference. Many mediators take as their working aspiration, their practical institutional goal, the possibility of a participatory, mutually agreed upon action outcome. So they listen not just for relevant facts, but also for facts that might matter enough to be addressed in eventual outcomes. Those action outcomes might be tiered, sequential, some immediate, and others put off to other decision-processes, but still a mediator often listens with an ear and eye to future practical actions. A planner might not always listen in this way, because she might think, for example, that her job requires her first to “get a handle on the history of the problem,” before even thinking about possible strategic actions.

These choices become very practical in the work of interviewing or “getting to know” affected parties, whether these “interviews” are one-to-one conversations on a telephone, in person, or amid other conversations in any or many of the meetings planners must attend. Perhaps mediators have an easier job: as “mediators,” they are institutionally expected to help the interested parties negotiate effectively to satisfy their interests. Planners have more ambiguous jobs, more ambiguous institutional responsibilities: their “clients” seem less well defined, their mandates are more complex, the problems of representing affected stake holders might be more problematic. Still, the experience of mediators might show planners how better to deal with the potentially conflicting objectives of learning not just about “the facts” and “the parties” but about practical “negotiated agreements” as well.

## Views from the (Mediation) Trenches

Listen first to Jon Townsend, a self-described “Anglo-Indian” of the Cree nation who has “done some [dispute-resolution] work internationally in Ecuador, Nicaragua, Guatemala, Costa Rica, and Cuba”:

I think that listening is incredibly important for both the mediator and the parties — and that mediators should talk less and listen more. I try to listen for interests and values. I listen for why things are important. I listen for proposals that meet people’s interests. I listen for those “golden nuggets,” those conciliatory gestures that are often hidden and that need to be picked up and extrapolated and expanded upon ...

You listen for common ground. You especially listen for their differences, though, because people are not in mediation based on their commonalties. They are in mediation based on their differences. So, you listen for the commonalties so that both parties understand with your help that there are *some* commonalties, so you can do some bridge-building work. But also it is important for me to listen for the differences and to find out and to recognize what they are, so that now we can build the additional part of that bridge to overcome those differences or at least to make the parties aware of them and that those differences may indeed stay differences.

This much seems simple enough. Listening for commonalties helps planners identify common ground. Listening for differences allows for bridge-building: perhaps trading across differing priorities to achieve mutual gains, and recognizing that some differences will simply stay that way. So, mediators (and, by implication, planners too) must listen for a good deal more than “the facts of the matter” or even for stakeholders’ perceptions of the conflict at hand. They must listen with an attitude: to reach working agreements, they must be sensitive not only to commonalties but also to the differences in interests to be addressed by anything promising to be a viable agreement. But then Townsend goes on to make a dramatic and profound claim of far-reaching importance, even as he hedges by calling it a “prejudice” or a “bias”:

It’s helpful for me to know what the difference is between an “interest” and an “issue.” I have a prejudice, a bias, that says in most cases, in my experience, be it negotiation or mediation, most people come to the table with their issues, but they really have not thought a lot about what their interests are. In my experience, people don’t negotiate on their interests. They hardly know their interests. They haven’t thought about their interests. As a people, generally speaking, we don’t think in terms of interests.

Are not parties perfectly rational? All-knowing? Free of confusion about themselves and their options? Apparently not, Townsend suggests. What can it mean that in a racial or an environmental or land-use case disputing parties might often focus on “issues” but not

on their own underlying “interests”? In a local real estate development dispute, for example, an “issue” might be the size of a retail store’s parking lot, but the interests of the developer might be access to the store and the interests of neighborhood opponents might be environmental or design quality. Townsend is teaching us here that planners would be substantially *missing the action* if they were to see or, as badly, report only that the developer seeks X parking spaces, while the opponents seek Y spaces. Hearing the issue but failing to recognize the real interests at stake, mediators and planners in such a case would be too literal. Being right but not right enough, they would be too blind to address the actual problem before them.

But Townsend tells us more too:

My listening has helped, for me anyway, to have an understanding since in my own experience people usually don’t come to the table with their interests known. So I need to listen for that. I make assumptions, I guess, in the vast majority of cases when people say ... this is what they’re fighting about — they sure are, but that’s not the real reason. There’s something else and the thing that I guess I’m familiar with is that we can work for *issue resolution* through *interest satisfaction*.

So we will satisfy people’s interests in order to get the issues resolved. So, people still have to address those *issues*, because they are the surface things. That is what people are not comfortable with, and that is what they are there for. But the end result may be — and probably and usually is — about something a little bit deeper, about their *interests*, the “whys.” “Whys” are so important to talk about: “Why?” [So] anyway, it helps to listen.

Townsend argues that parties can indeed resolve their issues (through interest satisfaction) by shifting the planning focus subtly but significantly and practically from expressed and, perhaps, loud “issues” to less explicitly articulated but deeply significant underlying interests. When he suggests that mediators should listen not only for common ground and shared commitments but for differences in the parties’ deeper interests, he echoes a fundamental aspect of mediation that Lawrence Susskind has pithily called “exploiting differences,” helping the parties to take advantage of their *differing priorities* so that essentially in trading across differences, the parties become able to help each other (Susskind & Cruickshank, 1987).

Now consider what this means for the institutional expectations we might have for participants in a public planning process. To assist conflicting parties actually to trade across their differences, a planner must bring to the contentious meetings of the planning process more than a concern with establishing the facts of the matter, more even than a concern with enabling all affected parties to voice their positions. To do practically agreement-oriented mediation-like work, planners must look well past the literal words uttered, well past the posturing of the parties. Planners must be comfortable enough with situations of conflict to do much more than simply describe the parties’ strategic and rhetorical positions (“Well, what they *said* was ...”). Townsend asks planners to reach beyond the goal of understanding where the parties “are coming

from,” as laudable a goal as that might be, for he suggests that behind or beneath their stated issues and positions lie important “interests” that a mediated negotiation process could actually satisfy.

### *Beginning in a History of Conflict*

But planners rarely begin with a clean slate. They assess projects that almost always involve histories of suspicion and difference, ambiguity and complexity. Not surprisingly, then, planners can be wary of just bringing together contentious parties to “discuss the issues,” much less to try more ambitiously to reach agreements about what to do (Forester, 1989). So we should ask how planners might learn from mediators about the practice of encouraging fruitful conversations between stakeholders who have little real knowledge of one another and even less trust.

To address this question, we can consider the views of a trained architect-planner who became an experienced mediator, Larry Sherman of Toronto. Before parties to a dispute can deal with the problems facing them, Sherman suggests, they must establish a certain level of mutual respect or recognition (cf. Forester, 1999a, Chapter 4). The mediator can actually role model that respect:

I’m pretty active in the discussion as a third party, and I ask people what they really mean, to clarify what they’ve said, or I sometimes inject an assumption. I say, “Let me assume that somebody could read something into this.”

In other words, I’m always probing to make sure that everybody has a clarity about what it is they’re agreeing to. As a rule, I never allow minutes to be taken or tapes to be made. I rely totally on the flip charts and I tell people that this is the group memory and that if it’s wrong, it’s got to be corrected, and very often it is. Very often people will say, “Don’t use that word. Use some other word,” and “That’s not what I really said,” or “That’s not what I really meant,” and they see me cross it out and change it. Everybody does. I think that helps a lot.

That helps you build trust and then confidence among a group of people who felt dis-empowered. Both writing down what they say and feeding it back to them is very important, particularly in the beginning, until they are convinced that what they’re saying is really being registered and that there’s some respect for what they think. That’s the device for doing that.

But Sherman teaches us more. Modeling respect helps to build relationships between the disputants, he argues, and that in turn *enables them to work* on the problems at hand:

We have to confirm and show respect for people’s concerns, but sometimes we don’t understand what they’re saying, and so we have to keep probing at them until it gets through our thick heads. Then we can get it down, and we can agree with them on what the terms are, and they’re satisfied with them,

we've then established a confidence in them that the next time they say something at that negotiation they can say it with a little more authority and that it will register. That's a device, I think, that's terribly important: that people really gain respect for one other *and in the course of that are empowered* (emphasis added).

What do I mean by "respect"? First of all, let me talk about disrespect. I think one of the biggest obstacles to negotiations is the fact that if there're parties who don't agree with one other, there's probably a deep-seated disrespect, and so they're not listening to the other person. If they're not listening, they're not going to really try to sit down and collaboratively solve the problem. They're not even going to focus on the problem, which is very important to do.

Sherman teaches us here that without a quality of relationship that enables listening to one another carefully — a quality of relationship he terms "respect" — parties are unlikely to work together effectively, whether to generate shared pictures of the problems before them or to generate action options for possible implementation.

That concern for implementation fuels Sherman's interest *as a planner* in mediation processes:

What have I learned over my years as a planner using mediation? I've learned that mediation is an incredibly powerful tool. It certainly has humbled me a few times, but I have learned as a professional planner that I would never have achieved as much planning, that is, the implementation of as much planning, in any other way.

Over the years I have learned to magnify [a point I made earlier]: just how very much people know that they don't share about whatever the subject is — and how very creative they can be. The power of creativity of people and the amount of knowledge they have is just not normally uncorked. This [mediated negotiation] is a process that does that.

I've always been concerned as a planner, as I hope most are, with results, with implementation. It's not enough to have a beautiful design or a beautiful plan on the wall. As life in cities gets worse instead of better, we should be blamed for all that planning that never came to anything, or, in fact, that in many cases created worse problems. So over the years it's become more and more important to me to find ways of implementing plans.

Now I find that you can pretty well forget the act of planning as a prerequisite to implementation. You can put that aside. Because if you get into the implementation of problem solving, you will find that the folks who are going to implement it will solve the problems, i.e., they will do the planning. That's what makes sense, too: you plan in the process of implementing. ...



Notice that Sherman tells us not just about forethought and commitment, not just about planning and implementation, but about an actual institutionalized process of involving people together to work on their own problems, their own disputes. Sherman criticizes the institutional ambiguity of many planning processes that too vaguely connected information gathering to action. He tells us that mediated negotiation processes can do better:

The opportunity for empowering people to be creative in solving their problems is much greater than the ability of a mediator simply to go in and get people to shake hands and not shoot one another. That's what planners have always wanted to do: solve people's problems—big, public social problems. What we're now finding is that if you get the right people together, you can actually act on these things. If they are empowered with a process, they can solve problems that we can't solve.

Sherman is not just telling us that mediation processes can help planners. He is addressing at once both a “theoretical” problem of institutional design and what practicing planners, public administrators, and facilitators call “process design.” He contrasts a linear institutional process that sequentially connects information gathering, analysis, recommending options, decision-making, and implementation to a mediated negotiation process in which concerns about action and implementation structure information gathering and all the rest from the very beginning.

## Conclusion

The “planning process” may indeed be “communicative,” but to say that does not tell us very much. Planners and citizens alike face complex challenges of learning — about the facts of issues, about the identities and interests and commitments and fears of others, about real options for joint action that the parties can implement and not just discuss. These challenges of learning reflect both institutional ambiguities and institutional opportunities as well, for the techniques and norms of information gathering and analysis, dialogue, and mediated negotiations are available to planners and citizens, both.

But the opportunities here are practical, not fictional. Experienced mediators can teach us how to convene contentious stakeholders to learn and implement real action in these ways, integrating analysis of information, recognition of others, and agreement upon timely action. Sherman, Townsend, and their colleagues who mediate public disputes serve as a resource for planners and citizens too who hope to work through the ambiguities of “communicative” planning not only in theory but in daily institutional practice as well. (Forester, 2006; Susskind *et al.*, 1999).

## Acknowledgments

Thanks for comments and suggestions go to Lehn Benjamin, Barbara Radher, Scott Sears, Michael Teitz, and Niraj Verma.

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## Chapter 5

# The Public Inc. and the Conscience of Planning

Tridib Banerjee

This paper is not about institutional contexts of planning *per se*, or for that matter, about implications of institutions for planning. Rather it is about planning as an institution, and the challenges it must confront in the face of evolving nature of democracy, citizenship, individual and collective rights, ethnic identity, racial segregation, and interest communities in today's multicultural societies. There is ample historical evidence that not only did the function of planning exist in most pre-modern societies as a cultural institution or organizing society or allocating scarce resources, but it was celebrated and ritualized through ceremonies and edicts. The argument for planning as institution in modern times is also supported by contemporary theories of civil society and modernity, in which planning in the public realm is described either as an instrument of the state or as an expression of the public interest.

I will argue in this paper, however, that legitimacy of planning as an institution of civil society is very much in question today because of growing incorporation of narrowly defined interests and commitments. Indeed, the question that we must consider today is whether we are facing a deconstruction of the notion of civil society, and experiencing a reconstituted version of civil society which can be best described as the "Public Incorporated," a highly decentralized, and splintered body of the public, comprising self-serving and self-interested groups of public citizens.

It is possible that planners have inadvertently contributed to the fragmentation, by challenging the earlier planning approach that was based on the rational model and public interest, but which in fact systematically ignored minority groups and other such disenfranchised. Thus, advocacy planning and citizen participation efforts that grew out of an ethos of social justice of the 1970s actively indulged and even organized Alinski-style enclave politics. But the planners and planning theorists realize today that the fragmentation often results in short-sighted and often territorially based conflicts that in the long run are inimical to the larger interest of the community or the future generations. This has been further exacerbated by the withdrawal of the state facilitated by the imperatives of a global economy. Moreover, what began as interest or enclave politics of fragmentation is now

becoming increasingly commoditized as confirmed by the public choice theorists (one can now buy into communities and Tieboutian<sup>1</sup> clubs).

Communicative theory in planning, which has gained some popularity these days, is trying to reduce (it seems) the institution of planning to a process, if not a technology of mediation between the contentious and variously incorporated public. The theorists are increasingly drawing from various cultural metaphors of traditional institutions (such as the notion of “bricolage”), thus reducing planning to mere skills and techniques. What is missing, however, is an appreciation of the larger “conscience” of planning, and I use the term to describe our individual and collective ability to define the ethical and moral order of collective action and shared values. In this paper, I will argue that the planning theorists need to engage in exploring the “conscience of planning” in the face of the fragmented and often segregated body of the public.

In presenting my arguments, I begin with the case of recent secessionist movement in Los Angeles. I use this tendency toward breaking up extant political space as a case in point in the contemporary trends and patterns of fragmentation of the public.<sup>2</sup> I follow this argument by proposing a general framework for conceptualizing the various forms of incorporation of the public. Here I take an institutionalist perspective and argue that incorporation is essentially an institutional outcome. In the following section, I explore the causes and consequences of the incorporation of the public, and its implications for civil society. In this context, I present some observations about how the practice and ideology of planning may have contributed to the deconstruction of a unified public sphere, and civil society. I include a critical assessment of the communicative planning theory literature as they pertain to the issues presented here. I conclude by presenting an argument for planning theorists to focus on the “conscience of planning.”

## **The Near Deconstruction of Los Angeles: A Close Call**

By mid-2002 it was becoming increasingly likely that by the time next census rolls around, Chicago might regain its place as the second largest city of the nation. The city of Los Angeles, which edged out Chicago as the second largest city in 1980, would drop down to 5th or 6th in the list, behind Detroit and Philadelphia. A new city meanwhile would take its place among the top ten — a city no one had heard of before. This new city, likely to be called the City of San Fernando Valley or the San Fernando Valley City, would be a reality if the area north of Santa Monica Mountains seceded from the city of Los Angeles splitting it in two halves. It seemed likely also that two other areas, Hollywood and San Pedro, might break off to assert their own cityhood. Anticipating such an outcome a *Los Angeles Times* (2002) editorial commented:

... The day after the election, Valley, harbor area and Hollywood residents would find themselves Valleyites, Harborians, and Hollywoodenos, with no

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<sup>1</sup> For details, see Tiebout (1956).

<sup>2</sup> Partially completed as part of my ACSP 2000 paper, “The Public Inc.: Toward a Framework for Organizing Thoughts and Literature.”

civic connection to Los Angeles, which would no longer be the second-largest city in the United States. Indeed if the Valley (1.4 million residents and 224 square miles), the harbor area (147,000 residents, 35 square miles) and Hollywood (209,000 residents, 18 square miles) broke off, Los Angeles would lose 1.7 million people and 277 square miles, 46% of its population and 59% of its land area. In other words, those who live in the tattered remains would suddenly be in a city half what it had been and presumably, suffering a commensurate loss of statewide, national and international clout. (p. M4)

The secession initiative turned out to be a close call only. On November 6, 2002, Los Angeles voters rejected separate cityhood for the Valley by a margin of two to one (McGreevy, 2002). The legacy of the secession movement produced many studies of the economic costs and benefits of secession, and many more expert opinions for and against. Because the possibility of such an outcome had loomed large for many years, many observers saw it as another saga in the continuing mutation of the political space of the Los Angeles metropolitan area, according to the scenario presaged by Robert Fogelson's (1967) earlier analysis of secession, annexation, and incorporation of cities in the urbanization of this "fragmented metropolis."

Four decades ago, about the time Fogelson completed his study, Charles Tiebout and his colleagues (Ostrom, Tiebout, & Warren, 1961) wrote their well-known article explaining the political economy of this fragmented metropolis. Drawing from the public choice theory, they argued that the metropolitan areas can be seen as political marketplaces, where the incorporated communities compete with each other by offering different bundles of goods and services. The benefit of this competitive political marketplace ostensibly is efficiency in municipal service provision over a monopolistic or centralized mechanism. At least that is what Tiebout and his colleagues claimed in their analysis of the metropolitan fragmentation. However, in this market-efficient model externalities of fragmentation seemingly are not reckoned with.<sup>3</sup> There is considerable inequality, segregation, and environmental injustice in this Tieboutian world, and not all communities function as exclusive "clubs." Elsewhere we have argued that in this Tieboutian world there are many impoverished communities that serve as ethnic enclaves and worker colonies (see Banerjee & Verma, 2005), that can be seen more as "union halls" and "soup kitchens" rather than "clubs."

In the interim, while the secessionist movement was underway, the city of Los Angeles had successfully initiated a charter reform process that has produced, among various changes in the structural relationships between the mayor and the city council, a new Department of Neighborhood Empowerment (or DONE). This department is to oversee the creation of neighborhood councils that would empower citizens of Los Angeles with greater local control and access to decision-makers. The charter also prescribes the formation of a neighborhood congress that will serve as the final conduit to the political process and the decision-making of the city. As various neighborhood councils sought certification, preliminary review suggested that the process had often been contrived, and shaped by political expediency or other

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<sup>3</sup> Observations made by Michael Mintrom of the Michigan State University, while visiting USC during the 2000–2001 academic year.

preemptive strategies.<sup>4</sup> Considerable uncertainty remains about DONE, and how these neighborhood councils will ultimately function. Yet, despite the skeptical view that the process is simply a subterfuge to diffuse the secessionist undertow that has long challenged the political conscience and the territorial integrity of the city, much optimism remains among citizen groups, political observers and local activists in the process and its outcome. It is not clear, at the time of this writing anyway, whether the neighborhood council process had anything to do with arresting the inexorable roll of the secessionist juggernaut.

The underlying tensions faced by Los Angeles today, secessionary on the one hand, and grassroots political empowerment on the other, may or may not be shared by other communities with the same level of intensity. But annexations and incorporations, popularly known as “Tiebout sorting” (see Tiebout, 1956) in the academic community, are not uncommon in the history of local governance in the U.S.; indeed they are quite commonplace. Similarly, grassroots activism and demand for democratic control and participation in decisions involving the local communities are also not new. There are many documented case studies of such neighborhood-based empowerment movements (see for example, Castells, 1983). It is possible, however, that the circumstances under which such tendencies and tensions are emerging today are very different from those of earlier times. Indeed the question that we must consider today is whether we are facing a systematic deconstruction of the original notions of civil society, to be replaced by a reconstituted version of civil society that can be best described as the “Public Incorporated,” a highly decentralized, and splintered body of the public, the parts of which are constantly in competition, if not hostile conflict. The emerging image of civil society is one of a highly contentious body of self-serving and self-interested groups of public citizens.<sup>5</sup>

The complicated mosaic of the contemporary civil society is not always territorially based or construed, although property rights-based impulses for territorial control frequently dictate mutation of public space. It includes other institutional and interest communities that are fundamentally extra-territorial in nature. Some of these entities may have firm-like existence spawned by market processes; others might be advocacy efforts impelled by shared ideologies, values, or moral imperatives. Many years ago authors like Charles Lindblom (1977) had characterized such constellations of the public as “pol-yarchy.” Even earlier Lowi (1969) has described the aggregate process as “interest group liberalism,” that counters the earlier notion of market liberalism as the basis for modern societies.

Another related development in contemporary public affairs is the growing recognition of the non-profit and voluntary sector as a major player. The conventional dichotomy of what Lindblom (1977) had earlier described as the private and the public enterprises, is now replaced by a trichotomy, as we have come to recognize the potentials of this third sector. Government encouragement, political activism, and the expanding riches of the philanthropic foundations, thanks to global accumulation of wealth and a robust stock market of the past decade, continue to shape the growing role of this third enterprise.

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<sup>4</sup> Based on our current study of neighborhood council boundary identification study under a grant from the Haynes Foundation (Kitsuse, Polyzoides, Banerjee, and Cooper, 2002).

<sup>5</sup> See for example, a recent op-ed piece by the Los Angeles Times writer Joel Kotkin (2000).



I should note here that in the current literature in political theory there is considerable discussion, indeed misgivings, about the contemporary civil society, and its roles and mutations in the context of democratic values and institutions (see Shapiro & Hacker-Cordón, 1999). In this dialogue, civil society is strictly defined as voluntary associations that are seen as an important constituent of the Habermasian notion of the public sphere, which modulates the tensions between the state and the individual in the classic liberal republican notions of democratic institutions. It will be necessary for us to consider this literature because it includes the same concerns that underlie the arguments about the Public, Inc. But the point here is that the third sector in the tripartite schema to be discussed in the forthcoming text is an entity conceptually larger than the conventional political theoretic notion of civil society of voluntary or associational groups. And this is because it includes such entities as corporate or philanthropic foundations, which are often products of altruistic bequests of family or corporate wealth.

Indeed the institutional world and academia are brimming with enthusiasm today that the time has come for many of the social problems — education, welfare, healthcare for the poor, etc. — to be solved through collaboration between the private, the public, and the voluntary non-profit sector. This “multi-sectoral” approach to urban problem-solving is seen as another step in the campaign for making the government leaner and more efficient, by relieving it of its customary burdens of being the sole purveyor of social welfare. This enthusiasm in part is derived from the growing role of the non-profit community organizations, philanthropies, and foundations in delivering social services to the poor, and from emerging partnerships between the local governments and private capital in urban development (Frieden & Sagalyn, 1989; Loukaitou-Sideris & Banerjee, 1998). In the context of developing countries, absence of civil society and concomitant social capital is seen as a major hindrance to development (see, e.g., Fukuyama, 2001).<sup>6</sup> How to build civil society and social capital is as much a development preoccupation as building institutions for markets currently promoted by the World Bank (2001). Yet, this new enthusiasm begs the very question of the changing nature, and possibly, the future definition of civil society in this “multi-sectoral” schema. It also raises some interesting questions about the emerging dynamic of the private, public, and the non-profit voluntary realms, and how it might impinge on our current discourse on the proliferation of interest and territorial communities. We should also note that in this euphoric optimism the same social problems that were considered inherently “wicked”<sup>7</sup> not too long ago are now consigned to a “benign” status.

This new enthusiasm suggests a very different understanding of the civil society. In this view, the good of society is not necessarily brought about through a deliberative democracy, where the agency of achieving welfare and social change ultimately belongs to the state. Instead, it is delivered through partnership and collective actions of the state, market, and civil society, as conventionally understood. The positive concept of the problem-solving civil society here can be best seen as the Venn diagram of three overlapping circles representing the “public,” the “private,” and the “voluntary sector.” This currently popular model is indeed highly relevant to the framing of the arguments about the Public, Inc. here. We will consider these arguments in a forthcoming section.

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<sup>6</sup> War-ravaged Afghanistan and Iraq being the poignant examples.

<sup>7</sup> For definitions of “benign” versus “wicked” problems, see Rittel and Webber (1973).

There is a general perception, and indeed, supportive scholarly arguments that the public realm is atrophying today, and the quality of public life is declining. Jurgen Habermas' (1991) treatise on the transformation of public sphere, Richard Sennett's (1977) discussion of the "fall of public man," the more recent arguments by Robert Putnam (1995) on the declining social capital of the Western world, are celebrated cases in point. Other critics and observers also bemoan the growing privatization and commoditization of our public life.<sup>8</sup> It is appropriate to ask then: are the forms of incorporation of the public and consequent fragmentation of civil society a part of the same overall trend? Is it simply an evolution of civil society in a highly complex and differentiated world? Might there be other alternative explanations? Even more broadly, what do we know about the causes and consequences of these centrifugal tendencies of contemporary civil society? And finally, what does it mean for the future of planning theory and practice? Are these theories adequate if we are to consider the challenges of planning from an institutional perspective? Extant theories of advocacy, pluralism, and communicative theory have prepared planners for multiple and often competing interests of a heterogeneous public, attendant pluralistic choices in plan making, and how to resolve conflicting claims through communicative actions (see, for example, Davidoff, 1965; Forester, 1999; Innes, 1996). But in the past, these formulations are offered without any explicit consideration of the institutional dimensions of planning, and in particular, how the transformations in civil society might affect the institutional basis of planning. We will explore these questions in the concluding section.

There is a growing corpus of literature that has addressed various constructs of civil society and its transformations from different disciplinary and ideological perspectives. Multiple and alternative interpretations abound, both positive and normative. While the literature, some classic, some contemporary, address various facets of the continuing mutations of civil society, in the absence of a coherent schema it remains a daunting task to synthesize the empirical, the ideological, and the philosophical.

The aim here is to begin a discourse on the changing nature of civil society as it pertains to planning; in particular, one that is characterized by a fragmented and increasingly incorporated public. In the following section, I propose a framework for organizing the relevant ideas in the contemporary literature as a basis for future discourse and explorations into the idea of the Public, Inc.

## **The Incorporated Public**

The synonyms of the term "incorporation" in plain language means amalgamation, integration, assimilation, merger, inclusion, absorption, etc., and its verb form "to incorporate" similarly means adding in, fitting in, including, integrating, and the like. Significantly, the antonym of incorporation is expulsion, and that of to incorporate is to exclude. One set of synonyms includes, such concepts as affiliation, alliance, alignment, association, league, federation, confederation, partnership, fraternity, fellowship, and the like. It is this fundamental

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<sup>8</sup>It will not be possible to summarize all of the relevant literature here in this paper. I have discussed them as part of what I have referred to as the "narrative of loss" in a recent article (see Banerjee, 2001).

sense in which we should pursue the notion of the Public Inc.,<sup>9</sup> but it is the notions of inclusion, formation, embodiment, along with their antonyms — exclusion, expulsion — that help define the act of incorporation and must remain integral to its meaning.

Indeed it is possible to argue that incorporation is a fundamental institution of human societies, which has both formal and informal manifestations, as suggested by North (1991): “institutions ... consist of both informal constraints (sanctions, taboos, customs, traditions, and code of conduct), and formal rules (constitutions, laws, property rights)” (p. 97). Obviously, there are formal rules and procedures in the form of administrative, business, and tax laws and charters that define the structure of incorporation possible for private firms, cities, cooperatives, homeowner associations, foundations, professional organizations, living groups, non-governmental and non-profit organizations, and the like. But there is a multitude of affiliations and alliances that happen outside such structure informally, if not temporally. A preliminary inventory of neighborhood associations in the city of Los Angeles yielded more than 500 such groups.<sup>10</sup> Many of these groups represent what Gerald Suttles (1972) had referred to as a “contrived community” or a “community of limited liability.” Unlike the “face-block community” or “defended community” which have territorial markers, based on propinquity or ethnic and racial identity, contrived communities are episodic and derived from some shared concern that requires collective action. Indeed they may liquidate themselves when the political mission is achieved. Communities of limited liability, on the other hand, are typically examples of incorporated communities that comprise the Tieboutian world previously discussed.

I realize that in making the claim that incorporation itself is a form of institution, I might be inviting skepticism from some readers.<sup>11</sup> There should not be any serious disagreement, however, with the premise that incorporations are a result of an existing set of institutions, and the constraints and opportunities they present. Because North (1990) himself makes this argument about organizations, and if we equate the two, then to quote him, “(B)oth what organizations come to existence and how they evolve are fundamentally influenced by the institutional framework” (p. 5). We should note, however, that there is an important distinction between incorporations and organizations. While organizations are typically incorporated according to formal institutions, exceptions being underground or illegal enterprises like the Mafia or Al Qaeda, or any of the many functioning drug cartels — not all incorporations in all of its senses we discussed previously may function as formal organizations. Incorporations can be strictly episodic and ephemeral, like Suttles’ notion of “contrived community.” Alternatively, incorporations could be more enduring but without any formal structure as common in formal organizations. Examples are social networks, chat groups, and other forms of cyber associations and communities. In North’s schema “(I)nstitutions reduce uncertainty by providing a structure to everyday life” (p. 4), and “(L)ike institutions,

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<sup>9</sup> In Roget’s International Thesaurus synonyms for words “incorporation” or “incorporate” are listed under several classes: in categories of “wholeness” and “conjunctive quantity,” under the class of “abstract relations”; in the category of “distributive order” (“inclusion”), under the class of “order”; as examples of “materiality” in general category of “matter in general” under the class of “matter”; and finally in the category of “support” (in the sub-category of “cooperation”) under the class of “support and opposition.”

<sup>10</sup> And this is only a partial estimate. See Musso, Gaeke, and Avery (2003).

<sup>11</sup> I hope to make the case by the end of the paper.

organizations provide a structure to human interaction” (p. 5). He explains the nexus between the two by using the sports analogy: if institutions are the rules by which games are played, organizations are the players who must play according to those rules. What is left out from this schema, it seems, is the motivation that leads to formation of organizations, or to use the sports analogy, the selection of the players or the choice of individuals to play a particular game. North argues that institutions help deliver organizations, but he never addresses what impels individuals to form organizations, other than in a strictly economic sense. But the question that goes begged: if institutions are the midwives, who then are responsible for the conception? It is quite possible that North felt that the motivation issue lies beyond the ken of conventional, and even institutional, economics and must be answered by sociologists or social psychologists who too study organizations and their behaviors. Yet I would argue, that from the perspective of planning the motives for incorporation are critical in understanding the Public, Inc. and in dealing with specific community clients.

I would argue that whether guided by formal or informal institutions, the most significant aspect of incorporation is the element of agency — in the sense of a purposeful act. Fundamentally, the agency of incorporation is political and it involves creation of a territorial identity. Although one usually associates spatial markers or boundaries with the concept of territoriality, it is also possible to imagine it in functional terms. Either way, incorporation is about boundaries and enclosures, it is about inclusion and therefore, also exclusion. Thus, while a gated community might be highly territorial in the spatial context, the Sierra Club is territorial only in functional sense, through its agency of environmental activism. Of course membership dues, charters, pledges, formal oath of allegiance, and the like are the common means for defining the cognitive, if not ideological, boundaries of the incorporated entities. Those who do not share the views, or believe in the mission of the Sierra Club, for example, are cognitively and ideologically excluded from its corporate identity.

The attached diagram suggests a framework for examining the literature, and a basis for beginning a discourse on the future of civil society and the implications for property rights and planning (Figure 5.1). The chart includes four levels, three of which belong to a sub-national stratum, while the fourth one represents a supra-national stratum. The basis for this organization is political-economic in origin. I use the Tieboutian concept of a competitive political marketplace of local municipalities as the reference class for defining the sub-national stratum, since this is the most commonly understood form of incorporation with specific constitutional authorities of governance. The other two levels are above and below this plane, and accordingly I label them supra- and sub-Tieboutian. Interest groups, trade associations, corporations, professional organizations, and the like, belong to the supra-Tieboutian level. Local groups, neighborhood associations non-profit community development corporations, gated communities, homeowner associations, common-interest developments (or CIDs), or what McKenzie (1994) calls “privatopia,” and the like, all belong to the sub-Tieboutian level. Finally, the fourth level represents the supra-national level of the continuum that may include such international agencies and interest groups like UNESCO, on the one hand, and *Medecins Sans Frontiere* (or Doctors Without Borders) on the other. These four levels intersect three vertical columns representing the non-profit (including the voluntary and the philanthropic groups and foundations), private, and public sectors — the more recent mutation of the more traditional public-private dichotomy. The extreme left column indicates the decreasing importance of place with

Principal Orientation	Scale of Regimes	Regimes of Civil Society			Theoretical Roots and Links
		Non-Profit	Private	Public	
	<b>Supra-national</b>	World Bank Asian Development Bank Greenpeace International Red Cross Amnesty International Oxfam <i>Medecins Sans Frontieres</i>	Multi-national or Trans-national corporations  Roman Catholic Church  WTO	UN and Its various agencies  USAID and other such government aid agencies	<ul style="list-style-type: none"> <li>■ Neo-liberalism and Market Determinism (Friedman, 1987, Lindblom, 1977 and many others)</li> <li>■ Globalism and its discontents (Sassen, 1998, Stiglitz, 2002)</li> </ul>
NON-PLACE	Supra-Tieboutian (sub-national)	Advocacy Groups  NGO's  Foundations  Sierra Club	Corporations  Labor Unions  Alumni Associations Professional Societies  Service Clubs  Trade Associations	Cyber-communities Lobby Groups  Utility districts  Special Purpose districts	<ul style="list-style-type: none"> <li>■ Network Society (Castells, 1997)</li> <li>■ Interest Group liberalism (Lowi, 1969)</li> <li>■ Open Moral Communities (Mandelbaum, 2000)</li> <li>■ Non-Place Community (Webber, 1964)</li> <li>■ Polyarchy (Lindblom, 1977)</li> <li>■ Stakeholder Society (Healey, 1997, Innes, 1996)</li> <li>■ Common Pool Resources and New Institutionalism (Ostrom, 1990)</li> <li>■ Gender, multiculturalism (Sandercock, 1998a, b)</li> </ul>
	Tieboutian	Chambers of Commerce	Municipalities		<ul style="list-style-type: none"> <li>■ Public Choice (Buchanan, &amp; Musgrave, 1999)</li> <li>■ Club Theory (Tiebout, 1956 and others)</li> <li>■ Community of Limited Liability (Suttles, 1972)</li> </ul>
	Sub-Tieboutian	Community Development Corporations  Parishes  PTAs	Clubs  Homeowners Associations  Gated Communities  Fraternities  Common Interest Developmnets (CID)	Council Districts  Neighborhood Groups	<ul style="list-style-type: none"> <li>■ Social Capital (Putnam, 1995)</li> <li>■ Social Ecology (Hawley, 1950)</li> <li>■ Social Movements (Castells, 1983)</li> <li>■ City Trenches (Katznelson, 1981)</li> <li>■ Contrived Community (Suttles, 1972)</li> <li>■ Defended Community (Suttles, 1972)</li> <li>■ Face-block community (Suttles, 1972)</li> <li>■ Communities of Propinquity (Jacobs, 2002)</li> <li>■ Enclaves (Marcuse, 2005)</li> <li>■ Social Order (Suttles, 1970)</li> </ul>
PLACE					

Figure 5.1: A framework for organizing relevant concepts.

higher levels of civil society. Examples are listed at the various intersections of the matrix. The extreme right-hand column includes significant theories and concepts drawn from various fields. A thorough review of these theoretical ideas is not possible within the scope of this paper. Only a few aspects will be highlighted as cases in point.

Thus, for example, at the sub-Tieboutian level the modernist tenets of factorial ecology, inspired by the biological metaphors, attempted to define the ecological areas of shared socio-economic and ethnic similarities. Ideologically committed to market liberalism, this approach had very little room for sentimentalism, symbolism, or propinquity as the basis of communities (see, e.g., Firey, 1968). Later Suttles (1970) would argue that the sense of community might be derived not only from propinquity, but also from ethnic solidarity, or shared interests. Moreover, such awareness may exist as parallel realities with variable loci in time and space. In his study of the grassroots activism in urban neighborhoods, Castells (1983) identifies different forms of local civil society that affect city governance and policies. Katznelson's (1981) study of the social identities derived from ethnicity and neighborhoods challenged the earlier Marxian predilection for class, and the conflicts arising from the separation of places of work and residence (Tajbaksh, 2001).

At the Tieboutian stratum, the argument of Tiebout and his colleagues (Ostrom et al., 1961), well grounded in the public choice theory, remains the dominant political economy paradigm for the fragmentation of the public realm (see, for example, Heikkila, 1996; Musso, 2001; Banerjee & Verma, 2005). At the supra-Tieboutian level, many different forms of theoretical ideas can be identified from such disparate fields as political theory, gender theory, social ethics, and communication theory. These ideas include positive, normative, and speculative orientations.

Finally, at the supra-national level much of the debate about balkanization of civil society revolves around liberalization of national economies and market determinism on the one hand, and critiques of globalism and globalization on the other. This includes the new institutional economics and alternative to privatization and the Hobbsian state as the primary choices for managing common pool resources.

So, what does it mean for planning and property rights? What might we expect to see from a synthesis of literature? For one, the literature and principal thoughts contained in it might help us understand the logic of contemporary civil society, and its continuing, if not inexorable, balkanization. For another, it might help us to identify the essential conflicts and ironies in these writings. Thus, we might find that the local movements on empowerment and social action for establishing local civil society may in fact contribute to the atrophy of the larger civil society. Furthermore, it might help us to develop a critical perspective on market determinism and property rights that are being promoted these days as the principal thrust of institution building in the developing countries. In the following section, I present some propositions about the causes and consequences of the fragmentation of the public and the modes of its incorporation.

## **Emergence of the Public, Inc.: Causes and Consequences**

So, what are the causes of the mutations in the public realm, the rise of the Public Inc., and the seemingly continuing deconstruction of the conventional civil society? I will

present several tentative propositions here, and they are certainly not exhaustive. Furthermore, although I have presented a rather comprehensive schema in Figure 5.1, I will limit my deliberations to those manifestations of the Public Inc. that have territorial identities, such as the incorporated communities at the Tieboutian level, or neighborhood councils or gated communities at the sub-Tieboutian level. This self-imposed limit is a function of space constraint, and a desire to keep the scope of the discussion relevant to local planning practices.

### ***Politics of Accountability and Control***

Many observers believe that the recent unsuccessful attempts to politically deconstruct the city of Los Angeles, and the parallel effort to create some one hundred neighborhood councils throughout the city to obviate the secession movement, are both expressions of a growing desire to make the government more responsive to local needs on the one hand, and to give the citizens greater voice and control in decisions that affect local environments on the other. Of course this sentiment is not new, and one could argue, drawing from the likes of Fogelson (1967), and Ostrom et al. (1961), that it is deeply rooted in California's home rule culture. As the population of metropolitan areas has grown, so has the number of municipalities and named communities within the unincorporated areas. The most recent secessionist movement in Los Angeles can be attributed to recent growth of the city's population. As the Los Angeles urban sprawl has "hit the wall" (to borrow the title of a recent monograph),<sup>12</sup> many cities, notably Los Angeles being one of them, have begun to accept higher density developments through in-filling and recycling of older single family neighborhoods. In older areas recent immigrants have increased the original density by converting large homes to multiple dwellings, and in some instances households sharing overcrowded apartments. Increased traffic, resulting congestion and accidents, chronic shortage of parking, growth of strip malls and commercial developments, and attendant air and noise pollution, crime, graffiti, gangs, and drug activities have all exacerbated the urban malaise. Increasingly, citizen groups have felt frustrated by their inability to affect change, or have control over their own localities. Some have "voted with their feet" (to invoke Tiebout), exercising the "exit" option as suggested by Hirschman (1970). And when "voice" seemingly has failed the "loyalty" option is also abandoned in the secessionist movement, hoping to form a new incorporated polity where voice can be heard again.

While there have been ruminations about optimal city size in the literature on urban economics, strictly from the efficiency point of view, I know of no empirical analysis about the limits of participatory or representative democracy as a function of population size. There is a general sense, however, that when the local state is responsible for a large corporate entity, some structural decentralization must occur to bring the state closer to the people, to make democracy more participatory. In large cities like New York the boroughs have provided some degree of autonomy. The response of Los Angeles has been to create neighborhood councils, and to empower local neighborhoods. Whether this bold experiment will lead to a de facto

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<sup>12</sup> See, Center for Studies of Southern California (2002).



fourth level of government, remains to be seen. But it is apparent that accountability and local control remain one of the strongest motives for fragmentation and incorporation at a smaller geographical scale involving local territories. It can be argued, however, that the manifest cause of accountability and control is really a subterfuge for the deeper latent cause of segregation, identity, if not xenophobia as some of the following sections discuss.

There is a related argument proposed by the Deng, Gordon and Richardson chapter in this volume that argues that common interest developments or CIDs represent a market-based response to political failure (see also Roberds, 1995). That is, a lack of political accountability or control may lead to the rise of “privatopia” or private governments as discussed by McKenzie (1994). While the Deng, Gordon, and Richardson essay celebrates the CIDs as an example of market-based institutional assertion of property right and individual liberty, McKenzie wonders if Locke (or Nozick, for that matter) would have wanted to live in a condominium.

### ***Democracy, Citizenship, and the Insurgency Hypothesis***

As a corollary to the previous argument it can be argued that the increasing incorporations, and consequent fragmentations of the public are indeed a sign of growing democratic movements and aspirations, especially among minority groups and new immigrants who have previously remained unincorporated. Democratic rights and insurgent citizenship, as Holston (1995) has argued, may be reflected in a demand for local empowerment, and incorporation. Neighborhood council formation in Los Angeles, although began as a top-down process, may embody and be energized by such insurgent citizenship. Empirically, however, this may not bear out. For one, it is the new immigrant neighborhoods of lower-income class that are having the most difficulty in getting organized.<sup>13</sup> Indeed, very few of them have any existing and sustaining local organizations. After all it is hard to imagine social capital forming easily in neighborhoods that are inhabited by recent immigrants from different national backgrounds, who are basically transient populations living transitional and unsettled lives, whose economic futures remain uncertain, and many of whom, especially the undocumented immigrants, are ineligible for public assistance or services.<sup>14</sup> In contrast, affluent, non-immigrant, upper-class neighborhoods are the ones that have responded vigorously and with dispatch, to take advantage of the neighborhood council formation process. Many of these neighborhoods already had active and functioning local organizations, long before the Department of Neighborhood Empowerment was established with its new mandates.

### ***Consequence of a Polarizing Economy***

A third hypothesis, and in many ways a more basic and enduring, is that the fragmentation of the public is a reflection of a polarizing metropolitan economy with growing inequality

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<sup>13</sup> As generally understood by my colleagues Terry Cooper and Juliet Musso, and their graduate students at USC’s School of Policy, Planning, and Development who are closely monitoring neighborhood council formation process.

<sup>14</sup> Mahyar Arefi’s (2003) study of eight such neighborhoods also confirms this pattern.

and income gap. Even during the economic boom of the 1990s, several studies have shown that income inequality has increased in California (Reed & Van Swearingen, 2001), and elsewhere in the United States. Several recent studies have demonstrated the nature and extent of income and racial inequality in the Los Angeles metropolitan area, and how it has increased in the 1990s (see Bobo, Oliver, Johnson Jr., & Valenzuela, 2000; also, Dear, 2001). While conceding that the patterns of inequality in Los Angeles is much more complex than the standard black and white duality in income inequality and segregation previously common in American cities because of the ethnic mix of the migrant populations, the authors argue that the job market in the Los Angeles area nevertheless has become polarized between very high-wage and very low-wage jobs.<sup>15</sup> They have demonstrated further that: the poverty has increased between 1980 and 1990 at levels worse than the national trend; the Gini coefficient of income inequality has increased, especially for the minority groups; and the income gap between Whites and non-Whites has widened further. The income polarization trends have been followed by a pattern of racial segregation, since historically race and income have co-varied. From a recently completed study of historical segregation patterns in the Los Angeles area, Ethington, Frey, and Myers (2001) have argued that "segregation has been increasing faster than integration since the 1960s." Indeed an analysis done by Banerjee and Verma (2001) shows that of some 175 incorporated communities in the Southern California region, about a third came into existence since 1960. While there are no doubt competing explanations for this correspondence between fragmentation and inequality, there is no question that while racial discrimination is unconstitutional, economic segregation as manifest in various forms of exclusionary zoning provisions practiced by many local communities remains a constitutional right.

### ***Globalization and Diversity***

In his recent work, Castells (1997) makes the compelling argument that with the emergence of the network society we can expect to see a serious crisis of legitimacy of the state, democracy, and local autonomy (see also Sassen, 1996). It is possible to derive from his arguments, that the growing multiculturalism and ethnic diversity stemming from international migration and labor mobility typical of a global economy may have also contributed to patterns of incorporation and fragmentation, if not at the Tieboutian level, but certainly at a sub-Tieboutian level. One explanation of the recent popularity and proliferation of gated communities across the U.S. is, according to Blakely and Snyder (1997), the tacit xenophobia triggered by the growing multiculturalism and pluralism of the American cities. Even before the effects of globalization on local communities were fully appreciated, the issue of race and identity and the territorial politics that arise from social diversity, has been a topic of scholarly research and writing. In his book *City Trenches*, an important work on urban social identities, Ira Katznelson (1982) has suggested that it is the neighborhood and ethnic histories and solidarities within an urban structure that typically separates residence and work place, rather than work- and residence-based class conflicts as formulated in classic

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<sup>15</sup> The movement for living wage requirement, or affordable housing initiated by the community advocacy groups in the City of Los Angeles reflects a political validation of this analysis.

Marxian writings, that should be the basis for viewing local politics and conflicts. While not formally referring to the kind of incorporations we are discussing here, the metaphor of “trenches” clearly refer to the notions of boundaries and territoriality typical of such conflicts and competition at the sub-Tieboutian level. There are several classic works in urban social research — Suttles’s (1970) *Social Order of Slums*, William H. Whyte’s (1981) *Street Corner Society*, Herbert Gans’ (1982) *Urban Villagers*, are notable examples of social identities of urban neighborhoods that are based on historicity and ethnic solidarity. The fact that trenches were dug not on the basis of class, but on other forms of identity that transcended class differences remain a major irritant for the orthodox Marxian model and their proponents, as Tajbaksh (2001) effectively argues. Neither Katznelson, nor Tajbaksh, however, addresses the new boundaries that are being drawn at the sub-Tieboutian level as a mixture of class imperatives and perhaps xenophobic impulses. Nor do they address the systematic patterns of segregation and social, economic, and environmental injustices that arise from it. Does the new fragmentation in an era of globalization require revisiting the discourse of urban social and spatial identities again? In the following section, I address the institutional implications of the questions raised previously for planning, and its practice and ideology — in other words, the “conscience” of planning.

## The Conscience of Planning

If these are the possible causes and consequences of fragmentation and incorporation, what then specifically are the implications for planning and its conscience? Many years ago, on the occasion of his receiving the first Tugwell Award,<sup>16</sup> Kevin Lynch was asked to address the successes and failures of planning. In this talk that he entitled “Localities,” he argued that what has consistently eluded planners is an understanding of what makes a good “locality” — the nexus of physical place and a sense of community, the bonding between people and place. He suggested that while there are many examples of such “localities” around the country, they came about not because of planning, but in many cases, despite planning. He regretted that as planners we still do not know how to create such successful “localities.” Of course Lynch’s ideal locality may not have incorporation as a criterion, nor can we assume how he would have responded to the consequences of the sub-Tieboutian incorporations that seem to be proliferating in leaps and bounds in the form of gated communities and other such exclusive enclaves and associations. Blakely and Snyder (1997) have reported in their study that people who choose to live in gated communities often talk about their desire to live in a community as the primary basis for the moving decision. In other words, it is not so much of getting away from others and uncertainties of a messy urban world, but it is a more primordial, indeed in a Maslovian hierarchic<sup>17</sup> sense, need for belonging to a community. Hence, these institutionalized forms of incorporation may represent a kind of cognitive incorporation that Lynch perhaps was referring to in his quest for planned “localities.” If the

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<sup>16</sup> An award created by the friends and students of Rexford Tugwell and presented by the then School of Urban and Regional Planning at USC.

<sup>17</sup> See Maslow (1987).

sub-Tieboutian splintering is a result of failure of planning to deliver “localities,” it should no doubt weigh heavily on the conscience of planning.

Although Lynch never linked his intuitions of successful localities with the concept of “social capital,” recent discussions on social capital and civil society suggest that there might be a logical connection here. That is, one could argue that in a way any type of sub-Tieboutian incorporations potentially leads to formation of social capital, to the extent that they may promote cooperation between many individuals. After all, is not that an essential purpose of community? But the same literature also point out that social capital as a private good may engender both positive and negative externalities (Dasgupta, 2000). In a recent article addressing the role of social capital and civil society in the context of development, Francis Fukuyama (2001) concedes that despite its inherent positive externalities,

the reason that social capital seems less obviously a social good than physical or human capital is because it tends to produce more in the way of negative externalities than either of the other two forms. This is because group solidarity in human communities is often purchased at the price of hostility towards out-group members. There appears to be a natural human proclivity for dividing the world into friends and enemies that is the basis of all politics.” (p. 8)

A relevant concept in understanding these proclivities, according to Fukuyama, is the “radius of trust” (Harrison, 1985), and the network of such trust that define the social network and group memberships. Positive externalities are obtained when the radius of trust extends beyond the group memberships. But this radius of trust is often limited to the group membership, and may even be smaller than the group membership. This distinction is isomorphic with what David Reisman (1961) many years ago described as the outer-directed versus inner-directed personalities. Incorporations of the public may also follow similar dichotomy. In Lynch’s ideal localities, and indeed in the Tieboutian world more generally, such incorporations are typically based on a radius of trust that is at best coterminous with the physical boundaries of a place or locality, and not likely to have any larger positive externality in terms of civil society or the public good. In fact the corollary of a smaller radius of trust is a larger radius of distrust, hence a negative externality, as Fukuyama (2001) comments:

The larger the radius of distrust, the greater the liability that group represents to the surrounding society; hence the measure for a single group’s social capital needs to be qualified by the external enmity it produces. (p. 14)

The sub-Tieboutian incorporations of the sort that “Privatopias” represent often exude such negative externalities of distrust that extend far beyond their gates and walls, security forces, and closed circuit cameras. There is considerable soul-searching today among the political theorists and philosophers about the emerging nature of civil society, social capital, and democracy. On the one hand, there is considerable optimism about the role of civil society in promoting development, eliminating social and political conflicts, obviating the case for big government, and in advancing liberal democracy (Chambers & Kopstein, 2001).

On the other hand, there is a growing concern about the fragmentation, polarization, and the self-interested enclaves of a civil society that seems to deconstruct the very essence of civil society and social capital. While the importance of associational life in sustaining liberal democracies is widely acknowledged by political theorists, the specter of “bad civil society,” (Chambers & Kopstein, 2001) and indeed what to do about it, continues to haunt contemporary political discourse. The enigma of civil society seemingly goes back to the early modern times, according to Boyd (2001), when “Hobbes’s deep-seated fear of intermediary associations between individual and state, ... the dangers posed by parties, sects, and other groups” (p. 392) questioned whether there is really anything “civil” in the construct of civil and pluralistic society.

The contemporary discourse seems to be revisiting the same intrigue again. In effect, then, the dilemma in contemporary political imagination and thought is how to reconcile the two countervailing tendencies in civil society broadly, and in incorporations of the public more specifically. As Putnam (1995) has pointed out the challenge is how to take full advantage of the positive benefits of social capital while limiting its negative implications. In framing the civil society discussion in a contemporary perspective, Benjamin Barber (1998) argues that while the libertarian perspective equates civil society with the private sector, the communitarian perspective defines it mainly in terms of community, and both to him are unacceptable: sharing the same perils of “bad” civil society.<sup>18</sup> He believes in a strong democratic perspective where the civil society is a domain that establishes itself between the state and the market. Barber’s view is macro-political, that evokes an almost Habermasian ideal of the public sphere, with some specific prescriptions of how it might be achieved. We will consider them in a following text. But the contradictions and challenges of the enigma of civil society and fragmentation of the public that must weigh heavily on the conscience of planning can be summarized in Figure 5.2.

Interestingly, while political philosophers and theorists have long wrestled with the enigma of civil society, especially in the context of making a case for strong liberal democracy (Young, 1999, for example), contemporary planning theory is seemingly, if not totally, oblivious of the inherent tensions. Rarely have the issues of civil society entered contemporary discourse on planning theory. From the radical planning theorists, whose failure to address the issues of a fragmented public has been eloquently argued by Tajbaksh (1999), to the believers of participatory planning, there has been very little discussion of the emerging nature of contemporary civil society. It is possible that in part this is a reflection of the typical American ambivalence about the notion of civil society, since

	Principal characteristics
Good Civil Society	bridging social capital; associational life; wide radius of trust; outer-directed; toleration; universality; strongly democratic
Bad Civil Society	bonding social capital; narrow radius of trust; inner-directed; intolerance; market orientation; community orientation

Figure 5.2: The enigma of civil society.

<sup>18</sup> Although he does not quite use the term “bad civil society” himself.

it captures the inherent American tension between the republican and democratic ideals. It is unlikely for general plans of the US cities to mention promoting civil society as a goal. Yet, it is not uncommon in Europe. Improvement of the civil society was one of the explicit and overriding goals of a large-scale State capital improvement project like the IBE undertaken by the Lander of Nordrhein-Westfalia in Germany. Similarly, the notion of “sens civique” seem to permeate almost every public planning effort in France (Koenig, 1995).

In the universe of planning theory discourse the absence of any discussion of civil society generally, and that of the incorporated public specifically, is particularly noteworthy. One could argue that there is ample evidence that planners themselves have actively promoted, and indeed contributed significantly to incorporations of the public, by emphasizing democratization, participation, and local control of planning. To a large extent these impulses have grown out of a concern for distributive justice, fair share, and social equity that seemingly were missing during the heady days of urban renewal, freeway construction, and suburban expansion that incorporated very little citizen input. Planners tried to help inner city residents and other disenfranchised groups to organize and incorporate in order to be politically effective. Today citizen groups have caught on, and most middle and upper-class residents know how to organize, how to incorporate, and how to fight city hall. It is not clear, however, that the low-income, minority, and marginalized groups have been able to climb the “ladder of citizen participation” (see Arnstein, 1969) like others. But those groups who have learned to do so are now constantly posing threats of bad civil society in the form of NIMBY-ism, “ballot-box planning,” and other such actions that are counterproductive for the larger public interest. This outcome too must weigh heavily on the conscience of planning.

The only thread of planning theory discourse that implicitly assumes a fragmented public and the conflict and contentions that it engenders is the currently popular communicative theory in planning. Ostensibly it seeks to mitigate conflicts through communication that expands the radii of trust, and shrinks the radii of distrust, thus mapping common ground and mutually acceptable solutions. In a way, the communicative theorists may have begun a discourse that is framed largely in the context of bargaining, dispute resolution, and negotiation. This, however, is a negative approach to build civil society, by minimizing negative externalities. A more positive approach will be to think of forums, settings, and modes of communication that will enhance civil society, and obviate fragmentations and incorporations. In making a plea for civility and civilizing discourse, Benjamin Barber (1998) suggests that the characteristics of such talk must include space for deliberation, inclusiveness, provisionality, listening, learning, lateral communication, imagination, and empowerment. Planning process must include such features, some of which are also emphasized by the communicative theorists.

The future of planning will no doubt involve largely managing the dissents and contentions resulting from competition, differences, polarizations, and rights claims. This will involve managing institutionalized differences and conflicts that involve intergovernmental and interjurisdictional coordination and resolution in an increasingly Tieboutian world (see Healey, 1997). Tenets of communicative theory may have to be redefined to fit the context (i.e. involving the particular type of dialectic) and oriented toward building positive social capital. Bridging may have to be emphasized more than bonding. Conscience of planning may also require new intuitions and imaginations about how to manage the differences in a multi-cultural city of multiple social identities as Sandercock (1998a, 1998b) and Tajbaksh



(1999) have suggested. Urban designers will have to learn to design spaces of diversity, mix, and contemporaneity guided by the “conscience of the eye,” as suggested by Sennett (1990) rather than by imperatives of profit, exclusion, separation, and incorporation. In his vision of “how to make society civil and democracy strong,” Barber (1998) sees a strong need for restoration of the public realm in which we will need to create more viable public space and forums (including digital).<sup>19</sup> Thus, the conscience of planning has to redeem itself on many fronts to obviate the negative externalities of fragmentation and the Public, Inc. And that is a challenge, I believe, the institution of planning has yet to face.

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<sup>19</sup> For a more detailed review of this and related ideas, see Banerjee (2001).



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## Chapter 6

# Designing Institutions and Other Crafts<sup>1</sup>

Seymour J. Mandelbaum

For many years I have been interested in the ways in which communities shape and sustain moral orders and (in turn) the ways in which communities are planned (Mandelbaum, 2000). My goal in this long enterprise has been to cultivate a “communitarian sensibility.” That sensibility is not so much a commitment to a theory of the provenance and justification of ethical principles as it is a disposition to attend to the work of ubiquitous communal relations. Even deontologists who are critical of the provincialism of a merely customary “tribal” ethos must design communities on the ground that will attract and hold candidates for membership — including their own children — reward moral behavior, and repair ethical breaches.

Communities come in many different sizes and shapes. Some are temporary and occupy a narrow social niche; others are both durable and broad. Some are created by explicit contracts; others by long-shared disciplines and delights. Families and business firms are communities; so also are penitentiaries and professions. Neighborhoods are sometimes communities and sometimes merely a group of people who reside near one another (I recognize both community without propinquity and propinquity without community).

My conception of community supports a broad — but not an exhaustive approach to the natural history of moral orders. I particularly regret my failure to do more than hint at the impact of institutions upon those orders; to do more than hint at the crafts of planning or designing institutions (I use “planning” and “design” interchangeably with only slight nods to subtle connotative differences). This essay is prologue to what I expect will become a more substantial redress of my neglect of institutional design. Rather than try to explicate foundational design principles, I am content, as prologue, to compare the modes of designing communities and institutions, critically engaging the common suspicion that institutions “evolve” over long periods but are deeply resistant to intentional construction; that we do not so much create institutions as inherit them.

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<sup>1</sup> This essay complements an earlier paper written with the support of the Fannie Mae Foundation assessing the impact of transparency on housing policy networks, and a lecture at the University of Arizona on tradition and experimentation.

## Communities and Institutions

The two social constructs, *community* and *institution*, are usefully distinguished. Communities recruit, socialize, and discipline members whom they endow with rights and obligations. (It follows, of course, that they also create non-members, and prescribe relations between those who belong and those who do not.) Institutions, in contrast, are not associations of members but of (willing and unwilling, knowing and unknowing) participants enmeshed in a web of rules, behavioral norms, and practices. My *family* is a community; *Family*, as the capital letter suggests, is a remarkably complex institution.

The two constructs are also deeply entangled: each both constraining and empowering the other. Both formal and effective membership in familial communities, for example, is shaped by institutional rules, norms and practices, constituted *inter alia* by zoning boards, legislatures, insurance companies, Holy Scriptures, and marriage councilors. The survival of particular families depends upon both local communal and networked institutional responses to social challenges.

If institutions were merely categories of communities or communities were miniature “real” versions of “ideal” relations, then designing institutions would present serious but not profound intellectual and organizational difficulties. But those conditions do not apply: institutions are not categories of communities, communities are not mini-institutions, and the difficulties in designing institutions are profound. Indeed, the difficulties are so great that professional and lay theorists alike are sometimes disposed to deny that institutions are amenable to explicit scheming. In those skeptical moods, institutional change is represented as an evolutionary process that occurs over such long periods of time that for most purposes it is outside the temporal horizon of any planning organization or movement. When the process is rushed and traditions disdained, the skeptics warn us, the costs are characteristically high, the fruits bitter, and the role of “planner” reviled. Even modest attempts to redirect institutional development often founder on interpretive conflicts in the representation of rules, norms, and practices, that is to say, in the representation of the institutions we seek to alter. Better find ways to enhance communities than to wrestle with invisible but crafty institutions. Following a subtle but psychologically compelling moral calculus, the members of communities sensibly do what they can to control their futures but leave the impossible to institutions (Even those distinctions are complicated by the common practice of labeling large and durable communities such as IBM or the United States Army as institutions.).

There is, however, another and more confident response to the difficulties of designing institutions. The protective instincts of professional planners and policy makers may tempt them to hide behind the mask of evolving institutions that are beyond design. Professional pride, however, unmask that defensive posture. Each day’s newspaper reports that “we” can plan institutions if only we are willing to stay the course over a long but imaginable period. We can convert command into market economies; autocratic into liberal polities. We can “build” nations, fill the global economy and polity with innovative practices, institutionalize a new environmental ethos, and transform the disciplines of race, class, and gender.

These confident assertions may only be a sign of *hubris*, a professional confidence game, or a conventional rhetorical irony. However understood, they suggest that there is a considerable professional engagement with designing institutions, creating trails of both flawed and (sometimes) promising institutional innovations.

## Fields of Rules

The attributes we ascribe to the objects of planning configure the toolbox we bring to the construction site. In the most familiar case, when we set-out to place objects in space, we discover that our desires displace and constrain one another, mistakes in sequencing are difficult to rectify, major physical development choices cannot be readily reversed, and proximity creates patterns of interdependence (Hopkins, 2001). The protocols of plan-making (first among them the engagement to prescribe chains of contingent actions stretching across time) address what we often characterize as the controlling logic of space.

In a similar way, the forms we ascribe to community create a complementary image of an appropriate toolbox. Whether we are creating a new community where none exists or repairing and enhancing an established communion, our attention is drawn to the recruitment and socialization of members, the maintenance of a domain of rights and obligations, the cultivation of collective competence, and the articulation of relations with “strangers.”

An agenda of the sort I have described is hardly a complete design manual. It encourages designers to attend to recruitment without specifying a recruitment strategy; to attend to relations with strangers without representing or justifying the unique claims of members. Even in this simple or partial form, however, such an agenda shapes attention and deliberation, regulating the relations between opportunities and responses in the ubiquitous garbage can (Cohen, March, Olsen, 1972).

There is a comparable though less-refined agenda for the design of institutions. Imagine institutions as collections of rules acting within one or more domains. The rules proscribe some behaviors, prescribe others, and protect a field of discretionary choices. Conformity to the rules is monitored and deviations disciplined though the control is necessarily (and often intentionally) imperfect (Crawford & Ostrom, 1995; Ostrom, 1990).

Within the conceptual frame of that image, institutions change as behaviors migrate from one category to another: a formerly discretionary choice is proscribed or, *v.v.* a proscribed behavior is permitted. Institutions also change when a set of rules in one domain spreads to another or when an integrated web of rules is fragmented so that what had been a “general” becomes a “special” practice. Finally, institutions change when monitoring or disciplinary capacities are eroded or, in a quite different way, when they fall prey to a vision of perfection.

The historical illustrations of the migration and transformation of rules are legion: e.g., the growth of tolerance after the wars of the Reformation, the great political revolutions of the 18th century, the fundamental democratization of societies in the 19th and 20th centuries. Such a list may not be reassuring. The changes did not “just happen.” They engendered manuals for institutional change agents, theories of institutional renewal, and guides to the creation of traditions. Still and all, the institutional design technologies are not very persuasive. We know, or think we know, more about the sequencing of physical development and the recruitment of community members than we do about the realignment of institutional rules.

Why is that? The difficulty we commonly associate with institutional design is certainly paradoxical. We live in a world of public states and private regimes in which rule making and rule revision is ubiquitous; a world in which the protocols for the articulation and justification of rules are themselves governed by formalized regulations. Even in polities cherishing what Isaiah Berlin (1961) described as “negative liberty” virtually every social



relation and tacit practice lies within the potentially coercive reach of legislatures, courts, administrative agencies, private contracts, inter-jurisdictional compacts, and both the gaze and discourse of civil society.

In pluralistic polities of virtually every sort, the processes of rule making are embedded in policy networks (Laumann & Knoke, 1987) that connect legislative committees, administrative agencies, trade associations, advocacy groups, professions, research institutes, and both profit and non-profit firms. The footprint of those networks are apparent in Web sites and list servers, shared memories, overlapping career paths, policy-specific encyclopedias, information systems, statistical compendia, magazines, newsletters, books, and the daily production of legions of journalists.

The paradoxical difficulty of institutional design lies in the density of the fields of rules and of the rule-making networks. Though rules abound and we are accustomed to new rule making, it is difficult to distinguish confidently between a modest variant on a current discretionary practice and a new regulatory invention; between a shift in discretion and a new and robust conception of proscriptions or prescriptions. Armed with the capacity to make explicit rules and to monitor compliance, the participants in institutions often find it difficult to distinguish between “mere” policy choices and institutional designs; between variations within an institution and changes in systems of rules and practices (Sunstein, 1990). We are properly wary, though often neglectful, of the Thermidor that lurks behind the Revolution; of the continuity that links the practices of emperors and commissars, republicans, and aristocrats.

When ambitious designers attempt to clarify those distinctions and to focus their attention on institutions rather than discrete policies they confront fields of tacit practices that despite all their flaws make it possible to preserve one’s dignity, to do what is necessary in impossible circumstances, and to live as moral beings in immoral settings. In the struggle between practices and rules, both are transformed. Familiar and seemingly natural practices take on words and are objects of litigation. New rules are revealed as dilemmas as they are articulated in contingent behavioral chains.

The effort to represent practices and rules — whether sincerely engaged or riddled with strategic dissimulation, is complicated by another sort of difficulty. The distinction between prescribed, proscribed, and discretionary rules can only be made over extended time and across environmental changes. Absent those historical observations (and complementary forecasts) we are likely to confuse stable discretionary choices with either prescriptions or proscriptions. You will not understand the limits of property and the meaning of justice until you watch food distribution in a famine. Only in a city in which residential squatting has been effectively proscribed does an unexpected invasion signal a willingness to violate an important norm. In settings across the globe in which squatting is formally proscribed but practically tolerated, there is no such meaning in the practice of “illegal” invasion in anticipation of an eventual normalization of property rights.

## **Tools for Institutional Planners: Transparency**

Like Walton’s angler, the complete institutional planner must cultivate patience and persistence. Indeed, the heroes of the craft have characteristically devoted passionate, career-long campaigns to the realignment of rules and the construction of supportive

networks. Heroes and ordinary practitioners alike are also, however, moved by an urgent impatience; an eagerness to accelerate the slow pace of institutional evolution. Scratching that impatient itch, they attempt to design exemplary communities and experimental programs that may survive and prosper in an otherwise unreconstructed institution. In an even more ambitious mode, they attempt to transfer the outer forms and (with much more difficulty) the inner spirit of a putatively modern institution from one setting to another.

The attempts to design robust exemplars and to transfer institutions are complemented by two quite different and less frequently identified planning crafts. The first of these crafts responds to the common (though hardly) universal suspicion that desirable change is so difficult to implement because institutions are obscured (and, it follows, protected) by clouds that prevent us from seeing the social ground clearly. If only we could dispel the clouds, we could design institutions with the same (exaggerated) confidence that architects bring to their creations. Likewise, if only we could dispel the clouds we could represent and rectify our worlds with a sure eye and a skilful hand.

The promise of transparency is, alas, neither perfectly realized nor uncontested. *Transparency* points to two quite different relationships. In its oldest and probably still most ubiquitous form, the term describes the attempts of states, business firms, communities, and other associations to know their members, rivals, suppliers, clients, and customers. For good and for ill, this knowledge and the control it sustains, depends upon dispelling opacity and weakening the moral claims of privacy. Transparency appears as a set of dilemmatic principles and morally ambiguous practices rather than a foundational virtue that clears the ground for institutional design.

Transparency carries a different political valence when it is represented as a remedy for the practices of governments and of other associations capable of masking their influence in collective choices. In this second transparency, it is the governors, rather than the citizens at large, who must be watched lest they speak *ex parte* to firms they regulate, grant special favors to kin, friends, or contributors, and adjudicate and punish behind closed doors. Transparency is a beacon that illuminates the dark corridors of government and opens to everyone the esoteric codes in which collective problems are commonly constructed and remedies articulated.

Not, of course, so simply done. The “truth” of this democratic transparency is framed by a conception of fact that does not depend upon interpretation, and by a conception of political speech and “reasons of state” that is not grounded in distinctive personal and communal experiences. Break out of that frame into a more familiar world, and, the second transparency, like the first, is morally contested. It works best, but only at our collective peril, in a world represented to fit its demanding specifications.

## Tools for Institutional Planners: The Invention of Tradition

In the company of conservative historicists (e.g., Oakeshott, 1975), we are encouraged to act within traditions, carefully responding to new challenges in a way that preserves or restores the precious grain of practices and of shared memories that are more valuable than formal histories. The attempt to replace those practices and memories with abstract principles, universal rules, and the imaginary perfection of primitive origins is the enemy of institutional preservation.

In that company, the idea of “inventing tradition” may appear as either ironic or risible: rather like a pop star’s promotion of his “first annual” triumphant return. Invention is, however, an indispensable (albeit ill-defined) craft of impatient institutional design. The craft rests on three sets of related judgments:

- Will a particular set of proposed policies or rules be transformed over time into desirable practices, tacit conventions, conventional routines, and even sacred rituals? (The wholly or constantly examined life is, after all, unbearable.)
- Will policies or rules be trapped in settings where they may survive but in which they cannot be institutionalized? Will they poison those settings or will the settings constantly require external rectification? Are those settings amenable to redesign?
- What is the minimum scale at which an institution can survive and prosper? (Can the nation survive half slave and half free? Are feminist practices likely to conquer the external work-site if they fail at home? Can an authoritarian regime survive a market economy and *v.v.*?) How long would it likely take to reach that scale? Failing to meet that temporal expectation, would a “slow growth” institution survive as a perennially *avant-garde* enclave?

I cannot provide a compelling epistemic protocol to address these judgments. Indeed, they should be read as a schematic guide to interaction: these are the issues, or better, the sort of issues, that should shape the arguments of institutional designers. They are not the issues that we confront when we design physical structures and communities, nor when we analyze public policies. To each object a distinctive craft.

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## Chapter 7

# The Lessons of John Locke or Hernando de Soto: What If Your Dreams Come True?

Donald A. Krueckeberg

### Introduction

The purpose of this paper is to draw some lessons for US housing policy from recent efforts to reform shelter policy in the Third World. Why do we speak of “housing” policy in the United States and of “shelter” policy in the Third World? The language reflects the ways in which differences in housing status determine one’s location in the social hierarchy. In the US, we “shelter” the poor and we “house” the rest. Somewhere on this continuum of housing wealth in the US, between the norm of homeownership and sheltering the homeless lay the low- and moderate-income renter class. The lessons I draw bear especially on those who are housed below the norm of homeownership.

I will begin by reviewing the most prominent call for reform in property ownership in the Third World — the proposal of the Peruvian economist, Hernando de Soto. De Soto’s entreaty to legalize property ownership for the informal sectors of the world is a noble proposal to make owners out of squatters and other illegally housed people but falls short of feasibility in practice. The shortcomings of de Soto’s prescription can be seen in numerous attempts by governments throughout the world to implement policies of tenure security. The contribution of this paper to this ownership debate is to ask the question: What if the policy succeeds? What if de Soto, were to bring the Third World up to First World, in particular US, standards? Next, to answer this question, I compare de Soto to his intellectual predecessor, John Locke, whose theories of property strongly influence the foundations of US property law. I then look at the US housing policies that drive the social norm, in particular tax policy and urban sprawl. These policies fall short of the rules of Lockean theory for the production of justice. Finally, I propose an innovation in US housing policy that might respond to the reasoned equity of a just policy as well as to de Soto’s prescription for increasing the security of tenure of the nonhomeowning people — a National Homestead Trust.

## **De Soto's Proposal for the Informal Economies of the World**

“Property law,” according to Hernando de Soto, “is the hidden architecture of capitalism” (Institute for Liberty and Democracy, 2001). Seventy percent of the world’s population reside without title or other legal rights to the land on which they live. These people of developing and former socialist nations do not have the benefits of legal property ownership; hence, they are excluded as stakeholders in the political and economic system of capitalism through which the developed world prospers. De Soto and his Institute for Liberty and Democracy (ILD) are devoted to the creation of “modern legal frameworks that empower the poor ... by providing them with a new, comprehensive legal property system which allows them to turn their assets into leverageable capital” (ILD, 2001).

It is not that the poor have no assets; it is that their assets are “dead capital.” They are stuck in informal systems. They cannot leverage their assets by going to the bank and using that property as collateral to generate investment funds, the argument goes, to make it multiply, because they do not enjoy the security of title and the legally enforceable property rights that such legitimacy affords. De Soto points to Egypt, e.g., where he has documented that the poor have amassed more than \$241 billion in property assets since World War II, more than 55 times the value of all recorded foreign investment in that country. Yet they cannot fully capitalize on those assets because they are not within the conventional legal property system. They are outside what the French Historian Braudel calls the “bell jar” of the formal economy (Braudel, 1982).

“Globalization,” de Soto argues, “should not be just about interconnecting the bell jars of the privileged few” (De Soto, 2000, p. 207). Globalization must be about making everyone part of the property system. Like all effective social reform, if de Soto’s dreams are realized, they will be accomplished with both a carrot and a stick — the carrot of doing well for the poor, the stick of potential mass revolution of the poor against the rich. The consequences of not doing this, he has suggested, could be dire (De Soto, 2000). De Soto observes that “Marx would probably be shocked to find how in developing countries much of the teeming mass does not consist of oppressed legal proletarians but of oppressed extra legal small entrepreneurs with a sizable amount of assets” (De Soto, 2000, p. 216). But, if this reform is to be truly effective, certain obstacles must be overcome. There are a number of well-documented criticisms of security of tenure programs that have been implemented (Payne, 1997; Durand-Lasserve & Royston, 2002).

Titles — and the privileges of ownership — also carry responsibilities, such as the payment of property taxes and fees for municipal services. When the poor resident receives legal title to the land but cannot find work to secure the income to support that property, one of three results tends to follow (1) no taxes and fees are paid, leaving the “owner” with an encumbered title; (2) the services are discontinued, which is tantamount to eviction; or (3) the title is sold, and the “owner” is no longer an owner. In all scenarios the program for tenure security fails to produce collateral at the bank. Real security in housing is buttressed by local schools, health care facilities, water and sewer services, transportation networks, and local jobs. It is this whole complex of necessities and amenities that gives value to property in a location. Without these auxiliary services and infrastructure, title alone has little meaning.

While there are also success stories for titling programs, the stories of failure are myriad for a wide variety of good reasons. Criminals, in whose interest it is that the communities

remain informal, illegal, and undemocratic, often control illegal settlements, especially squatter settlements, and thwart tenure programs. So, it is really a political reform that is required to achieve tenure security — ownership will not bring security under these circumstances. Diadema, in the São Paulo region of Brazil, is the most successful community in that nation in tenure regularization, and attributes that success to four factors: legislation, institutional apparatus, popular organization, and political will (Alfonsin, 1999, p. 11). But the favelas of Diadema are an exception. Most favelas, the urban slums of Brazil, are areas poorly served by public transportation and schools; they have few health facilities, no garbage collection, precarious or no water supply, sewer, or electricity, and are controlled by violence and criminality, on land illegally occupied and often environmentally unsuitable and dangerous (Fernandes, 1997). The residents of favelas are, in the words of Sonia Castro, “the hostages of a criminal state within a state” (Castro, 1999). Ownership will not bring security under these conditions either.

These programs also often replace a traditional or customary system of community land management, historically governed by chiefs and elders. In such cases, the customary system is sometimes viewed as more stable, reliable, and secure than that of the government-issued land titles. Hence, residents continue to rely on their families for financial assistance and do not become part of the mainstream banking system, thereby remaining outside the bell jar of the larger capitalist system. Shillong, located in northeast India, exemplifies a case becoming increasingly common in developing countries as urban expansion encroaches on tribal areas. Tribal members are suspicious of the municipal authorities because they perceive that the authorities want to take or develop their land. Local tribal members rely on their own system of “pattas” issued by the chief, which they do not register with the government. Perception and practice make the formal title registered with the government less secure than that organized by custom (Lyngdoh, 1999).

The notion of security of tenure encompasses assumptions about lifestyle or patterns of living that do not always apply. In South Africa, e.g., there is a common pattern of seasonal movement of families and parts of families between rural and urban residences (Huchzermeyer, 1999). The policy of fixing title in one place, and forcing the poor to choose a place, interrupts this pattern of circulatory migration, resulting either in the elimination of the safety net the rural base provides or in forcing families to split their households to make them fit the program of ownership. Under these conditions housing security is diminished, not enhanced.

Finally, Cross (1999) argues that the introduction of titled tenure accentuates the status divisions between owners and renters, landlords, and tenants. The upgrading of housing associated with tenuring programs in South Africa is seen as competing with the private rental sector, also known as backyard shack farming (the erection of shacks for rent in the backyard to supplement the owner’s income). Single women and women with children are often not welcome and have to make special rental arrangements as lodgers. For those at the bottom of the social hierarchy, programs that exaggerate the privileges of ownership exacerbate the very dependency relationship tenure security was designed to erase.

Most of these criticisms focus not on the objectives of ownership programs themselves — the desire to bring security and prosperity to the poor through property rights — but on their failure to achieve those objectives largely due to the complex systemic nature of housing, which is intricately intertwined with the institutional structure of a community (Bruce &

Migot-Adholla, 1993; Krueckeberg, 1999; Krueckeberg & Paulsen, 2002). It may be true that those institutions cannot all be changed at once, but the question remains: Can they be changed at all if we plan only to alter titles? Without a community support system free from corruption and crime, and without a system of financial institutions, infrastructure, and full employment, it is difficult to imagine that property law alone can turn the informal economies of the world into what de Soto calls capitalism's "hydroelectric power plant."

## **De Soto and Locke**

I would like to raise yet a new issue with regard to de Soto's narrow theory of property. Suppose de Soto's dream comes true, so that the majority of the world's population is inside the bell jar of capitalism and the poor on the outside become a minority as they are in the United States today. Suppose that, as in the United States today, only 25 percent of the world's children live in poverty. Suppose that only 32 percent of the world's households rent their homes. And suppose that only the bottom 25 percent of the employed must hold several minimum-wage jobs to support a family of four, that only 5 percent are unemployed, and that the income of the average of the world's top 365 corporate CEOs is only 531 times the pay of the average worker and only 1223 times the world minimum wage (Peirce, 2001). Suppose we gained all that! Then what? Is this the most work property can do for us? I think not. What this theory lacks is any criteria of equity, limits, and balance. The entire focus is on efficiency, the liberation of entrepreneurs. This is an important liberation to be sure, but, as with any liberty without restraints, it harbors the potential for tyranny — the tyranny of the privileged majority over a poor minority.

De Soto's call for the alleviation of poverty throughout the world echoes the call of John Locke in 1689. Locke's theories of citizenship and government have been recognized as having changed the world, linking ideas of democracy and capitalism to each other and to theories of the individual, the state, and property that became the foundational thought of the US constitution (Schochet, 2000). Today, de Soto has presented the world with a similarly powerful theory of property rights to impel global reform, and for many of the same reasons as Locke (Miller, 2001). There are strong parallels between the two arguments. Locke addressed a world in which the rich minority of royalty and nobles, a very small bell jar, excluded the vast poor majority. He earned his reputation as the leading philosopher of liberalism by developing, like de Soto, a liberating theory of the individual, property, and the state. Locke's ideas remain fundamental, not just to the 17th century liberalism but also to the 21st century public policy. De Soto's good ideas would be better, I argue, if they embraced a Lockean ethic that spoke to a just distribution in fully capitalist regimes. Locke's work contains the missing pieces of an ethically satisfactory and more complete theory of property. I will attempt to demonstrate this in what follows by using Locke to critique de Soto, and, less directly, to critique the libertarian discussion of property rights in the United States today.

We might think of Locke's ideas as a story — a story for freedom and rights and against slavery and oppression. Locke wrote against his protagonist Filmer and those who defended the divine right of kings. Royalty owned the land and claimed that their rights to it had been handed down to them in succession from the first man, Adam, who received them from God. Locke's counterargument was that God gave the earth to all persons in common, and that in this state of nature and plenty people are "all free, equal and independent, no one can be put



out of this estate and subjected to the political power of another, without his own consent” (Locke II, 95, p. 163).<sup>1</sup> Two natural properties of men (and women) are given: (1) their ownership over their own lives (which he calls life), and (2) their ownership over their own labor (which he calls liberty). The full meaning of “property” in Locke is “life, liberty and estate,” where estate refers to the means of sustenance — food, shelter, land, and other goods (Tully, 1980, p. 167). The problem Locke faced was to explain how men justified the private ownership and use of property they appropriated from the commons. The argument is complex but important. I illustrate below how the central Lockean appropriation of property through labor embodies a mystical creative act that mirrors what de Soto refers to as “the mystery of capital” (the title of his book) in acts of ownership of land.

Locke divides history, for the sake of exposition, into two periods. The first is a state of nature and plenty in common in which the basic rules of property are developed. The second period is one necessitating government, brought about by the development of scarcity and money. Life — self-control, and liberty — the freedom to work, are givens:

Though the earth, and all inferior creatures be common to all men, yet every man has a property in his own person. This nobody has any right to but himself. The labour of his body, and the work of his hands, we may say are properly his. Whatsoever then he removes out of the state that nature hath provided, and left it in, he hath mixed his labour with, and joined to it something that is his own, and thereby makes it his property (Locke II, 27, p. 128).

As life and liberty are givens throughout, it is the acquisition and distribution of property in estates (food, clothing, land, shelter, and so on) and the persistent role of the consent of others in these matters that Locke proceeds to work out.

In the state of nature, man acquires things by making them, or “mixing them with his labor.” This is a simple ethic of work. Those who labor have a right to the fruits of their labor. As they own their own labor to begin with, by irretrievably investing or mixing what they already own with what is not theirs but part of the commons, they make that part of the commons their own as well. The alternative would be to lose their investment — their liberty, which Locke likens to slavery. Locke imposes three ethical constraints on this process of acquisition (Simmons, 1992, p. 336). First, one must take only so much as one can make use of before it spoils. Second, one may take only so much as there is “enough and as good left in common for others.” (In a state of plenty, there is enough in common that this taking harms no one, so that the issue of obtaining the consent of others for one’s use is moot.) Third, “charity gives every man a title to so much out of another’s plenty, as will keep him from extreme want, where he has no means to subsist otherwise” (Locke I, 42, p. 31).

So why does labor have such power to play the central role in just acquisition? First, to make something is like the act of creation, which was God’s act of simultaneously making and owning His creation. One might say God set the example. To speak of creative human work also reflects, even in Locke’s understanding, that the essence of the act of making something is intellectual. The maker’s claim is not just to the energy of

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<sup>1</sup> In deference to standard practice in Locke scholarship, references to the *Two Treatises of Government* will indicate Treatise I or II, followed by Locke’s paragraph number, followed by the page number in the 1993 paperback edition edited by Mark Goldie, published by Everyman.

construction or mixing but also to the idea that motivates and guides the action (Sreenivasan, 1995, pp. 64–65). This is the essence of owning something, of making it one's own — it is a welding together of an idea and an action; it is simultaneously physical and intellectual.

De Soto's arguments about property follow a remarkably Lockean logic. "The crucial point to understand," de Soto tells us, "is that property is not a physical thing that can be photographed or mapped. Property is not a primary quality *of* assets but the legal expression of an economically meaningful consensus *about* assets" (De Soto, 2000, p. 157). He portrays this transcendental character in a warning to us that

Property is not really part of the physical world: its natural habitat is legal and economic. Maps capture the physical information of assets but miss the big picture. Without the pertinent institutional and economic information about extralegal arrangements, they cannot capture the reality outside the bell jar. They are thus unable to do their real job, which is to help anchor the property aspects of assets in physical reality so as to keep virtuality and physicality in sync" (De Soto, 2000, p. 203).

De Soto and Locke also parallel each other in their arguments about the economic productivity of legitimate property. Locke reasons that "he who appropriates land to himself by his labour, does not lessen but increase [sic] the common stock of mankind." He estimates, e.g., that one who encloses and cultivates 10 acres of land increases its productivity "ten times more" or even "much nearer 100 to 1" than that of land lying waste, unused, in common (Locke II, 37, p. 133).

The enemy of Locke is the idleness and waste of the landed gentry of England, whose land was enclosed and excluded the commoners. The enemy in de Soto is the idleness of "dead" assets, the illegal property of those who live and maintain assets outside the formal legal and economic systems of the world. De Soto's poor are denied the cultivation and productivity of their earned assets; Locke's poor are denied the cultivation of their natural rights.

The second historic period in Locke's story comes with the introduction of money, increased population, and consequent scarcities. Money allows people to accumulate property in a form that will not spoil, in the literal sense of rotting away. Tully describes the process this way:

Once money is present, men can and do enlarge their possessions of land by trading the surplus for money (Locke II, pp. 48–50); they claim to be entitled to their enlarged possessions because they make use of them. With the increase of population, this rapidly leads to the situation in which others are excluded from exercising their natural claim right. The only solution, therefore, is to remove the rule that every man should have as much as he can make use of .... Some other rule must now confine the possession of land such that the inclusive rights of everyone can be exercised. The new rule is civil law (Locke II, 50) (Tully, 1980, p. 152).

Civil society is accomplished by mutual consent of those who enter it and relinquish the protection of their property — life, liberty, and estate — to government, whose sole duty is to protect that property. Government is required to restore the natural order that money disrupts, but not by the independent creation of new rules. Government is bound and guided by the same rules of fairness that controlled the natural order (Simmons, 1992, pp. 309–310). It is the duty of government, under threat of legitimate revolution if it fails, to ensure that each law-abiding member has “life, liberty, health and indolence of body; and the possession of outward things, such as money, lands, houses, furniture and the like” (Locke, 1963 as quoted in Tully, 1980, p. 167).

## **The Relationship of Labor and Land**

The fullest notion of property as life, liberty, and estates has within it interesting implicit meanings. There seems to be an inherent sequential or logical order to the elements of property. Life is the first natural possession. Labor and the liberty to use that labor follow from life, and the estates follow from the free use of labor. Yet, in the case of those who cannot rely on their own labor, charity gives them a right to rely on the labor of others to acquire their estates.

Does it follow that everyone has a right to land, as might be inferred from proposals like de Soto’s? Locke’s is often misunderstood to be a theory narrowly construed about matters of land in isolation from life, liberty, and other “estates.” Sreenivasan argues that there is “no natural right to land in Locke”:

... [I]f those without land were denied the opportunity to labour on someone else’s land, then clearly they would be prevented from exercising their natural rights and in that degree would be injured. Hence, under conditions of scarcity, there attaches to property in land, as a condition of its continuing legitimacy, the obligation to employ those without land of their own (Sreenivasan, 1995, p. 54).

One could even hand over cash, he argues, and that would not be considered charity because charity applies only to the disabled. The point is that if there is no ethical obligation to make sure everyone has land, there is logically an ethical obligation that everyone should have employment, for without it there is no access to the estates of life but through charity.

This reciprocal relationship between land and labor is embodied in various policy contexts throughout the world. In China, e.g., there are two kinds of land, rural land owned collectively by peasants and urban land owned by the state. As cities expand and take rural land, peasants are accommodated in one of two ways: they can be left with some of their land, which they then rent out at increased values as landlords, or they can be moved into rental housing and be given state jobs as compensation for their land (Meng & Li, 2001). Jobs for land is an innovative and very Lockean form of compensation.

The connection between jobs and land can be seen in a different way in Brazil, where, in the city of Santo André, labor unions have been known for their active involvement in support of better social conditions generally, yet, are uninvolved in the struggle for housing improvements. Why? Because they perceived that “getting involved in fighting for housing conditions was, in a way, going to contribute to the weakening of the fight for better salaries” (Pinho, 1999, p. 9). In other words, if housing conditions were improved, say by stabilizing land tenure and public investment, the bargaining power of the unions would be weaker in negotiations with government for higher wages. Their poor housing argument would be gone.

## **Property Rights and Housing in the US**

We need not go so far abroad to see the connections. In the United States, the Homestead Act of 1862 provided that citizens, and those about to become citizens, could acquire 160 acres of public lands at no cost other than a small filing fee and five years of working the land. According to Geisler,

The law embodied three fundamental concepts — residency on land would lead to ownership, ownership was affirmed by labor invested in the land, and residency and labor would be rewarded by a reduced purchase price as well as low-interest loans and reasonable terms of payment (Geisler, 1984, p. 11).

The requirement that this use and occupancy be continuous, Sreenivasan points out, also emphasized the Lockean principle that slack and idleness of labor should lead to the loss of land (Sreenivasan, 1995, p. 101). The legal concept of adverse possession is another embodiment of these ideas — the loss of the rights to the owner who does not use his land and the capture of those rights by the squatter who puts the idle property to good use.

We in the United States lack a balanced view of land and labor as alternative forms of property. Regular and secure employment is, of course, for most prospective homeowners a major prerequisite to securing a mortgage. Yet, we tend to value property in land over property in labor, privileging homeownership over renting in ways that have highly inequitable consequences, as the discussion below elaborates.

In 1999, the Fannie Mae Foundation sponsored a conference to celebrate the legacy of the US Housing Act of 1949. That act set, as a national goal, “a decent home and suitable living environment for every American family.” Over the years, and especially in the past decade or so of privatization, that goal has been translated into a national goal of homeownership. As one of the principal speakers of the conference put it,

The opportunity to own a home is implicit in the promise of 1949. Americans consider homeownership as the touchstone of a decent home and suitable living environment. In fact, one of the greater national achievements of this century has been the democratization of homeownership. Owning one’s home is no longer a privilege reserved for the elite; the

overwhelming majority of Americans aspire to own a home and only 28 percent of renters say they rent as a matter of choice (Martinez, 1999, p. 2).

The last sentence was based on a “homeownership” rate of 66.3 percent in 1998, which has in fact risen slightly since. There are several problems with this interpretation of events that should cause us to re-examine the privileges of homeownership, not the least of which is the celebration of a state where 24 percent of all households have no choice but to rent as if it were a great achievement in the “democratization of homeownership.”

First, the current rate of homeownership — about 67 percent — represents a rise of only 12 percent from 55 percent in 1949 when the goal was established. On what grounds can we say that we have somehow crossed the threshold of democratization in a shift from 55 percent to 67 percent? Fifty-five and sixty-seven both signify failing grades on most examinations.

Second, homeownership is not really 67 percent or anything close to it. Seventy-five percent of US homeowners’ units are mortgaged. How does this differ from renting? If you fail to make your mortgage payments the result is ultimately the same as if you fail to make your rental payments. While you may have accumulated some capital appreciation in the process, and enjoyed the freedom to paint your front door any color you wish, still, you do not live there anymore. Seventy-five percent of “homeownership” is an illusion, but those mortgage holders do not represent the downtrodden. A recent survey by the University of Michigan for the Federal Reserve Board showed that the higher one’s income and education, the more mortgaged you probably are (Harney, 1998). The value of a tax-sheltered home mortgage is highly coveted, and the bigger the better. It is little wonder that mortgage-free owners are so few, because financially it is not the desired place to be — which brings us to point three.

Do Americans consider homeownership the “touchstone” of a decent home and a suitable living environment? A touchstone is a test. If homeownership — true liberal ownership, unfettered by debt — is the test of a decent home, then most of us fail. We cannot succeed in democratizing home owning until we have democratized renting. Political and social equality — democracy in housing tenure — will be achieved when everyone has a choice between renting and owning. Martinez is back on the slippery slope when she says, “rent overburden prevents renters from becoming homeowners” (Martinez, 1999, p. 11). There is another way to look at it. Rent overburden, which is paying more than a reasonable share of one’s income for rent, precludes renters from doing what they might otherwise do with those forgone savings: paying college tuition, taking a vacation, moving into a better school system, buying a car, and, yes, maybe even buying a house. To make the burdens and benefits of ownership and renting — of land and labor — relatively equal should be the goal of democratic housing policy.

I have introduced the idea of deficiencies in de Soto’s program for ownership and parallel distortions in American housing policy through Locke’s principle of maker’s right, showing the link between labor and ownership and the reciprocal nature of that relationship. But a more effective illustration of the power of Locke’s larger theory might be seen if we use his idea that ownership is contingent on provisos regarding spoilage, sufficiency, and charity as a lens to see how homeownership policies in the United States have created a pattern of land development that many believe is morally untenable: urban sprawl.

## The Obligations of Property

First let us clarify the Lockean conditions. I quote them below in his words. The first proviso has two conditions: that we leave “enough” and we leave “as good”:

For this labour being the unquestionable property of the labourer, no man but he can have a right to what that is once joined to, at least where there is enough, and as good left in common for others (Locke II, 27, p. 128).

The sufficiency condition here — enough — is understood to be the grounds for a right to employment for the landless. If one does not leave enough land for others to till, then one must leave property in some other form, such as the offer of employment, so that the land might support everyone (Sreenivasan, 1995, pp. 101–102). While this might appear to leave the door open for the rich to offer charity to the able-bodied landless, as Sreenivasan suggests, this option would seem to deny them access to the creative acts of appropriation that work affords. Charity under these conditions, becomes then another form of slavery.

The second proviso prohibits spoilage:

“God has given us all things richly” (I. Timothy 6:17) is the voice of reason confirmed by inspiration. But how far has he given it to us? “To enjoy” as much as anyone can make use of to any advantage of life before it spoils; so much he may by his labour fix a property in. Whatever is beyond this, is more than his share, and belongs to others. Nothing was made by God for man to spoil or destroy (Locke II, 31, p. 130).

Simmons offers a useful way to combine these two provisos into a unified idea of a fair-share limit on what one might acquire; a fair share must meet both internal and external limits. The internal limit is “as much as anyone can make use of to any advantage before it spoils.” Here the limitation is internal to a person’s own needs. The external limits are that one must leave “enough” (the sufficiency condition) “and as good” (to not do harm by leaving lesser quality) “for all others.” These external limits are imposed on the individual by the needs of others: past, present, and future.

The third claim against shares of property is the claim of charity for those who cannot provide for themselves by their own labor — essentially children and the disabled.

And therefore no man could ever have a just power over the life of another, by right of property in land or possessions; since ’twould always be a sin in any man of estate, to let his brother perish for want of affording him relief out of his plenty. As justice gives every man a title to the product of his honest industry, and the fair acquisition of his ancestors descended to him; so charity gives every man a title to so much out of another’s plenty, as will keep him from extreme want, where he has no means to subsist otherwise .... (Locke I, 42, p. 31)

In the remainder of this paper, I want to examine some aspects of land-use policy in the United States that are biased for wealthy and elite households. Dominating these favored

housing sub-markets is urban sprawl and its inefficiency, waste, individual excesses, and inequity in access to employment. Urban sprawl appears to embrace all of the Lockean vices: idle and unproductive (unworked) land, using too many resources (not leaving enough), spatial mismatch of jobs and housing (not leaving enough in the right places), diminishing environmental quality (nor as good), squandering public resources (spoilage), and generally neglecting the needs of the poor (lacking charity) (Downs, 2001; Burchell et al., 2002).

As an example of the appetite of sprawl, the average size of new homes constructed in the United States has risen steadily over the last 30 years, from about 1500 ft<sup>2</sup> in 1970 to 2305 ft<sup>2</sup> as of March 2001 (Uchitelle, 2001) — yet the average household is 15 percent smaller! Even before the tragic and economically damaging events of September 11, 2001, polls by the Pew Research Center revealed that “people with incomes above \$100,000 a year were more confident about their earning power in January 2001 than they had been in September 1999, while ‘satisfaction with earning power’ plummeted among people with less income” (Uchitelle, 2001) — so much for leaving enough for everyone’s security of the property of their own labor. Richard Curtin at the University of Michigan Survey Research Center notes, “People’s sense of personal space has increased tremendously in recent decades, and even in these difficult months they are expressing that preference. Children are no longer expected to share a room, and each spouse counts on having private space — a study, a den, a sewing room. They get different names but they are dedicated to the use of one spouse” (Uchitelle, 2001) — so much for eschewing the vices of idle and unproductive space.

One of the greatest forces supporting this acquisitive behavior is the US federal individual income tax policy, which exempts mortgage interest and local property taxes from taxable federal income and does not tax homeowners for the investment aspect of their ownership, called “imputed rent.” This mechanism legitimizes the concept that homeowners who reside in the home they own are in fact their own landlords, having invested in the property, and effectively are renting to themselves. By extension, they may benefit from that activity in much the same way they would if they were renting to someone else, but if they were renting to someone else that net income would be taxable. In the case of the owner–resident, the “imputed” rental income (also called equity return) is not taxed (McLure, 1986; Bourassa & Grigsby, 2000).

The economic effects of these tax breaks for homeowners are enormous and have long been recognized and increasingly contribute to sprawl and economic inequalities. Gyourko and Sinai document the record of research on these tax breaks, which

reduce the cost of owner-occupied housing relative to other investments (Hendershott & Slemrod, 1983; Poterba, 1984); encourage home ownership and higher housing consumption (Rosen, 1979; King, 1980; Henderson & Ioannides, 1989), and perhaps even lead to overinvestment in the asset class (Mills, 1987; Feldstein, 1987). The benefit may raise house prices (Capozza, Green, & Hendershott, 1996; Bruce & Holtz-Eakin, 1999; Sinai, 1998) and encourage suburbanization (Gyourko & Voith, 2000). The tax treatment of owner-occupied housing also favors high-income people or those who own expensive houses (Poterba, 1992) (Gyourko & Sinai, 2001, p. 1).



These tax benefits to homeowners constitute a homeowner “subsidy” that was estimated at \$2802 per homeowner in 1990 and has risen slightly in the subsequent decade (Gyourko & Sinai, 2001; Harney, 2001). The cost of this subsidy (\$163.8 billion in 1990) is borne by the general public, amounting to about \$1815 per household (including renters and owners). Thus, it cost all renters an average of \$1815 *with no benefit*, while homeowners realize an average net benefit of nearly \$1000 (Gyourko & Sinai, 2001). These subsidies or benefits to this particular form of property, in addition to being totally preferential to “owners” at the expense of renters, are highly biased among homeowners toward the wealthy, a few geographic regions of the nation, and the suburbs over most city residents. While these averages may exaggerate the nominal subsidy contributed by renters when the average renter’s income and hence taxes are lower than the average homeowner’s, none-the-less the real subsidy (in the sense of Adam Smith’s distinction between nominal and real values) by the renter may in fact be greater than that contributed by the average owner.

An odd but unavoidable feature of a progressive tax system like the US federal income tax is that when there are across-the-board exemptions from taxes, the exemption appears regressive: the wealthy, who pay the most, will be relieved of paying the most; the poor, who pay the least, will be relieved of paying the least. Bearing that in mind, the distribution over the population of these homeowners’ tax benefits (from mortgage interest, property tax, and imputed rental-income exclusion) is “more regressive than the tax code is progressive — by a fairly wide margin” (Gyourko & Sinai, 2001). Why is that? It is because the wealthy tend to live in disproportionately valuable homes, so that the “benefit received by the 17 percent of the nation’s owners who reside in the top 10 percent of census tracts in terms of benefit flows was 1.6 times their share of the national taxes paid” (Gyourko & Sinai, 2001, p. 2). Similarly, federal government estimates project for 2002 that 59 percent of the mortgage-interest tax deduction will go to the 32.2 percent of the homeowners who have incomes over \$100,000, while those with incomes of \$50–75,000 represent 25 percent of homeowners but receive only 13.5 percent of the benefits. The lower the income, the worse it gets: those with incomes of \$20,000–30,000 constitute 3 percent of the claimants but receive only 0.5 percent of the benefits. Many homeowners in these lowest brackets do not itemize their deductions and therefore are not even in the pool (Harney, 2001).

The regional distribution of these benefits is also very uneven. Twenty-five percent of the benefits go to California, which has only 10 percent of the owner-occupied units in the country and one of the lowest rates of homeownership in the nation, hovering at close to what was our national average 50 years ago! If we look at net benefits rather than aggregate benefits — benefits to homeowners minus contributions to the subsidy by households — we find that 75 percent of the net gains go to “just three large Consolidated Metropolitan Statistical Areas — Los Angeles–Riverside–Orange County, New York–New Jersey, and San Francisco–Oakland–San Jose” (Gyourko & Sinai, 2001).

And it should come as no surprise to learn that within metropolitan areas, it is the suburbs that have most of the homeowners’ tax advantages and not the central cities. Persky and Kurban looked in depth at the case of Chicago and its suburbs and all forms of federal expenditure. Among what they termed “wealth-creating spending,” which took the form of cost-reducing programs (highways, public transit, other infrastructure, income tax subsidy for housing, environment and disaster, and crime), the federal expenditures in the city of Chicago were \$267 per capita. In each of the three suburban rings (pre-1950, 1950–1970, and post-1970), the expenditures were well over \$600 per capita. Eighty-five percent of

those suburban federal cost-reducing expenditures were income tax subsidies to housing (Persky & Kurban, 2001, p. 14).

The point of all of this is that biases in institutions like federal tax policy play an enormous role in the determination of property distribution, even in a legal system that in limited ways recognizes the Lockean imperatives. To bring the argument back to de Soto, we can begin to see the perils to equity of a property system that privileges ownership of land without institutions to safeguard the distribution of property more broadly defined.

How might these particular policies be redressed under a Lockean ethic of property? First, we might recognize that the tax system we are looking at took a good principle and let it grow out of control. The principles that a person needs a place to live and that housing is a basic human need, not a form of wealth, lead, perhaps, to a view that housing should not be taxed as wealth or surplus. The state of Indiana had the right idea, briefly, in a proposed revision to its residential property assessment procedures, which proposed to exempt a shelter allowance — the first \$16,000–22,000 of value (depending on the county) to be deducted from the total assessment. This step acknowledges the separable investment — i.e., wants and vanities — versus basic shelter components of housing that have been recognized by philosophers for hundreds of years (Radin, 1993; Pipes, 1999). The governor of Indiana vetoed the noble effort (Kelly & Wuensch, 2000). Similarly, the federal government might, if it had the will, exempt the value of basic shelter by limiting the tax exemptions to an upper limit and extending these exemptions to renters (Krueckeberg, 1998).

The welfare reforms of the last decade that moved or attempted to move those able to work off public welfare reflect a Lockean philosophy of the importance of work but frequently lack the balancing value of Lockean charity. Yes, there are examples of public programs that give free land to the homeless. In Title V of the McKinney Act (1987), Congress gave top priority to the disposal of excess federal property to housing the homeless but the volume of transfer has been infinitesimal. Similarly, one city, Portland, Oregon, permitted homeless squatters to camp on designated public property (Verhovek, 2001). Still, the preponderance of local policy is exclusionary, refusing a fair share of affordable housing for the poor (Kirp, Dwyer, & Rosenthal, 1995).

## **Conclusion**

The property bias in American culture and policy has established a great divide between homeownership and home renting, which privileges the rights of landed property over the rights of labor as property. We have within the US economy a bell jar effect similar to that of the Third World — a bell jar not of legality, but of legitimacy — where a minority population on the outside labors to pay rent for housing to those inside the bell jar.

We have two kinds of mortgage finance: one for owners, whose labor leverages a mortgage. In this case, labor reaps the returns of its investment — the returns to capital of property ownership. In the other kind of mortgage finance, the landlord reaps the returns to the renter's labor. The renter can deduct from the income tax on his labor neither the portion of his rent that pays interest on the landlord's mortgage nor the portion that he pays for the taxes on that housing. Effectively, the landlord has a mortgage from the bank that is paid for by his tenant's labor. Moreover, the tenant's income taxes are used to reduce the tax burdens of those who own their homes. One may counter with the argument that

the return to the renter on his or her labor is the shelter paid for. But why should some people's labor get a subsidized return to capital in addition to shelter (homeowners) while others get shelter alone, plus the obligation to support a subsidy to those who own?

What if we were to restructure these institutional arrangements in the spirit of Third World tenure-security programs, like those advocated by de Soto? Suppose, in the US, a housing system based on a principle of property and choice for everyone. Imagine a set National Homestead Trust accounts, similar to social security accounts. Each account would accumulate an amount equivalent to a down payment on a home for every individual up to a certain lifetime level, after which contributions would no longer be required, and after which the owner of the account could draw on those funds to purchase a home. If, at any point in time, this new owner sold a home without purchasing another to replace it, the fund would have to be replenished, then held for safekeeping; and, if ever reduced in size, it must be rebuilt through new contributions.

Where would the money come from? Renters would contribute the equivalent of a portion of their rent, that contribution being exempt from income tax. Homeowners would contribute a portion of their housing costs in the form of a reduced tax exemption for mortgage interest and property taxes. Where would the money go? It would go into a fund, available to anyone whose account was paid and whose financial needs left no alternative source of housing funds, to be used for the purchase of a personal residence. At any point in time there might be a substantial portion of this housing safety net unused. This fund might then be lent to support affordable housing programs and consumer education at the community level.

This notion of a National Homestead Trust is speculative and sketchy, but it is not far removed from a number of concepts that are being tried throughout the country. In *Assets and the Poor* Michael Sherraden (1991) introduced the concept of Individual Development Accounts (IDAs), which was implemented in a demonstration by the Ford Foundation and 10 other foundations, to show that the poor can save their money when offered the incentive of matching funds. After the success of private foundation demonstrations, Congress implemented the idea in the Assets for Independence Act in 1998. IDAs are capped at about \$2000 and can only be used for homeownership, education, starting a business, or retirement. There are now more than 10,000 Americans saving in IDAs in 350 different programs nationwide (Miller-Adams, 2002, p. 176), still a small portion of the poor.

Other innovations have been attached to other federal programs. Section 8 housing vouchers are no longer limited to the rental market, but can now be counted toward income eligibility for a mortgage and can be used to make mortgage payments (Wilgoren, 2002). Housing developments funded with low-income housing tax credits are offering rent-to-own programs — at the end of 15 years the low-income renter has an option to buy at very considerable savings over market prices (*The Blade*, 2003; Baumgardner, 2002). Rent-to-own programs have spread rapidly enough in the public sector to generate a genus of private sector imitators. Their notices, proliferating on the World Wide Web tend to be standard lease-purchase arrangements in new clothing and some appear to verge on predatory.

Is it contradictory, after all of the criticism in this paper of homeownership policies, to be advocating yet another program of homeownership for the poor? No. The idea of the IDAs and the legitimate rent-to-own programs is to expand tenure security and housing choice. The idea of the National Homestead Trust put forward here is an effort to give that security and choice to everyone in a form that is enduring.

Certainly there will be objections to this notion, arguing that it is inefficient to build yet another government bureaucracy to do what people should be doing for themselves: saving and investing in the American dream. But these objections ignore the massive barriers of our existing public and private institutions that support homeownership in this country in its present form. William M. Duggar summarizes the kernel of problem:

A property rights theorist asks ..., “How much inefficiency are we to accept in exchange for more equality?” The institutionalist’s reply stresses that inequality is itself inefficient in an evolutionary sense. That is, inequality reduces opportunity and participation (Duggar, 1980, p. 45).

The institutionalists argue that efficiency arguments are historically tautological. A change is efficient if the value of the output is greater than the value of the input. But these values are based on current prices, and current prices reflect the current institutional structure, just as the value of homeownership in the United States is a reflection of the institutional structures that now determine housing prices — structures like our hugely biased income tax exemption laws. Change the institutions and you will change the prices, and you will have a new efficiency position. Like Locke, John R. Commons, one of the founders of the institutional approach to economics, saw civil law as reallocative.

If we start with ... the individual as a free man existing prior to the law, then man’s liberty has been gradually taken away from him by ... law. But if we start with individuals as subjects of conquest, slavery, serfdom, then liberty has gradually been taken away from the masters and bestowed on the subjects (Commons, 1924, 126 in Duggar, 1980, p. 560).

It is the latter view that was the point of departure of Locke’s arguments against the divine right of kings and the idle property of royalty and the gentry. Both Locke and de Soto argue for the expansion of property rights to promote economic growth — not for new rights but for the redistribution of old, badly distributed rights, to make for a more efficient society in the longer term.

Tax policies that support sprawl and elite urban housing sub-markets are not truly efficient because we have structured the institutions of life, work, and property in a particular way, unconstrained by considerations of leaving enough and as good for others, unconstrained by restraints on spoiling the environment, and unconstrained by charity. De Soto’s dreams must be shaped to do more than liberate the developing world to a new order of exclusion and inequality. We can either reconstruct the dream of Horace Vandergelder, the wealthy merchant from Yonkers in the Broadway musical *Hello, Dolly*, who proclaims, “I’ve worked hard and become rich and friendless and mean, and in America that’s as far as you can go,” or we can go further than that, and not just in America.

## **Acknowledgments**

The author wishes to thank the following persons whose ideas and comments were of great help in the preparation of this paper: Kristen Crossney, Robert Lake, Mickey Lauria, Kurt

Paulsen, Arlene Pashman, Frank Popper, Kristopher M. Rengert, Thomas Ford Rudduck, Gordon Schochet, Martim O. Smolka, Niraj Verma, Jan Wells, and two anonymous reviewers for *Housing Policy Debate*. This paper was originally published in *Housing Policy Debate*, 15:1 (2004), pp. 1–48, and is reprinted here with permission of the Fannie Mae Foundation.

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## **PART 3:**

# **APPLYING INSTITUTIONAL IDEAS**

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## Chapter 8

# An Institutional Analysis of the Evolution of Housing Cooperatives in India

Sukumar Ganapati

Although housing cooperatives were introduced in India in the early decades of the 20th century, their activities were limited to Bombay and Madras provinces until the country's independence in 1947. Since independence, the activities of housing cooperatives grew phenomenally nationwide. In this chapter, I make an institutional analysis of this extraordinary growth of housing cooperatives' activities during the post-Independence period. While agency theorists focus on endogenous organizational level analysis, Marxist critiques like Elster (1989) focus on the exogenous institutional level analysis for their explanation of growth or decline of cooperatives. I propose that analyses at both levels are indeed important, but not sufficient, to understand the growth of housing cooperatives in India. I argue that the development of supportive institutional structures enabled the phenomenal growth of housing cooperatives in the post-Independence period.

The endogenous organizational level analysis highlights cooperative's internal strengths and weaknesses in controlling agency problems. Analysis at this level is useful since the cooperative's collective strengths were instrumental as powerful political and ideological rhetorical tools for promoting cooperatives. The internal organizational features were also important to develop adequate support mechanisms responding to the specific characteristics of the cooperative. However, organizational level analysis is *insufficient* since the initial thrust for housing cooperatives came with direct state support in the context of democratic socialism. Hence, analysis at the exogenous institutional level gains significance to highlight the environment in which cooperatives evolved. However, direct state support also does not fully explain the growth of cooperatives. Such support had waned with the withdrawal of government from direct participation in housing since the 1970s and further reduced with the enabling policies in the context of economic liberalization during the 1990s. Supportive institutional structures enabled growth of housing cooperatives despite waning of direct state support.

I identify three institutional structures supporting housing cooperatives in the Indian context. The first is the institutional structure for administrative, legal, and procedural support

(including the Cooperative Registrar's Office). The second is the two-tiered national institutional structure (state level Apex cooperatives and Primary cooperatives) for providing financial support to housing cooperatives. The third is the institutional support for preferential treatment of housing cooperatives for access to land.

The rest of this chapter is structured in four sections. The second section outlines the evolution of housing cooperatives in India. The third section examines the growth of housing cooperatives in post-Independence period, at both endogenous organizational level and the exogenous institutional level. The fourth section outlines the three institutional support structures that enabled the growth of housing cooperatives in India. The last section concludes with the significance of supportive institutional structures for housing cooperatives.

## **Evolution of Housing Cooperatives in India**

### *Housing Cooperatives in the Pre-Independence Period (1904–1947)*

Cooperatives, in general, were not indigenous to India. They were, “to begin with, the creation of the state” (Catanach, 1970, p. 3). The British introduced cooperatives in India at the turn of the 20th century to alleviate peasant indebtedness to moneylenders and to improve rural credit. Cooperatives were expected to provide the peasant with a “suitable institution in which to lay by his savings and teaches him the valuable lesson of self-help through the sense of responsibility he feels in being its member” (Reed & Sheppard, 1928, p. 412).

In 1904, Co-operative Societies Act was passed, which provided the legal framework for rural credit cooperatives to emerge. One of the principal elements of the cooperative institutional structure, Registrar's Office, was established under this Act. The Registrar was a special government officer who was expected to guide and control the cooperative movement. The Registrar's Office gained immense significance over the years and became pivotal for the development of cooperatives in India.

As the main objective of cooperatives under the 1904 Act was to provide rural credit, non-credit cooperatives like housing cooperatives could not be formally registered. Often, non-credit cooperatives included a credit component in their operations to get registered. The Co-operative Societies Act was amended in 1912, which allowed for registration of non-credit cooperatives. The amended law provided the legal basis for housing cooperatives to function. The amendment redefined the cooperative as “a society which has as its object the promotion of the economic interests of its members in accordance with the cooperative principles, or a society established with the object of facilitating the operations of such a society” (Hough, 1932, p. 265). It formalized the use of the word *cooperative* as a legal nomenclature and prohibited its use as “part of the title of any business concern except as a registered society” (Reed & Sheppard, 1928, p. 413).

In 1919, the British undertook extensive administrative reforms with the Government of India Reforms Act (also called the Montague–Chelmsford Act), under which the responsibility of administering cooperatives was transferred to provincial governments. Provinces could now adapt cooperative laws to their regional needs. The Act laid early seeds of divergence in the development of cooperatives between provinces in India.

During the pre-Independence period, the activities of housing cooperatives were principally limited to Bombay and Madras provinces. Cooperative legislations in these two provinces recognized housing as a separate sector. In Bombay, the Co-operative Societies Act enacted in 1925 classified cooperatives as “resource,” “producers,” “consumers,” “housing,” and “general.” Housing cooperatives were principally tenure based. They were called Cooperative Housing Societies, which were of two types: (i) tenant co-partnership and (ii) tenant ownership. Under the first type, the cooperative owned both land and buildings; under the second, cooperative owned the land, and members leased housing units from the cooperative.

In Madras province, the Co-operative Societies Act enacted in 1932, went beyond the Bombay legislation to recognize five types of housing cooperatives: Ordinary Building Societies; House Building Societies; House Construction Societies; Cooperative Townships; and Cooperative House Mortgage Banks. Among these, Ordinary Building Societies were the most prominent, which were “confined mainly to the provision of capital for building schemes and only occasionally extend[ed] to the joint purchase of land or of building materials” (Reed & Sheppard, 1929, p. 420). Cooperative House Mortgage Banks were also engaged in extending housing finance. House Building Societies and House Construction Societies were partially engaged in housing finance, although their activities were oriented toward housing construction and land development. One Cooperative Township also came up during the pre-Independence period, which constructed houses and allotted them to members on hire purchase basis. Thus, unlike Bombay, cooperatives in Madras were principally involved in housing finance, and to a lesser extent on construction related activities.

Although Cooperative Acts were enacted in other provinces besides Bombay and Madras, housing cooperatives were much less developed in other parts of India until Independence. There were nine cooperative housing societies in United Provinces in 1929–1930 (Hough, 1932, p. 191). Bihar and Orissa had one cooperative society, and they were still in the developing stage in Hyderabad.

The activities of housing cooperatives in Bombay and Madras provinces accelerated since 1922, when the provincial governments started to provide loans. At the end of 1930, there were 67 housing cooperatives in Bombay province, of which 23 were in Bombay city and its suburbs. In Madras, by 1926–1927, Ordinary Building Societies grew to 109 (an almost five-fold increase since 1922–1923) with 3383 members; they had constructed 681 houses (*Report of the Committee on Co-operation in Madras, 1927–1928*). However, the activities of housing cooperatives were affected since then in both provinces due to the 1929 Depression and World War II. Also, government loans were discontinued in Bombay since 1933. Table 1 summarizes the growth in number of cooperatives, their membership, and the number of houses constructed in Bombay and Madras provinces between 1930–1931 and 1945–1946. Although construction activities of housing cooperatives reduced in Bombay, the number of housing cooperatives grew from 79 to 136 during this period. In Madras, several cooperatives defaulted on their repayment of loans to the government; consequently, the number of housing cooperatives in Madras decreased from 135 to 113 between 1930–1931 and 1945–1946.

### ***Housing Cooperatives in the Post-Independence Period (1947–Present)***

In the post-Independence period, activities of cooperatives grew phenomenally nationwide. In the first two years following Independence, the number of cooperative housing

Table 1: Growth of housing cooperatives in Bombay and Madras provinces, 1930–1931 to 1945–1946.

Year	Bombay			Madras		
	Cooperative housing societies	Members	Tenements constructed	Ordinary building societies	Members	Houses completed
1930–1931	79	6420	—	135	4269	1402
1935–1936	80	5617	—	118	4040	1809
1940–1941	101	6988	—	117	4492	2346
1945–1946	136	8597	3250	113	4027	879 <sup>a</sup>

<sup>a</sup>Data obtained from *Administration Report of the Co-operative Department for 1946–1947*, p. 55, and relates to 1946–1947.

Source: Unless otherwise indicated, Reserve Bank of India (1950, pp. 43, 51).

societies in Bombay state increased more than three-fold (there were 480 cooperatives in 1948–1949). In Madras state,<sup>1</sup> Ordinary Building Societies grew by 50 percent in the same period (there were 174 of them in 1948–1949). Although there were only 553 housing cooperatives in other states by 1949–1950 (Mathur, 1977, p. 464), the activities of housing cooperatives grew in most of the states since then.

The number of primary housing cooperatives in India increased from 1482 in 1950–1951 to 68,121 in 1994–1995, a nearly 46-fold increase. During this period, their membership grew from 0.09 million to 5.93 million, a nearly 66-fold increase (Table 2). The growth in number and membership alone, however, does not indicate a growth in their activities. Their increase in activities is also indicated by their participation in the housing market, i.e., their contribution to the national housing stock and to the volume of housing finance. Based on the Indian National Report submitted at the Habitat II conference in 1996, I estimated that cooperatives contributed about 10.8 percent of the annual housing stock between 1991 and 1995.<sup>2</sup> Housing cooperatives also play a crucial role in the disbursement of formal housing finance. In 1987–1988, cooperative housing finance formed 12.9 percent of the total volume of formal housing finance in India (Struyk & Ravicz, 1992, p. 33). Although the annual contribution of cooperatives to the housing stock more than doubled between 1959–1960 and 1994–1995, the growth has not been steady and has not kept pace with the growth in number or membership of housing cooperatives (Table 2).

Bombay and Madras states provided a guide for the development of housing cooperatives in other states where they were yet at their infancy. The institutional framework and the form of cooperatives were modeled after either of these two states. State governments

<sup>1</sup>In the post-Independence period, provinces have been referred to as states.

<sup>2</sup>Comparatively, condominiums and cooperatives account for 5 percent of the housing stock in the United States in 1991 (Goodman & Goodman, 1997); nearly 17 percent of Swedish housing was cooperatively owned by 1990 (Bengtsson, 1992).

Table 2: Growth of housing cooperatives in India.

Year	Primary housing cooperatives	State level cooperatives (Apex)	Membership (in millions)	Housing units constructed during year
1950–1951 <sup>a</sup>	1482	N.A.	0.09	N.A.
1954–1955	2118	3	0.15	N.A.
1959–1960	5558	6	0.32	45,675
1964–1965	10,975	12	0.70	34,386
1969–1970	16,308	17	1.11	45,132
1974–1975	25,633	17	1.64	79,733
1979–1980	34,036	16	1.85	42,045
1984–1985	49,317	17	3.27	85,731
1989–1990	61,474	18	2.62	90,248
1994–1995	68,121	14	4.13	98,972

<sup>a</sup>Data obtained from Mathur (1971, pp. 498–499).

Notes:

- (i) N.A. stands for “not available.”
- (ii) Figures in column 5 indicate the sum of: (i) independent houses constructed by primary, state level (Apex) cooperatives, and their members; and (ii) tenements constructed by primary and state level (Apex) cooperatives.
- (iii) The interpretation of this table should be done with some caution. The statistical statements since 1979–1980 do not include all states (e.g., Tamil Nadu); presumably, the figures are based on those states for which data were available at the time. Hence, the figures could be an undercount.

Source: *Statistical Statements Related to Co-operative Movement in India* (for respective years).

adapted the institutional framework and the form of cooperatives to suit local housing conditions. For example, New Delhi followed the Bombay model and adapted tenure cooperatives in the form of Cooperative Group Housing Societies (CGHS). In Kerala, housing cooperatives emerged principally as finance cooperatives, similar to those in Madras state.

Housing cooperatives’ activities grew in most states after Independence. Their activities have been more prominent especially in Maharashtra, Gujarat, and Tamil Nadu, which inherited the institutional conditions of their parent states of Bombay and Madras.<sup>3</sup> Table 3 summarizes cooperatives’ activities in eight states in 1994–1995. In terms of number of primary housing cooperatives, the top three states were Maharashtra, Gujarat, Andhra Pradesh; but in terms of membership, Tamil Nadu, Maharashtra, and Karnataka ranked among the first three states. Construction activities are proxied by the number of housing units (independent and tenement type) constructed during the year. In this respect, Maharashtra, Kerala, and Tamil Nadu were among the top three states. Financial activities are proxied by the total working capital of primary housing cooperatives. Maharashtra, Gujarat, and Karnataka were among the top three states in this respect.

<sup>3</sup>Bombay and Madras states were divided along linguistic lines in 1960 and 1956, respectively. Maharashtra and Gujarat were formed out of the erstwhile Bombay state, and Tamil Nadu was formed out of erstwhile Madras state.



Table 3: Primary cooperatives' activities in eight states, 1994–1995.

	Number of primary cooperatives	Membership	Housing units constructed during year	Working capital (Million rupees)
Andhra Pradesh	3164	493,224	7079	401.05
Gujarat	14,563	595,759	7716	5552.37
Karnataka	1588	613,118	2874	3053.07
Kerala	342	187,061	11,329	1982.43
Maharashtra	42,926	1,576,425	72,903	20,182.84
Punjab	886	128,560	1117	1433.46
Rajasthan	1297	247,178	30	1036.21
Tamil Nadu	1025 <sup>a</sup>	2,273,918 <sup>a</sup>	10,802 <sup>a</sup>	1190.97 <sup>a,b</sup>

<sup>a</sup>Data was obtained from the Office of the Registrar of Cooperatives (Housing), Chennai and is for 1993–1994.

<sup>b</sup>Represents sum of paid up share capital and reserve/other funds.

Source: *Statistical Statements Related to Co-operative Movement in India* (for respective years).

## Institutional Context of Post-Independence Evolution of Housing Cooperatives

Why did housing cooperatives flourish nationwide after Independence? While agency theorists focus on endogenous organizational characteristics, Marxist critiques (e.g., Elster, 1989) focus on exogenous institutional conditions in their explanation of cooperatives' growth or decline. I propose that analyses at both the organizational and institutional level are indeed important, but not sufficient, to understand the growth of housing cooperatives in India. The development of supportive institutional structures enabled the growth of housing cooperatives in the post-Independence period.

### *Endogenous Level Analysis of Housing Cooperatives*

Agency theorists explain survival of organizations “in terms of the comparative advantages of the characteristics of the residual claims in controlling the agency problems of an activity” (Fama & Jensen, 1983, p. 345). Housing cooperatives are collectively owned and managed by the members, so that all members are residual claimants in Alchian's (1950) terms. Collective ownership entails that members own the resources of a cooperative jointly. Members collectively pool their investment resources in the cooperative for achieving their common objectives. Collective management entails participation of members in monitoring the cooperative through a democratic decision-making process.

Housing cooperatives can be broadly classified under three major categories based on their housing objectives in India. First, they are Tenure Cooperatives (i.e., based on ownership), which collectively own and manage housing (i.e., cooperative housing). Second, they are Finance Cooperatives, which principally provide housing finance for new construction or housing repairs to their members. Third, they are Building Cooperatives that are usually involved in land development and housing construction.

As collective organizations, cooperatives have both competitive strengths and weaknesses in resolving certain agency problems. In terms of their strengths, cooperatives entail “peer monitoring” (Stiglitz, 1990); such social sanctions may make Finance cooperatives a superior alternative to conventional banks for those with little credit or access to collateral (Banerjee, Timothy, & Timothy, 1994). Second, cooperatives entail pooling of resources in the collective (Shah, 1996; Staber, 1992), so that members benefit from economy of scale. There are several dimensions of housing — land, building materials, construction, financing, maintenance, management, and service provision — where the collective pooling offers such economy of scale. Third, as collective organizations, cooperatives offer scope for collective self-help (UNCHS, 1989). In self-help cooperatives, members typically pool their labor resources in the planning and construction of housing. Many government agencies and NGOs have used cooperatives as a means for fostering self-help and community action among slum-dwellers in India (for example, see Panwalkar, 1995). Fourth, cooperatives emerge to internalize housing externalities (Miceli, Sazama, & Sirmans, 1998). For example, in multi-unit housing, externalities could arise due to common spaces, common land, interdependence among tenants for building repairs and services, and so on. Cooperatives internalize such externalities through collective tenant ownership and management.

In terms of their weaknesses, cooperatives typically face entry problems and are seldom voluntarily formed. As Lewin (1981, p. 23) observes, “usually an organization such as a trade union, local authority, commercial enterprise, or even the government is the moving force behind the co-operative.” Second, collective decision-making could be inherently costly (Hansmann, 1991, pp. 34–36). Self-management can also be problematic due to the lack of managerial, technical, legal, or financial expertise by members (Vakil, 1996). Additionally, as Olson (1965) argued, the tendency of members to free ride increases as the group size increases. Third, heterogeneous preferences of members could adversely affect the alignment of individual preferences with collective decisions.

Housing cooperatives face constraints in access to two important elements of housing in particular: land and housing finance. Cooperatives require large enough contiguous land for housing their members, which may be hard to obtain at affordable costs in cities. Also, housing cooperatives are usually at a disadvantage as compared to private sector agencies in obtaining finance. For example, bank-lending procedures may be more cumbersome with respect to housing cooperatives due to the collective liability of the members. Further, while private sector agencies can raise finance through borrowings in the capital market, there are usually limitations on the extent to which cooperatives can raise such capital.

The organizational strengths and weaknesses in controlling agency problems could be indeed important for growth of cooperatives in a competitive capitalist context. In his analysis of growth of condominiums and cooperatives vis-à-vis rentals in the context of United States, Hansmann (1996) considers market contracting costs (i.e., costs due to market power (e.g., monopoly), lock-in, and contractual risks) and ownership costs (i.e., costs of management (monitoring), decision-making, and ownership risks). In his framework, cooperatives emerge in a given context to the extent the costs of the collective ownership and operating in the market are minimized as compared to other types of ownership. In the US context, net subsidy in favor of ownership units account for the growth of cooperatives and condominiums (Hansmann, 1991). In their comparison of cooperatives and condominiums, Goodman and Goodman (1997, p. 232) are suspicious of the growth of housing

cooperatives in the US due to their intrinsic disadvantages. In their estimate, the price of an average condominium unit was 12 percent higher than an average cooperative housing unit in the US in 1987.

In the Indian context, however, cooperatives did not flourish in a competitive environment. In the political economic context of democratic socialism following Independence, the major thrust for development of cooperatives came from the state initially. Hence, the growth of housing cooperatives cannot be analyzed from an internal organizational standpoint only — the institutional framework also gains significance. Yet, the organizational strengths and weaknesses are indeed important. As it will be evident below, cooperatives' collective strengths were used as powerful political and ideological rhetorical tools to promote housing cooperatives. Supportive institutional structures to overcome cooperatives' weaknesses in controlling agency problems also developed in this context.

### *The Exogenous Institutional Framework*

In contrast to agency theorists, Marxist critiques focus on the external institutional framework for their explanation of growth/decline of cooperatives. While asking the question, "If cooperative ownership is so desirable, why there are so few cooperatives?" Elster (1989, p. 96) suggests that the endogenous problems of cooperatives are not insurmountable. Instead, he argues that the capitalist system structurally discriminates against collective organizations like cooperatives. According to him, "it could be that the isolated cooperative in an otherwise capitalist economy suffers difficulties that would not arise within a fully cooperative context. This could happen in four ways: by endogenous preference formation, adverse selection, discrimination, and externalities."<sup>4</sup>

Chouinard (1989, 1990a, 1990b) also focuses on the capitalist state in her analysis of the growth of housing cooperatives in Canada. Using a Marxist theory of "uneven development of capitalist states," she argues, "changing relations and procedures within the state have played an extremely important role in regulating conflict over management and delivery of state-assisted cooperative housing" (Chouinard, 1990b, p. 1441). In her view, cooperative housing policies emerged in specific conjunctures of class conflicts, which are geographically contextual. In other words, politics of class struggles has been key to the development of cooperatives in Canada.

Although it is arguable whether India's post-Independence context of democratic socialism constituted a "fully cooperative context," some of the difficulties raised by Elster were overcome as the state provided initial thrust for the development of cooperatives. The socialist political economic system favored cooperatives in general due to ideological alignment with the cooperative's internal features of collective ownership and self-management. Jawaharlal Nehru, the first Prime Minister of India, championed the growth of

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<sup>4</sup>According to Elster, endogenous preference formation is an obstacle if the presence of cooperatives is a precondition for the desire to have them. Adverse selection could occur since going against the dominant social conventions requires qualities that do not always aid the endeavor. Discrimination could occur as a result of unfair competition between the cooperative and other types of firms. Lastly, isolated cooperatives could be at a disadvantage due to their failure to internalize the positive externalities (e.g., entrepreneurial and political externalities) and the negative externalities created by capitalist firms (e.g., opportunistic and collective bargaining externalities).

cooperatives as a part of his paradigm of democratic socialism. In this paradigm, cooperatives were conceived as alternative to state ownership (Government of India (GOI), 1998b, p. 391). Cooperatives' internal features of democracy and mutual self-help were viewed as being conducive to democratic society. Jain and Coelho (1996) argue that cooperatives "began to be adopted by the new national leaders as key institutional instruments in the development of the economy and in transformation of the society towards a more equitable, democratic, and socialistic model" (p. 39).

Although in Nehru's model, cooperatives were expected to be "a people's movement and not something imposed from above," (GOI, 1998b, p. 441) it was rarely achieved in reality. State patronage played a central role in the development of cooperatives, mediated through the Registrar's Office. State control was deemed necessary for cooperative development especially since cooperatives depended on the state for their resources.

The political economic context of democratic socialism and the broad support to cooperatives in general provided an environment conducive for the growth of housing cooperatives. Unlike the development of housing cooperatives in the niches of geographically contextual class conflicts in Canada, housing cooperatives were promoted nationally. Housing cooperatives were considered as mechanisms of collective self-help, and as a means to mobilize capital. The Planning Commission noted in the First Five Year Plan (1951–1956), a sentiment that recurred through the Fourth Five Year Plan (1969–1974):

We lay special emphasis on co-operative housing societies not only because they can mobilize private capital, which otherwise would remain dormant, but because they open the way for aided self-help in the construction of houses which should be encouraged for reducing the cost as much as possible (GOI, 1950, p. 599).

Further, cooperatives' internal organizational features were consistently used to provide rhetorical support to propagate cooperatives for housing low-income households. In the pre-Independence period, cooperatives were hardly considered for low-income households since they required a large amount of "guarantee capital." Talmaki (1920, p. 192), a pre-eminent leader of the cooperative movement in Bombay, argued:

This condition of large initial investment by members has the effect of excluding from the benefit of a housing society those classes of the people who live from hand to mouth and who cannot therefore effect a saving out of their income. Such a society can only cater for the middle classes and upper grades of the lower classes, such as clerks, shop-assistants, artisans and the like.

The Saraiya Committee formed in 1945 paid explicit attention to development of housing cooperatives for low-income households, which was taken up more fervently by various committees and housing task forces in the post-Independence period. The Task Forces on Housing and Urban Development (1983) for example, maintained that cooperatives are "ideally suited for cutting costs, better utilization of land and proper arrangements for maintenance" (p. 5). It argued that cooperatives gained significance in the Indian scenario

where private housing development was constrained and public housing agencies could not meet the urban housing demand. It concluded:

The Task Force strongly recommends that low income people should be encouraged to form cooperatives in order to meet their shelter requirements. The principles underlying the cooperative movement and the experience of democratic and self-reliant functioning have much to commend themselves. ...Such cooperatives are playing an increasingly significant role in metropolitan areas where multi-storied housing has become necessary due to scarcity of land (Task forces on Housing and Urban Development, 1983, p. xxi).

The role of housing cooperatives evolved within the broader institutional context of housing policies. Three phases of housing policies can be identified in the post-Independence period. In the political economic context of democratic socialism during the first phase (1947–1970), public housing schemes formed the core of housing policies. Since cooperatives were considered as suitable alternative to the state, housing cooperatives received direct state support in implementing these schemes. However, in reality, cooperatives played a minor role in the implementation of such schemes. For example, in the First Five Year Plan, two schemes — the Subsidized Industrial Housing Scheme (1952) and Low-Income Group Housing Scheme (1954), were introduced. Under the first scheme, cooperative societies of industrial workers were offered subsidies and loans in the construction of housing. Under the second scheme, loans were given to individuals and cooperatives whose members' belonged to low-income groups. At the end of the First Plan, only 1.6 percent of the schemes were carried out by housing cooperatives (GOI, 1956, p. 557). Other schemes such as the Village Housing Scheme also included a minor role for cooperatives. In several states, cooperatives of backward castes were also constituted for providing financial assistance and allocating land (GOI, 1956, p. 41).

The most significant institutional support for housing cooperatives, however, came with the *Report of the Working Group on Housing Co-operatives* in 1964. The Working Group was formed by the central government to explore the role of housing cooperatives. It identified two internal advantages of housing cooperatives: (i) scale economies in planning, building materials, labor and equipment, and (ii) more efficient and more satisfactory surroundings according to community standards. It emphasized that “co-operative activity is the best means of providing decent houses at reasonable costs to persons, particularly of low and middle income groups who cannot afford to satisfy their housing needs by their individual efforts” (GOI, 1964, p 5). The internal strengths of the cooperatives were thus useful as powerful political rhetoric in the development of housing cooperatives. Following the recommendations of the Working Group, an elaborate two-tiered institutional structure for financing housing cooperatives was setup nationwide, which has been key to the growth of housing cooperatives' activities in India (see Section on “Role of Supportive Institutional Structures”).

During the second phase (1970–1988), housing policies recognized that direct government participation through public housing could hardly meet the housing demand. The Fourth Plan (1969–1974) laid the early seeds of government withdrawal from public

housing by conceding, “the experience of public housing so far is that its unit costs are high and that with the constraint of resources it is not possible for public operations to touch even the fringe of the problem” (GOI, 1970, p. 402). Hence, during this phase, housing policies were directed toward provision of housing finance and better accessibility to land. In this context, direct state support to housing cooperatives waned. Yet, housing cooperatives continued to grow and gained significance in two ways. First, they became important vehicles for the provision of housing finance in an environment where other formal housing finance mechanisms were yet undeveloped. As other organizations for finance developed (e.g., Housing and Urban Development Corporation, HUDCO), a part of their funding was channeled to the cooperatives. Second, cooperatives were also given preferential treatment in terms of allocation of land. Since they were considered as ideal alternative to the state for equitable distribution of land, cooperatives were either exempt from land acquisition procedures, or were given preferential treatment in the allocation of acquired land. The Urban Land (Ceiling and Regulation) Act enacted in 1976, for example, exempted housing cooperatives from its scope.

In the third phase (1988 to present), housing policies changed distinctively from the previous years due to the shift in political economic context toward economic liberalization. The *New Economic Policy* of 1991 marked a substantive change in this direction. Under the policy, privatization gained more currency, and public sector investment came to be used for leveraging private sector resources. Leaders of the cooperative movement became apprehensive of liberalization policies. They feared withdrawal of concessions and started making appeals for increased state assistance.<sup>5</sup> Leaders also sought reforms of cooperative laws and policies to compete effectively with the private sector. The Brahmaprakash Committee gave a thrust in this direction by prescribing a model act that gave more autonomy to cooperatives (GOI, 1991). However, few states adopted the model act.

Two events in 1988 were instrumental in changing the course of housing policies. First, the *National Commission on Urbanization* tabled its report, which considered housing in the broader context of urban development. Consequently, many of the policies that emerged were more broadly focused on urban development, rather than housing *per se*. Second, UNCHS called upon governments to formulate a National Housing Policy based on *enabling* approach. The approach, which emerged in response to failure of conventional public housing strategies, aimed to enhance the role of the private and Third sector organizations in the housing process through institutional reforms (UNCHS, 1996).

The enabling approach formed the basis for national housing policies in India, which went through several revisions between 1988 and 1998. In the context of economic liberalization, the major emphases of these policies have been on removing barriers for more private participation. For example, the Urban Land (Ceiling and Regulation) Act was formally repealed in 1999. Under the National Habitat and Housing Policy (1998), corporate,

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<sup>5</sup>For example, the Convention of Parliamentarian’s Forum for Development of Cooperative Movement argued: “In the wake of liberalisation, privatisation and globalisation of Indian economy and with the emphasis on the operation of market forces, the cooperatives are finding it difficult to compete with the market forces.... In order to create [such] a conducive environment, the government will have to extend both financial and institutional support.” (NCUI, 1997, pp. 7–8).



private, and cooperative sectors would “take the lead role in land assembly, construction of houses and development of amenities” (GOI, 1998a). In this context, direct state support for housing cooperatives further reduced. However, the activities of housing cooperatives grew. In the changed environment, housing cooperatives have sought more autonomy and have had to redefine their role with respect to the public and private sectors according to the comparative advantage offered by their organizational strengths and weaknesses.

## **Role of Supportive Institutional Structures**

As the section above shows, the endogenous organizational features of housing cooperatives and the exogenous institutional framework are indeed important to understand the post-Independence growth of housing cooperatives. The internal organizational features were used as political and ideological rhetorical tools in the development of housing cooperatives. Yet such internal organizational features were not sufficient to their development. The external institutional framework provided an environment conducive of the evolution of housing cooperatives. The political economic context of democratic socialism overcame some of the problems identified by Elster that would have otherwise arisen. In this context, housing cooperatives were promoted nationally.

Direct state support, however, also does not fully explain the growth of housing cooperatives in India. In spite of such support during the first phase, housing cooperatives had a minor role, if at all, in the implementation of the state-sponsored schemes. Further, direct state support started to wane during the second phase with the withdrawal of direct government participation in housing. The direct support reduced more sharply during the third phase with the enabling approach that evolved in the context of economic liberalization. In spite of the reduction in support, the activities of housing cooperatives grew nationwide.

I argue that supportive institutional structures played a crucial role in the growth of housing cooperatives. Institutional structure refers to the *manifest arrangement of relationships between organizations*. With respect to housing cooperatives, the supportive institutional structure refers to the mutually reinforcing relationships between cooperatives (as well as other organizations). The institutional structure is not independent of the endogenous organizational features or the exogenous institutional framework; indeed, both shape the structure. Unlike Elster, who views internal organizational problems as not insurmountable, I argue that the internal organizational features are centrally important to develop adequate support mechanisms responding to the specific characteristics of the cooperative. In this, supportive institutional structures in the Indian context helped in overcoming some of the internal weaknesses of housing cooperatives in controlling agency problems. Yet, unlike agency theorists, who focus on internal principles, I argue that the external institutional framework is also important. The institutional structures in India clearly bear the imprint of the state. Once set up, these institutional structures became crucial for the growth of housing cooperatives despite waning of direct state support.

Three elements of institutional structures can be identified that have been crucial to the growth of housing cooperatives. The first element is the institutional structure providing administrative, legal, and other procedural support. While the Registrar’s Office is institutionalized across India, other support mechanisms have also developed to various degrees



in different states. The second element, which perhaps is the most significant for growth of housing cooperatives nationwide, is the two-tiered national institutional structure for channeling financial support to cooperatives. The third element, which is much less clearly established than the other two, is the institutional support for accessibility to land. All three structures have the imprint of state patronage. The Registrar's Office was set up with the Co-operative Societies Act, 1904 and continues to be a state organ. The two-tiered national institutional structure was initiated during the first phase by the state. Cooperatives' accessibility to land has also depended on the extent to which state governments have given preferential treatment in allocating land. In the context of waning of direct state support, these three elements provided various degrees of support, as described below.

### ***Administrative, Legal, and Procedural Support Structures***

Although administrative, legal, and procedural support structures vary across India, the Registrar's Office is well established across the country. When the Office was initiated under the Co-operative Societies Act, 1904, it was expected that "the fostering care of the Registrar would be less required until his duties became purely official" (Catanach, 1970, p. 51). However, over the years, the Registrar gained significance as "friend, philosopher, and guide" in the development of housing cooperatives. Indeed, the Cooperative Registrars became so powerful that they are also referred to as "Brahma, Vishnu, and Shiva" rolled into one.<sup>6</sup>

The Registrar's Office has been historically a state organ, both during the pre- and post-Independence periods. State governments control the functioning of housing cooperatives through the Registrar's Office. Indeed, most states have historically had a cooperative ministry, under which the Registrar's Office is located. The Registrars are responsible for the administration of the Co-operative Societies Act in each state. They are responsible for the promotion, development, and management of housing cooperatives. The Registrar's functions generally include granting registration to new cooperatives, which provides legal incorporation for formal cooperatives; approving/amending a cooperative's bye-laws; auditing accounts of cooperatives annually; amalgamating, transferring, or winding up cooperatives; settling disputes between cooperatives or between cooperative boards and members. The precise nature of power of the Registrar's Office differs between states, depending on the role accorded by the state government.

On one hand, the basic role of the Registrar's Office to comply with Co-operative Societies Act has been broadly useful in formation and functioning of cooperatives according to established cooperative principles. In case of uncertainty, the Registrar's Office steps in to clarify procedures and to provide guidelines. Such assistance helps in overcoming some of the internal collective problems in the administration and management of cooperatives. On the other hand, sweeping powers accorded to the Office could also constrain the autonomous development of cooperatives. Many state governments have used the Registrar's Office to politically interfere in the daily functioning of cooperatives. In some states, where cooperatives have

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<sup>6</sup>In Hindu mythology, Brahma, Vishnu, and Shiva are three Gods responsible for the creation, preservation, and destruction of the universe, respectively.

greater degree of autonomy, additional institutional structures supporting the administrative, legal, and other procedural issues of cooperatives have also emerged.

The significance of Registrar's Office can be illustrated by the differential development of housing cooperatives in Tamil Nadu and Maharashtra, two states where housing cooperatives have had a historically leading edge in cooperatives' activities.<sup>7</sup> The Registrar's role varies between the two states. In Tamil Nadu, the Registrar has historically had immense power in controlling the development of cooperatives (e.g., to reconstitute cooperatives, settling disputes, to approve or deny their formation, and putting geographical controls on their operations). The state government put further controls through the Tamil Nadu Special Officers Act (1976), by which the state could appoint government nominees as Special Officers to manage cooperatives; these nominees could supersede the decisions of cooperative management board. Consequently, hardly any elections of cooperatives were held for nearly 20 years until 1997. Thus cooperatives have had little autonomy. Institutional structures for providing administrative, legal, and other procedural support also hardly exist. Activities of housing cooperatives have also hardly diversified from that of providing finance; Tenure cooperatives hardly exist in Tamil Nadu.

Unlike Tamil Nadu, the Registrar has had more of an advisory role in Maharashtra and has had less power. In general, the Registrar cannot override decisions by cooperative board members. Disputes between members are settled in separate Cooperative Courts, which are distinct from the Registrar's Office. Thus cooperatives have a higher degree of autonomy from Registrar's Office. In Mumbai, the capital city of Maharashtra, other institutional structures supporting cooperatives also emerged. The Bombay District Cooperative Housing Federation was organized as a central body in 1947–1948 to assist primary housing cooperatives by providing them with financial, legal, and administrative advice. With rapid growth of Tenure cooperatives in the private sector, the Federation has since helped in evolving common policies and by-laws, and in raising awareness with respect to various aspects of functioning of cooperatives. The agency conducts seminars on various aspects of cooperative housing (management, finance, auditing, taxation, registration of property, payment of stamp duty, and so on), publishes a monthly journal relating to current legal and procedural changes, and advises both cooperative boards and members. It has also standardized by-laws for Tenure Cooperatives. Thus, it has helped reduce some of the collective action problems that are inherent in the formation and functioning of cooperatives. Indeed the procedures are so well streamlined in Mumbai (Maharashtra's capital city) that private developers could establish cooperatives almost overnight for collective management in multi-family housing. In this context, housing cooperatives diversified to be adapted for multiple roles in housing, such as organizational mechanisms for collective action among slum dwellers, informal micro credits, low-income housing, and so on.

### *Institutional Support for Finance*

The second element — the two-tiered institutional structure for financial support housing cooperatives — was established nationwide based on the recommendations of the *Report*

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<sup>7</sup>There are other complex reasons for the divergent development of housing cooperatives in the two states. Here, I am highlighting the role of the Registrar's Office in the two states.

of the *Working Group on Housing Cooperatives*. The structure principally consists of the state level Apex cooperative and primary cooperatives.<sup>8</sup> The principal function of Apex cooperatives is to channel housing finance to primary cooperatives. They also perform other functions, such as providing administrative, technical, and legal guidance to primary cooperatives; promoting new primary cooperatives; and providing assistance in procuring land and building materials to them (Mathur, 1971, p. 497).

The *Working Group* also recommended setting up of National Cooperative Housing Federation (NCHF) with the “responsibility of promoting, developing and coordinating the activities of housing cooperatives in the country” (NCHF, 1996). Consequently, NCHF was established in 1969. It assists Apex cooperatives in financial, legal, managerial, and technical matters, and is supported through annual contributions from Apex cooperatives. Although the NCHF is not directly involved in disbursing housing finance, it has helped establish Apex cooperatives across the country in several states. In 1969, nine states and union territories had Apex cooperatives; by 1996, 25 states had Apex cooperatives. The development of Apex cooperatives reduced uncertainty of funding sources for primary cooperatives.

The most significant function of Apex cooperatives has been to mobilize housing finance for primary cooperatives. Apex cooperatives borrow money from various sources for on-lending to primary cooperatives after adding additional percentage points to the interest rate to cover their overhead and administrative expenses. In some states, governments have guaranteed loans availed by Apex cooperatives to help them raise finance. Life Insurance Corporation (LIC) of India became a major source of finance for Apex cooperatives, principally due to government stipulations that at least 25 percent of its funds be invested in socially oriented schemes, such as housing. A major bulk of LIC’s loans for housing has been routed through housing cooperatives.

The two-tiered institutional structure aided in providing a stable source of funds for primary cooperatives. Table 4 lists the sources of finance for Apex and primary cooperatives between 1957–1958 and 1994–1995. As the table shows, Apex cooperatives depended much on direct government support in 1957–1958; since then, Apex cooperatives have considerably reduced their dependence on government support. Since the 1990s, state governments support Apex cooperatives principally by providing them with loan guarantees. LIC gained importance as the major source of finance for Apex cooperatives (over three quarter of Apex cooperatives’ finance was raised through LIC in 1994–1995). Other financial institutions such as HUDCO form a smaller component; support from HUDCO is nonetheless important since it is usually targeted toward low-income housing projects (especially in rural areas). National Housing Bank (NHB), which was established in 1988, also started to refinance loans of Apex cooperatives.<sup>9</sup> In 1995–1996, about 50 percent of housing units refinanced by NHB were through Apex cooperatives.<sup>10</sup> Thus, Apex cooperatives became relatively independent, relying much less on direct governmental financial support.

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<sup>8</sup>Apex cooperatives were formed out of state level cooperatives. Some states had several state level cooperatives (e.g., Andhra Pradesh, which had seven). In such states, the Apex cooperative amalgamated the state cooperatives into one.

<sup>9</sup>As a subsidiary of Reserve Bank of India, NHB could raise funds at low costs and use them for refinancing at lower interest rates.

<sup>10</sup>Calculated from NHB’s Annual Report (1995–1996, pp. 11–12).

Table 4: Sources of funds for housing cooperatives (percent share).

	State level (Apex) cooperatives					Primary housing cooperatives				
	1957–1958	1964–1965	1974–1975	1984–1985	1994–1995	1957–1958	1964–1965	1974–1975	1984–1985	1994–1995
Government	91.2	17.9	3.9	1.7	0.2	41.9	24.8	11.1	3.9	3.6
Life Insurance Corporation			87.8	84.1	76.9			1.3	2.4	1.5
Central financing agencies		11.6	7.5	12.5	10.2	10.4	18.0	21.3	14.9	11.1
HUDCO				1.1	3.1			1.1	5.1	12.2
Apex Cooperatives			0.3	0.1	0.1			45.0	53.7	56.5
Others	8.8	70.4	0.4	0.5	9.6	47.8	57.2	20.2	20.0	15.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Computed from *Statistical Statements Related to Co-operative Movement in India* (for respective years).

For primary cooperatives, government and “other sources” were the major sources of finance before the two-tiered institutional structure was established nationwide — these two sources provided over 80 percent of finance for cooperatives in 1957–1958 and 1964–1965. Since the establishment of the structure, Apex cooperatives became the major source of finance for primary cooperatives — their contribution increased from 45 percent in 1974–1975 to 56.5 percent in 1994–1995. Thus, in spite of the reduction of direct government support to primary cooperatives, the two-tiered institutional structure has been instrumental in channeling finance to primary cooperatives.

### ***Institutional Support for Access to Land***

While the two-tiered institutional structure for providing financial support to cooperatives is well established, there is not an equivalent formal structure for channeling land to cooperatives. Yet, institutional support for access to land has been provided to varying degrees through preferential treatment — housing cooperatives have been given preference in the allocation of land acquired by government, or have been exempt from land acquisition. Land acquisition and reform policies were first initiated in rural areas for equitable distribution of land in the context of democratic socialism. Similar policies were also implemented in urban areas due to rapid urbanization following Independence. Large cities in particular had acute housing shortage and overcrowding. In 1959, the Land Acquisition and Development Scheme was implemented to grant loans to State governments for large-scale acquisition and development of urban land for low-income household. In the ideological context of democratic socialism, cooperatives became an ideal alternative for state ownership, and were given preferential allocation of such acquired land.

In Delhi, for example, the Large-Scale Land Acquisition policy adopted in 1961 provided fertile ground for the growth of housing cooperatives. As collective organizations, cooperatives were expected to use land optimally and provide collective services; they were considered a suitable alternative to the state for equitable land distribution. Housing cooperatives in Delhi were modeled after Bombay, and Tenure Cooperatives in the form of CGHS were established in Delhi. Since most of the land in Delhi has been owned and developed by Delhi Development Authority (DDA) (the local public housing authority), the growth of CGHS depended on allocation of land by DDA. Although the allocation has been uneven over the years, DDA has indeed given preferential allocation of land to CGHS. Misra (1986, p. 70) notes that by 1978, “nearly 65% of the societies [were] provided with serviced land by the DDA at rates very significantly lower than that of the open market.” By 1994, over 1200 CGHS had been established in New Delhi.

Nationally, the Urban Land (Ceiling and Regulation) Act (ULCRA) of 1976 was a major legislative piece in terms of urban land reform. The Act sought to place limits on urban property holdings to: (i) prevent concentration of urban property; (ii) ensure equitable land distribution; (iii) discourage luxury housing; and (iv) promote orderly urbanization.<sup>11</sup> The Act put limits on the area of land and house that an individual household can own and occupy.

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<sup>11</sup>From the Preamble of ULCRA.

Cooperatives were exempt from land acquisition under the Act. Hence, it became expedient to form cooperatives to evade the Act. Risbud (undated) reports that in Jaipur (Rajasthan), of the 800,000 square meters of land notified by Jaipur Development Authority under the ULCRA, only 1,00,000 square meters of the land was actually acquired by the authority and the rest was acquired by cooperatives (p. 10). Similarly, in Lucknow, Amitabh (1997, p. 107) observes that most cooperative societies were formed after the ULCRA was enacted: “Before 1977 there were 14 cooperative housing societies in Lucknow city. The figure increased to 403 in the 1990 (of which 82 were declared defunct CHSs).”

ULCRA has been much criticized as an institutional barrier hindering the functioning of housing land market. Further, it hardly achieved its goal — over the two decades of the tenure of ULCRA, only 8.6 percent of the land declared as surplus was acquired. The Act was formally repealed in 1999 after much criticism. Cooperatives’ access to land largely depends on the state government’s willingness to allocate such land. Thus the institutional structure for providing land is less developed; yet, the historical institutional support for providing land through exemptions in land acquisition and preferential allocation of acquired land cannot be neglected.

## **Conclusion**

Although the British introduced cooperatives during the turn of 20th century, housing cooperatives grew modestly during the pre-Independence period in India. Housing cooperatives were mostly concentrated in Bombay and Madras provinces. After Independence, housing cooperatives grew phenomenally across the country. I have argued that both internal organizational and the external institutional level analyses are important, but not sufficient, in understanding the phenomenal growth during post-Independence period. The endogenous level analysis is useful to reveal the internal organizational strengths and weaknesses in controlling agency problems. However, the initial thrust for development of cooperatives came from the state. Hence, exogenous institutional level analysis is required to understand the role of the state patronage. The ideological context of democratic socialism provided an institutional environment conducive for the growth of housing cooperatives. However, as explained before, direct state support also does not fully explain the growth of housing cooperatives.

I argue that the development of supportive institutional structure has been crucial to the phenomenal growth of housing cooperatives in post-Independent India. Both the endogenous organizational features of the cooperative and the external institutional framework shaped the institutional structure. Unlike Elster, who views that the internal organizational problems are not insurmountable, I argue that the internal features need to be explicitly taken into account for the development of institutional structures responding to the specific needs of the cooperative. These structures helped in reducing some of the cooperatives’ weaknesses in controlling agency problems. At the same time, the external institutional framework needs to be taken into account in the Indian context, as the imprint of the state is clearly evident in establishing the institutional structure. Once setup, these structures enabled growth of housing cooperatives despite reduction of direct state support.

First, broad institutional structures providing legal, administrative, and procedural support helped overcome some of the collective action problems inherent to cooperatives. In particular, the Registrar's Office, which is the oldest element of institutional structure, gained significance over the years, and became an important element in overseeing the growth of housing cooperatives.

Second, the national two-tiered institutional structure of Apex and primary cooperatives has been useful in providing financial support to cooperatives. In a context when direct financial support from government reduced, the institutional structure for finance was instrumental in providing a stable source of finance to primary cooperatives. Third, preferential treatment for access to land helped in the development of housing cooperatives, although such support differs across states.

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## Chapter 9

# Public–Private Alliances: Why, When, and to What End?

Elizabeth A. Graddy and James M. Ferris

As urban problems have increased in complexity, public decision makers face the seemingly insurmountable task of meeting the service needs of their citizens at an affordable cost. To help, they have begun to view partnerships with private (for-profit or nonprofit) organizations as offering the potential for improving the effectiveness and efficiency of service delivery. Little is known, however, about the circumstances under which these alliances form, the motivations for entering into such agreements, or the unique benefits and costs associated with these arrangements. Understanding these factors will allow us to more realistically align our expectations with the role that these alliances can reasonably be expected to play in the designs of service delivery systems and their performance.

An example will illustrate the potential role of public–private alliances. The ability of communities to provide quality health care to their citizens is a persistent problem, complicated by the increasingly evident need for a decentralized delivery system. The financial barriers to effective health care provision are well known and include the large numbers of uninsured, and changes in the hospital industry that have reduced uncompensated care. But, non-financial barriers, including the inaccessibility of providers to particular neighborhoods and communities and language and cultural incompatibility, are equally important. The time and cost that are required to reach providers, inadequate English skills, and cultural differences prevent many from seeking health care. The most effective way to reach them is a decentralized system of neighborhood-based and culturally sensitive health care providers.

The public and nonprofit sectors have each struggled to respond to the increased need for clinic-based care, yet both face substantial resource and capacity constraints. This raises the question of whether any single sector can by itself address these needs. Nonprofit clinics often have a well-established trusted presence in neighborhoods, and thus access to underserved populations. Yet, they lack adequate funding. The public sector has resources, but their delivery systems are often concentrated, inefficient, and ineffective. This suggests that public–nonprofit partnerships may deliver health services more

effectively than a single sector. If so, how do these alliances emerge? What community factors promote and nurture them?

The goal of this chapter is to develop a conceptual model that explains when and why cross-sectoral alliances, or partnerships, arise, and to predict the circumstances under which they are likely to succeed.

## **Nature of Alliances**

Cross-sectoral alliances can take many forms. Indeed much activity within public organizations can involve a nonprofit or for-profit organization, most commonly via market-based contracts. However, contracting is most often transactional, i.e., merely a fiscal exchange. The focus of this analysis, however, is on “consequential” alliances among organizations in different sectors to deliver services that address urban problems.<sup>1</sup> By consequential, we mean those that produce outputs that are material to service provision and involve some degree of joint decision making, e.g., collaborative contracts, equity alliances (where one organization purchases shares of another), non-equity alliances (shared resources, expertise, or administrative collaboration, but no ownership ties), and joint ventures, when a new, separate organization is formed and controlled by the alliance partners. Examples include public–private partnerships to provide affordable housing, economic development laboratories, job training, and stadiums and convention centers.

These alliances are strategic in that they are voluntary cooperative arrangements between autonomous organizations that involve the sharing of resources to jointly accomplish the individual strategic objectives of the partners. There is evidence of a dramatic increase in strategic alliances, most of which involve organizations within the same sector.<sup>2</sup> For example, the top 500 global businesses now average 60 major strategic alliances each (Dyer, Kale, & Singh, 2001). This suggests that the benefits of forming alliances have become more attractive relative to their costs, which are considerable, both in the associated loss of control and the direct costs of managing the alliance. Moreover, there has been increasing attention to strategic alliances in the nonprofit sector (Yancey, McCellan, & Jabobus, 2000).

A notable example of the growth in alliances is the health care industry. Prior to the policy changes in the 1980s and 1990s that promoted managed care, most hospitals, physicians, and insurers operated independently of each other. The cost pressures triggered by the growth in managed care led to efforts to achieve efficiency gains through integrated service delivery systems. Common bases of these systems are strategic alliances among providers and/or payers. Judge and Ryman (2001) reference a 1997 national survey of health care executives where over two-thirds of respondents, which included hospitals, managed care organizations, and physician group practices, indicated that they were

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<sup>1</sup> Cross-sectoral alliances can involve all three sectors — public, nonprofit, and for-profit, although they are more likely to involve pairs of sectors: public-nonprofit, nonprofit-for-profit, and public-for-profit.

<sup>2</sup> The evidence is particularly striking in R&D-intense industries. An industry’s level of technological sophistication has been found to be positively correlated with the intensity and number of alliances in the industry (Powell, Koput, & Smith-Doerr, 1996).

currently involved in strategic alliances. And given the strong presence of nonprofits, for-profits, and public organizations in health care, many of these alliances crossed sectors.<sup>3</sup>

Although the primary motivation for alliances is presumably strategic interdependence, i.e., one organization has resources or capabilities beneficial to (but not possessed), by the other, their formation is an inherently risky endeavor. The major perceived risks involve concerns about the behavior of partners, and the usual control issues associated with non-hierarchical structures.

The integral characteristic of consequential alliances is mutual interdependence, which implies the vulnerability of one partner to the behavior of the other. Opportunistic behavior is often cited as the cause of the relatively high failure rate of alliances (Das & Teng, 1998), suggesting that these concerns are well founded. Potential alliance partners must therefore assess the trade-off in the benefits of cooperation against this vulnerability to opportunism. The uncertainty inherent in assessing this trade-off suggests that partners may seek to mitigate the risk of alliances in both their selection of potential partners and in the organizational structures or forms of the resulting alliances.<sup>4</sup>

## **Partner Selection**

If an organization is seeking to maximize the potential gain from an alliance, it will seek partners with whom it has the greatest strategic interdependence. But, as these gains must be weighed against the risks associated with partner behavior, the organization will seek partners it trusts. Such trust, as developed by Das and Teng (2001) consists of positive expectations about both the intentions of a partner and its competence.

This suggests that organizations will prefer partners with whom they have ties. Such ties might derive from relationships across individuals within organizations, prior organizational partnerships or other relationships (e.g., network partners), common partners (e.g., partners of partners), or organizations with whom one shares a common mission (e.g., other providers in the same sector of the same service). Prior ties and social network connections provide information about the reliability and capabilities of potential partners. This pattern is supported empirically. Gulati (1995) found that firms with previous ties were more likely to form alliances. But, he also found that the effect diminishes after a certain number of alliances, perhaps indicating a fear of over-dependence.<sup>5</sup> In addition, greater environmental uncertainty may increase the importance of prior knowledge, and thus of choosing partners with whom the organization has prior ties.

Prior ties also lessen the likelihood of clashes in organization culture. Dyer et al. (2001) find that such clashes are a major reason for alliance failures. Potential problem areas include differences in organizational structure, values, and expectations, in human resources practices, incentives and rewards, and in leadership and decision-making

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<sup>3</sup> In fact, many of these alliances eventually lead to conversions of nonprofits to for-profits via mergers or acquisitions (see Ferris & Graddy, 1999).

<sup>4</sup> Parkhe (1993) finds evidence of such efforts by for-profit firms in structuring strategic interfirm alliances.

<sup>5</sup> This over-dependence might be viewed as a precursor to a merger or an acquisition.

processes. Culture clashes are much more likely with cross-sectoral alliances because sector differences stemming from values, profit driven vs. mission driven, and legal imperatives, use of equity markets vs. lack of access to capital, introduce more variation in leadership, organizational goals, and management practices than one would expect to find among organizations within the same sector. This suggests that successful alliances require that the partners know each other well. So prior interaction is an important pre-condition to forming an effective alliance.

Although prior (positive) knowledge is expected to reduce the perceived risk of forming alliances, it may have no impact on the actual risk (Das & Teng, 2001). The control problems of alliances must also be addressed. How does one ensure that the goals of the alliance are achieved? A factor that impacts control is the structure of the alliance.

## **Alliance Structure**

Alliances can assume a variety of organizational forms. These forms differ in governance structures and in the nature and extent of the partners' integration. Moreover, the form of any particular alliance can change over time. It is useful to view these different forms as a continuum based on the extent of joint decision making. The defining dimensions of the continuum will be the extent of joint decision making and the locus of control. This continuum ranges from market-based contracts to merged organizations, with those falling between the ends of the continuum being what we have referred to as consequential alliances:

- market-based (competitive) contracts,
- collaborative contracts,
- equity alliances (where one organization purchases shares of another),
- non-equity alliances (shared resources, expertise, or administrative collaboration, but no ownership ties),
- joint ventures, when a new, separate organization is formed and controlled by the alliance partners, and
- merger.

We are unlikely to observe all these forms with the same frequency in cross-sectoral alliances. Public-private alliances, in particular, are least likely to merge into a single organization or to involve equity transfers; consequential alliances are unlikely to rely solely on market-based contracts. Therefore, we focus our attention on three intermediate organizational forms: collaborative contracts, non-equity alliances, and joint ventures.

Consider how these three forms differ for potential partners. Joint ventures require the highest level of integration, and offer the greatest autonomy for the alliance; yet, they provide the greatest threat to the autonomy of the partnering organizations. They require the highest level of alliance-specific investments, most of which are likely to be non-recoverable. These non-recoverable investments are a deterrent to this form of alliance. Finally, joint ventures are also the most susceptible to unintended resource transfer (technological, managerial) because partners work together in the same organization.

Collaborative contracts require relatively low levels of trust, but offer the least separate identity and presumably the least authority within the original partner organizations. The

required level of alliance-specific investments is low, as is the likelihood of unintended resource transfer. Moreover, terminating the contract can easily end the relationship.

Non-equity alliances lie in the middle. This form offers more of a distinctive presence than collaborative contracts, but the absence of a separate organizational structure allows flexibility. It is thus preferred over more formal structures in uncertain environments (Harrigan, 1988). This form also allows for episodic alliances. For example, partners could come together in response to a funding opportunity, and dissolve when it is gone with relative ease. This form can, however, be enduring in the sense that the same partners can form separate alliances over time. This “serial-partner” form thus takes advantage of the trust built from working together, without requiring partners to spin off a new organizational structure in response to each opportunity or need.

## **Formation Model**

With this understanding of the nature of alliances in mind, we now develop a model of the factors that foster or inhibit the formation of cross-sectoral alliances. For any alliance to form, it must be that the potential partners view the benefits of the alliance as exceeding its costs. We will thus focus on the organization as our unit of analysis. In cross-sectoral service-delivery alliances, the potential benefits to alliance partners include access to funding, expertise, and physical capital for service providers; and access to specific service populations, new markets, and credibility or legitimacy for funders. Partners may also find that alliances provide stability in uncertain environments, especially if the risk of entering new markets or activities is high (Oliver, 1990).

Organizations incur costs when they participate in alliances. These are the costs involved with the transactions between members of the alliances and the governance structures of the alliance, i.e., the costs associated with organizing and coordinating, and the information costs associated with monitoring outcomes. The nature of the alliance structure determines the administrative components of these costs — and the extent to which the selected form fits the partners and the goals of the alliance will determine whether the costs are increased or decreased. The existence of trust among the partners mitigates formation and monitoring costs. But, the time costs associated with developing and nurturing alliances remain substantial even among trustworthy partners. Finally, environmental uncertainty increases all these transaction costs (Artz & Brush, 2000).

The transaction costs associated with cross-sectoral alliances will be higher than those of same-sector alliances, because of the deep cultural differences across the sectors. The organizational differences and problems associated with working with public sector bureaucracies were cited as an important cost by both nonprofit and for-profit alliance participants in a focus group we conducted with health care alliance partners.<sup>6</sup> Such differences can even be found across subgroups *within* a sector. For example, nonprofit organizations are heterogeneous with distinct missions, cultures, and resources.

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<sup>6</sup> We conducted a focus group with 12 participants in cross-sectoral health care alliances in Los Angeles County in April 2001 around issues associated with these alliances.

So, we begin with a consideration of the roles of the sectors in service delivery. Then, we develop the organizational and external variables that affect the formation decision.

## Sector Roles in Public Service Delivery

For many social services, the public sector has assumed responsibility for the financing of service delivery. That sector often chooses to deliver the service as well. The internal vs. external production decision for local public services has been developed elsewhere (see Ferris & Graddy, 1991, 1994). Here we consider the public sector's motivation to align with either the nonprofit or for-profit sector to enhance service delivery. The primary motivations are likely to be expanded capacity or reduced production costs. Nonprofit service providers may bring access to certain populations, or legitimacy within certain communities. For-profit providers may bring managerial or technical expertise, or access to capital (e.g., convention centers, charter schools). Either nonprofit or for-profit providers may deliver the services more efficiently than the public sector could alone.<sup>7</sup>

As discussed earlier, the decision to go outside one's sector for an alliance partner increases the transactions costs associated with an alliance. Thus, we would expect the public sector to seek partners with whom they perceive goal congruence. These will usually be nonprofit providers. The public and nonprofit sectors share a commitment to service provision as a primary organizational goal and both lack the profit motivation. This commonality of purpose should reduce monitoring and partner selection costs.<sup>8</sup>

The public sector would only be expected to seek for-profit alliance partners when these organizations provide a unique benefit that offsets their increased transactions costs.

The other primary funders of urban services are foundations. Since foundations do not directly provide services, they routinely work with other organizations to fulfill their mission. Alliances with public, nonprofit, or for-profit providers are essential to achieve service delivery goals. We would expect goal congruence to reduce transaction costs for these nonprofit funders as well, and thus nonprofit or public service providers are likely to be preferred over for-profit partners. However, foundations often seek to upgrade technical capacity and here the for-profit sector may offer unique expertise that is valued by foundations.

The nonprofit sector is a primary provider of social services, and their motivation for alliances is primarily one of the obtaining resources to support their mission. They may seek alliances with the public sector or with nonprofit foundations to obtain funding. In addition, they may seek physical capital and technical or other expertise from alliances with the for-profit sector.

For-profit organizations provide social services when there is an established source of funding. They form alliances to achieve access to that funding, or to provide resources to

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<sup>7</sup> Both efficiency and capacity needs seemed to motivate the Public-Private Partnership of Los Angeles, a Medicaid Demonstration Project between Los Angeles County Department of Health Services and community-based clinics.

<sup>8</sup> This is consistent with the findings of Ferris and Graddy (1991) in the local public sector's choice of contracting partners.



other providers. For-profit organizations often face resistance by potential partners in the public and nonprofit sectors. As noted earlier, trust is an essential element to successful alliances, and the goals and motivation of for-profit and nonprofit partners are often not congruent. Therefore, we observe for-profit partners in a smaller range of roles. For example, they have been instrumental in arranging financing for affordable housing projects and in the creation of charter schools. In both cases, they bring expertise that is not readily available in the other sectors.

Given this sectoral role context, we now turn to the organization's decision to participate in an alliance.

## **Organizational Factors**

The strategic decision to seek an alliance partner depends on motivation (the organization needs a resource it does not possess) and capability.

Organizational vulnerability is a primary motivator. Eisenhardt and Schoonhoven (1996) find that firms form alliances when they are vulnerable, because they are in highly competitive industries or are attempting technically sophisticated strategies. Organizational vulnerability may also be a factor in other sectors. An alliance may enhance the capacity for survival.

Resource scarcity as a motivation for alliances is well supported in the organizational literature (see Oliver, 1990, for a review). The need for funding, in particular, may prompt nonprofit firms to seek alliances, especially with the public sector. Here the motivation for cross-sectoral alliances is clear, the public sector is usually the funder for these services. Small organizations may be the most needy of external funding, as they may lack sufficient fund-raising and grant-writing capability.

The ability of organizations to join and sustain alliances depends on their internal capability. Here organizational size is a plus. Larger organizations are better able to absorb the costs of forming and monitoring alliances. An organization's relative standing with other providers is also important. If potential partners are competitors for funding, this lessens the chance for an alliance. Fear of a provider's ability to obtain funding, however, may prompt its competitors to align.

Another key indicator of organizational capability is the existence of substantial ties with other organizations. If an organization is part of an association or network of providers, this indicates that it is predisposed to work with other organizations and has experience with interorganizational relationships. This increases the perceived trustworthiness of the organization as a potential partner, both in terms of intentions and competence, as past behavior provides important information about probable future behavior.

### ***Hypotheses***

- Organizations in a vulnerable strategic position (e.g., with respect to solvency, liquidity, or relative performance) are more likely to enter new alliances.
- Large organizations are more likely to have the capacity to align with others; small organizations are more likely to need to align. Therefore, we predict a quadratic relationship between organizational size and the probability of forming an alliance.

- Organizations that belong to networks or otherwise have strong existing ties to other providers, i.e., more history and experiences, are more likely to form alliances.

## External Factors

Communities and service areas (education, health, social services) differ in their adoption of this organizational form. This suggests that public policies that are specific to a service domain or environmental factors external to the organization can play an important role in promoting or inhibiting alliances. We consider three sets of such factors — legal structure, service sector characteristics, and community characteristics.

Regulators and legislation may explicitly encourage cross-sectoral provision of services, or allow the flexibility for their formation. For example, the recent welfare reform legislation (the Personal Responsibility and Work Opportunity Reconciliation Act of 1996) provided the decentralized authority and permission for for-profit involvement that allowed local governments to choose to promote cross-sectoral provision of social services. Similarly, the formation of charter schools, a key cross-sectoral alliance in education, requires specific enabling state legislation.

The structure of the service sector can also promote or constrain the formation of alliances. The existence of a large number of potential service providers in any sector can foster alliances because they represent a pool of potential partners. However, a strong for-profit provider sector is likely to be particularly important as it may encourage alliances between and among nonprofit and public providers. The alliances form to limit for-profit expansion into traditionally nonprofit service markets. Also, strong public sector unions may discourage the formation of public–private alliances, as public employees may view private sector provision as a threat to their jobs.

Finally, the socio-demographic characteristics of the community are important. The existence of a civic infrastructure, i.e., networks of ties across service providers and individuals in the public and/or philanthropic sectors, increase the opportunity for interorganizational cooperation. While communities that are more ethnically diverse may have greater need of service delivery arrangements that can offer language and culturally sensitive access to services.

## Hypotheses

- The presence of a strong for-profit service sector increases the likelihood of cross-sectoral alliances.
- Organizations in communities with strong public sector unions are less likely to form public–private alliances.
- The existence of a civic infrastructure that promotes relationships across the sectors enhances the likelihood of cross-sectoral alliances.
- Cross-sectoral alliances are more likely in communities with high levels of ethnic diversity.

To summarize, we have identified a set of organizational and external factors that are expected to promote or inhibit the formation of cross-sectoral alliances. Formation, of

course, is only the first step. In order for these alliances to have the hoped-for impact on enhanced urban service delivery, they must first survive and then succeed.

## **What Makes for Success?**

Interorganizational alliances have a high failure rate. Current estimates are that over half of all strategic alliances within the private sector fail to meet their stated objectives (Judge & Ryman, 2001). Cross-sectoral alliances presumably have an even higher failure rate because the lack of understanding of another sector's culture can facilitate the demise of the alliance. What factors then contribute to the success or failure of cross-sectoral alliances?

Just as in their formation, substantial resources are needed to maintain an alliance, thus factors that minimize these costs are important to alliance survival. We have already discussed the role of partner selection and alliance structure in reducing the transaction costs associated with alliances. In addition, how the alliance function is treated is also important. Dyer et al. (2001) found that firms with a dedicated strategic alliance function have a higher alliance success rate than firms without such functions and generate more market wealth when they announce the formation of new alliances. The function coordinates all alliance-related activity within the organization and institutionalizes prior alliance experience throughout the organization. This finding has clear implications for cross-sectoral alliances. Unless there is some mechanism within the partner organizations for internal coordination, information management, and addressing accountability issues, alliances are unlikely to be successful. This also suggests that a simple, single alliance focus is important. If partners agree on what is to be achieved and the goal is relatively simple, then managing the alliance function is simpler and thus less costly.

The costs and complexity of achieving interorganizational outcomes suggest that patience and perseverance are also necessary. This means that partners need to have long time horizons. Otherwise, the alliance will dissolve before it has the opportunity to generate the desired outcomes. There is theoretical support for this conjecture. Game theory suggests that cooperative behavior is more likely when the players have long time horizons because they are less likely to act opportunistically if future interactions are expected, there are non-recoverable assets that increase the cost of breaking an agreement, and because cooperative relationships disintegrate if there is a determinate end point to the relationship (Parkhe, 1993). Moreover, Parkhe found that transparent behavior and frequency of interactions were associated with the fulfillment of important strategic objectives. Therefore, alliance contracts or structures that promote long-term or repeated interactions among the same players are more likely to be successful. Legislation could also be structured to include incentives that promote such behavior.

The survival or success of a cross-sectoral alliance is only the intermediate outcome. If alliances are alternatives to public sector service provision, then the ultimate measure of success is the improvement in client outcomes. Here the evidence is sparse. Weiner, Alexander, and Zuckerman (2000) offer several examples of successful community health partnerships, as measured in improved access to service and in improved health outcomes. They found, however, that these collaborative efforts must be viewed as long-term investments, as the payoffs to partners and the clients they serve took time.

Much work, however, remains to be done in evaluating the effectiveness of cross-sectoral alliances. The absence of empirical evidence reflects the relative newness of these alternative service delivery structures, their high failure rate, and, most fundamentally, the difficulty in measuring client outcomes for publicly provided services.

## Conclusion

In this chapter, we have developed the rationale for using cross-sectoral alliances to help solve urban problems, and a model of factors expected to affect their formation and survival. The critical issue of their impact is unresolved.

Although there is little empirical support for the hoped-for positive impacts of these alliances, evidence from the for-profit sector is encouraging. The phenomenal growth of interorganizational alliances among firms, despite their high formation and maintenance costs, strongly suggests that they increase value in the for-profit sector. There is no reason to expect this value would not exist in cross-sectoral alliances as well. The easier measurement of outcomes in the for-profit sector has made their value there easier to detect. Moreover, the findings that R&D intensity is positively correlated with the number of alliances (Hagedoorn, 1993) suggest that the potential for mutually beneficial knowledge transfer especially is large. Thus, there are indications that the promise of cross-sectoral alliances is real, and thus worthy of promotion by public policies and by philanthropic funders, who may be in a better position than the public sector to promote innovative service delivery structures.

## Acknowledgments

We want to thank the University of Southern California Provost Fund, which provided partial funding for this work through the USC Urban Initiative, and the participants in the USC Committee for Urban Problem Solving, with whom we explored many of the ideas expressed here.

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## Chapter 10

# Private Communities, Market Institutions and Planning

F. Frederic Deng, Peter Gordon and Harry W. Richardson

In the last 25 years, more than 40 million Americans have moved into private communities, places governed by homeowners' associations and guided by detailed rules of governance that are more or less equivalent to the administration of neighborhood zoning. In addition to these common interest developments (CIDs), there is a parallel rise of large shopping centers and industrial parks that also include the private delivery and maintenance of public goods and spaces. We are not the first to argue that the rise of private communities is a response to a policy failure rather than market failure (Nelson, 1977). The remedy includes private provision of many public goods in response to market signals, reflected in the capitalization of value in land prices (Foldvary, 1994). Market institutions have apparently evolved in Hayekian fashion, demonstrating a decentralized response to the problem of managing communities and neighborhoods.

Some commentators have described private communities as "utopias," uniquely associated with the US experience.<sup>1</sup> In 1970, CIDs were only about 1 percent of the US housing stock. Now, the share is close to 15 percent. One out of every seven Americans is now governed by a community association. Since 1970, almost one of every three new residential units is part of a CID (Treese, 1999). Outside America, there has also been a growth of this type of development.<sup>2</sup> The numbers alone suggest that private communities have attributes that deserve serious study.

In the context of North America, the CID phenomenon suggests several research questions. In this paper, we focus on two. First, given well-established systems of public zoning, why are private communities established? This question implies some failures of conventional zoning and raises the issue of the efficiency properties of CIDs. Second,

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<sup>1</sup> See, e.g., McKenzie's (1994) book *Privatopia* or the title of the article in *The Economist*, "America's New Utopias" (2001).

<sup>2</sup> Some national experiences are included in Barton and Silverman (1994). Another example is China, where the central government agency requires all new urban developments to form homeowners' associations.



because the growth of CIDs is closely associated with the process of suburbanization, can we explain their simultaneous development? Why is it that CIDs are much less likely to flourish in established neighborhoods?

Existing studies of CIDs are few. Dilger (1992) undertook an early study based on a survey of homeowner associations. His conclusions can be summed up by a quote from a homeowner: "We have the greenest lawn in the country!" Other writers have also reported that CIDs' management works well (Ellickson, 1998). On the other hand, McKenzie (1994) cited anecdotal evidence (largely from newspapers) that paint a much less favorable picture of CIDs. These anecdotes need to be juxtaposed with the popularity of these private communities as a residential choice. *The Economist's* description of CIDs as "America's new utopias" was also accompanied by another label, as examples of "smart growth." However, this is somewhat confusing, because the latter term has a very different connotation in the urban planning profession.

Our analysis, focusing on an institutional perspective, starts from some basic principles of urban land use. Our building blocks are two facts of life. First, the consumption of land and local collective goods is bundled together. Second, landowners have limited *ex post* mobility because of the specificity of their investment. We also distinguish between two types of mobility: daily commuting and residential relocation (the latter is much more of a concern here).

Because of the nature of the political process, uncertainty in conventional zoning leads to a hold-up problem (as a result of the second spatial fact) in the quasi-contractual relationship between the landowner and the collective goods provider (based on the first spatial fact). This is the key to the political hold-up problem. It then becomes efficient to integrate the landowner and local collective goods provider functions, as suggested by Williamson (1985) and Hart (1995).

The rise of private communities reflects the fact that conventional land use zoning can become a source of uncertainty for landowners or homeowners. In this sense, CIDs and their commercial equivalent, ground lease systems, are responses not only to a "market failure" but also to "political failure."

Given the complexity of suburbanization and exurbanization, we can approach our second research question in four ways: property rights and transportation technology, market competition as the seed for market institutions, market structure, and, finally, the inertia of cities as durable physical structures. The key issue is the relationship between urban spatial structure and institutions. This issue has not been explored very much in the literature. On the one hand, urban spatial structure has long been the focus of traditional urban studies. On the other, institutional studies seldom pay much attention to the interaction between markets and institutions, let alone their spatial implications. In the literature on property rights theory, spatial analysis is also overlooked. Via the four approaches, we attempt to discuss the suburbanization process from the perspectives of institutions and property rights and explore the relationship between different institutional forms and the spatial structure of the modern metropolitan area. In this way, we can gain a better understanding of why certain forms of private communities grow in particular places.

Only by appreciating why and how market institutions respond can we expect to advance urban planning in ways that facilitate the development of urban society. Given the importance of the political hold-up problem in urban land use, it would be useful for

planners to think about how to reduce uncertainty in land use controls while maintaining general planning goals. If we want to have a clearer understanding of the relationship between urban spatial structure and urban institutions, then the planning process must include institutional factors. In particular, there should be enough room left for market institutions to grow. This is the type of policy implications that we can derive from the phenomenon of private communities.

The next section elaborates the two key spatial facts and discusses the political hold-up problem in urban land use. Then we analyze why it is efficient to integrate landowner and collective goods provider functions, as illustrated in the rise of private communities. In the fourth section, we focus on the relationship between suburbanization and private communities in the context of metropolitan spatial structure. The fifth section discusses the policy implications of our analysis, especially its relevance to conventional urban planning. Finally, we offer some conclusions.

## **Urban Land Use: Two Spatial Facts**

CIDs are typically new subdivisions such as condominiums and planned unit developments (PUDs) that include a special property rights structure carefully designed by real estate developers.<sup>3</sup> Common spaces and facilities are owned and managed by the homeowners association (or residential community association) set up by the developer. In this sense, residents in these developments enjoy “common interests” in public spaces. Furthermore, this “common interest” usually includes controls over each other’s behavior if it is determined to adversely affect the community. Governing documents (CC&R) bind all owners to the community association and require mutual obligations. These associations “run with land” in the sense that all owners automatically become members of the association. The operation of the association and maintenance of the common spaces are funded by mandatory lien-based assessments. The key difference between CIDs and traditional single-family-home developments is about common spaces as well as regulations on residents’ behavior. Conventional neighborhood zoning boards are supposed to function in exactly these areas. Hence, the brisk growth of CIDs points to some problems in conventional zoning, or more generally, the government-tax system in providing and managing local public goods.<sup>4</sup>

We concur with the view (Nelson, 1977; Fischel, 1985) that zoning (or land use controls) is a collective neighborhood property right. In other words, it is a collective good that is provided to the neighborhood and can be transacted in the market. It internalizes externalities among land uses. This is especially apparent in the commercial sector, e.g., shopping centers and malls, which seek an ideal tenant mix in order to maximize positive and minimize negative externalities among tenants.

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<sup>3</sup> For the history of CID developments, see Stabile’s (2000) *Community Associations: The Emergence and Acceptance of a Quiet Innovation in Housing*.

<sup>4</sup> To avoid confusion in terminology, we will use the concept of collective goods instead of public goods, except when it is associated with particular public institutions. For a good discussion of these two concepts, see Foldvary (1994).

Our two spatial facts underpin our arguments. The first spatial fact is that the consumption of land and local collective goods is almost always bundled together. Although collective goods have long been an important topic in many social science disciplines, especially economics, they are traditionally distinguished sharply from private goods. Samuelson's (1954) treatment is a classical example that shows the impossibility of efficient provision of collective goods through a decentralized system. Many people have challenged this conventional wisdom (Tiebout, 1956; Buchanan, 1965). However, the link between land and local collective goods often remained unclear. Foldvary (1994) advanced the discussion by introducing the concept of a "territorial collective good" with a defined spatial ambit. The idea is that land and local collective goods are consumed together. When an individual buys a parcel of land, s/he also potentially consumes a variety of local collective goods provided within the same local area, such as security, schools, and street cleaning. In this broad sense, human societies have been organized territorially since the birth of civilization.

Although people consume land and collective goods together, these goods can be provided separately. A typical example is the traditional land use control system, in which fee simple ownership of land is transacted in the market, while land use control and other public goods are provided through local government. Therefore, it is important to understand when and how the provision of land and collective goods might be bundled together.<sup>5</sup>

The second spatial fact is that landowners have only limited *ex post* mobility even though they may enjoy substantial *ex ante* choice. For our purposes, we distinguish two types of mobility. The first involves people's physical mobility, which largely depends on available transportation technology. This type of mobility is more important to people's daily commuting and other regular travel. It increases choice in workplace and residential location. As we will discuss later, this type of mobility also has important implications for urban property rights, especially in the context of metropolitan spatial structure.

The second type of mobility involves residential relocation. People often make specific investments related to a particular piece of real property or spatial location. Therefore, the costs affecting this second type of mobility are critically related to land or property ownership. Common sense suggests that the transaction costs (narrowly defined) associated with owning land and/or physical structures are much higher than the costs of acquiring other goods and services. Real property ownership involves legal procedures, financing considerations, agency fees, insurance costs, and long search times to acquire or dispose of it. The direct purchase cost (i.e., the price) is directly associated with the specific investments associated with land ownership. Investment in a parcel of land is essentially an investment in a location, defined by its relationship to other locations and facilities inside macro social and economic spaces. For example, people with young children like to buy homes near good schools. In this sense, their investment in land and/or a structure is specific to the school's quality. School quality is heavily

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<sup>5</sup> Some writers resort to technical complementarity for an explanation of bundled provision (Klein, 1987). However, technical complementarity is more a technical term than an economic term. In many cases, it is the market that performs the matching and aggregating of functions for complementary goods.

capitalized in property values. Once school quality declines, parents not only need to worry about their children's education but also risk severe financial loss from declining property values. This is because an important determinant of land price is collective goods provision, and this is normally beyond the control of a single landowner. Hence, any investment in land is specific to collective goods provision. Other cost components include specific physical investments (such as in structures, furniture, or equipment) and investment in human capital and social networks.

Given the high costs associated with residential relocation, it is easy to see that homeowners' mobility is limited after buying the property even though they may have considerable *ex ante* choice. If they move, especially when prompted by a decline in the provision of local collective goods, their investments specific to the local collective goods are going to suffer a loss. Limited *ex post* mobility is the key to the second spatial fact. But, will this induce people to make their voice heard in the local political process? In other words, between the choice of exit and voice, will people prefer voice to exit? It is possible that homeowners' *ex post* incentives to become involved in local politics may be stronger if their exit option is substantially reduced. DiPasquale and Glaeser (1999) found that homeowners are more likely to be involved in local politics than renters. However, from the perspective of *ex ante* efficiency, the motivation for local politics is quite low.<sup>6</sup> This is especially true given their limited *ex post* mobility. So, yes, homeowners may voice their concerns more loudly after they settle down in a particular location. On the other hand, before they choose where to live, they will try to find a location that minimizes the risks of local political conflicts.

Furthermore, a voice option that relies on the government provision of local collective goods is problematic. The concept of a benevolent and omnipotent government has been challenged by public choice scholars (Brennan & Buchanan, 1980; Buchanan et al., 1980). Nevertheless, the Tiebout (1956) model has long been hailed as the model for the efficient government provision of local public services via inter-governmental competition. However, the Tiebout model is undermined without appropriate property rights or institutional arrangements. Property owners cannot vote with their feet without significant financial losses. Many theoretical and empirical studies (e.g., Yinger, 1982) point to the same conclusion.

## **Private Communities**

There exists a quasi-contractual relationship between the landowner and the provider of local collective goods. The *ex post* exit option does not always work because of the specificity of real property investments. What, then, explains the particular institutional forms of private communities?

Conventional zoning and urban planning are implemented by zoning boards, planning commissions, city councils, and similar government agencies. All these activities involve a political process. Even though technocrats may play an important role in this

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<sup>6</sup>Olson (1965) elaborated on the limited incentives for people to get involved in collective action.

process, the final decision-making remains political. As with most political institutions, equity remains a very important goal. Mechanisms exist to help the system accommodate as many voices as possible. The very features that may give political institutions strength at the same time create severe problems. Rent-seeking behavior by special interest groups combined with the rent-extracting behavior of government officials compromises efficiency, and results in uncertainty (Buchanan et al., 1980; McChesney, 1997). The only link between government performance and non-interest group constituents is the number of votes. However, voters are often not landowners (e.g., the 80 percent renter population in the politically active city of Santa Monica, California). Many zoning decisions negatively affect landowners. The political process adds considerable uncertainty to the efficient provision of collective goods.

Uncertainty in a contractual relationship that involves relationship-specific investment leads to the hold-up problem, which is a central issue in recent institutional economics discussions. Because of the costs of writing and negotiating contracts, the inability of courts and other third parties to verify *ex post* values of certain variables observed by all parties, as well as bounded rationality, contracts are unlikely to be comprehensive; thus, *ex post* renegotiation becomes crucial. Parties with investments in relationship-specific assets are afraid that they may be expropriated of the surplus created by relationship-specific investments, and tend to under invest. This is the celebrated hold-up problem (Williamson, 1985; Hart, 1995). To overcome this problem, a variety of property rights and institutional arrangements emerge. Theoretical and empirical studies suggest that the integration of relevant parties in the contract is an efficient response to resolve the hold-up problem (see, e.g., Grossman & Hart, 1986).

The problem of urban land use is essentially a political hold-up problem in the sense that uncertainty results from the political process not the market. Two typical examples of the political hold-up problem are Not In My Back Yard (NIMBY) issues and regulatory takings, two well-known phenomena in American urban land use. The NIMBY issue is most visible because of homeowners staging vigorous political protests against proposed public or private facilities locating in their neighborhood. Homeowners fear that such developments may negatively affect their property values. Their actions hold up government in the provision of local collective goods. On the other hand, because landowners cannot easily move by selling their property without incurring significant losses in the face of negative zoning decisions, they are, in turn, held up by the government. This is also the nature of regulatory takings examples. Both NIMBY and regulatory takings characterize the political hold-up problem embedded in the conventional zoning process.<sup>7</sup> In this sense, urban planning adds to uncertainties in the land market.

The political hold-up problem prompts market institutions that integrate landowners and collective goods providers. Private communities are a good example of this type of response. Deng (2002) discusses the different characteristics of residential and retail real estate and how they lead to alternative institutional forms. In CIDs, homeowners associations are directly delegated by homeowners; they have mutual obligations toward each other. The free-rider problem in public goods provision disappears. The

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<sup>7</sup> Deng (2003) explore how private zoning mitigates both NIMBY and regulatory takings problems.

funding and provision of collective goods are now bundled together with land, similar to what Henry George (1879) advocated, exploiting the efficiency properties of Tiebout competition.

Market competition determines the success of CIDs. This is the key idea developed in Hayek's (1988) theory on market institutions. Developers of residential properties have found that not only is it in their interest to discover the optimal mix of structures and design elements of residential developments but also they have the opportunity to discover, articulate, and deliver optimal rules of governance. In other words, it is market competition that drives developers to bundle the provision of collective goods and private goods efficiently and the rules by which they are managed.

Another reason for the growth of CIDs is rooted in Hayek's ideas about decentralized knowledge (Hayek, 1945). In addition to public spaces and facilities, one important collective good provided by CIDs is regulations regarding residents' behavior and possible neighborhood externalities. This is not covered by conventional zoning boards. It is an impossible task for conventional zoning boards or urban planning agencies because neighborhood externalities are so decentralized. A possible externality among land users can change with any change in either nearby land uses or in any land user's behavior. Only market institutions based on decentralized knowledge can efficiently respond to these problems. The more conventional political processes are too costly.

In summary, given the nature of the political process, conventional zoning or urban planning in general may become a source of uncertainty in urban land use. They cannot respond efficiently to land use problems that are highly decentralized in nature. The growth of private communities reflects the evolution of market institutions responding to both market and political failure.

## **Exit and Private Communities**

The use of the label "utopia" for private communities suggests their link to suburbanization. This raises a serious question about the relationship between metropolitan spatial structure and urban institutions.

Yet, theories of institutions or property rights are neutral in their treatment of urban spatial structure. In fact, conventional zoning in a government-tax system is implicitly or explicitly taken for granted.<sup>8</sup> The classical theory in urban economics is only about the trade-off between commuting costs and lot size (Alonso, 1964). The large body of the formal theory of urban spatial structure has almost nothing to say about institutions or property rights. If institutions and property rights arrangements are not exogenous to urban spatial structure, then our understanding of many urban issues and the solutions to many urban problems can no longer be institutions blind. This is why Gordon and Richardson (2001a) call on regional scientists to pay more attention to the evolution of market institutions.

On the other hand, institutional studies in social science tend to oversimplify the role of markets, let alone any spatial analysis, in order to focus on the internal structure of

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<sup>8</sup> For a classic discussion of property rights and zoning, see Fischel (1985).

institutions or property rights arrangements. In these studies, markets are an abstract and exogenous environment with zero interaction with institutions. For example, in Williamson's framework, markets are an exogenous source of uncertainty that makes institutional arrangements necessary, but how institutions interact with market structure is ignored (Williamson, 1985). Although this is acceptable for some purposes, it is inappropriate in discussions of urban institutions or urban property rights, where spatial relationships are the key.

Obviously, the two approaches are not integrated. By analyzing the reasons for the simultaneous development of private communities and suburbanization or ex-urbanization, we can better understand the relationships between urban spatial structure and urban institutions or property rights.

Why are most private communities located in the suburbs? Why are they rarely found in inner cities? We can approach this topic from four perspectives. The first is based on the relationship between property rights and transportation technology. The second focus is related to market competition and resource allocation. A third perspective looks at the interaction between market and institutions, especially in terms of *ex ante* efficiency. A fourth approach points to the inertia of cities in terms of physical durable assets and political power.

## Property Rights and Transportation Technology

In a broad sense, property rights are institutional arrangements that are applied to the use or consumption of a bundle of goods.<sup>9</sup> This results in some costs, especially agency costs like the political hold-up problem. Because the consumption of land and collective goods are bundled together, it is impossible to "divide" the physical good and apply different forms of property rights to the private good and the collective goods, respectively. As a result, we may end up with special property rights arrangements such as conventional zoning, in which land is owned by private individuals, while collective goods provision is determined by zoning.

But this is not inevitable. The bundled consumption of the two types of goods does not necessarily mean that the property rights arrangement must take a particular form. Auster (1977) regards the quality of a good, such as the color of a car, as a collective good. In this way, the bundling problem of private good and collective goods is introduced into quantity-quality space. People cannot own quantity and quality separately. But, as we all observe in our daily lives, different qualities of goods do not always present a problem that must be solved through special property rights arrangements. People can own/rent more than one physical good (with different qualities) and simultaneously and effectively avoid the costs or disadvantages from special property rights arrangement that split the ownership of the private good (as represented by quantity) and the collective good (like quality). For example, if you want a dark suit for a formal event and an Aloha shirt for a trip to Hawaii, you can simply buy both. You do not need to appeal to a board in order to change the color or design of your shirt. Hence, there is generally no fixed constraint from

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<sup>9</sup> Its narrow definition, as usually applied, only refers to physical goods.



a particular form of property rights as long as one can own/rent more than one good simultaneously.

Yet, in terms of land and territorial collective goods, life may not be so simple. On the one hand, human society is organized spatially according to various types and levels of political, economic, social, and cultural territories. Sometimes, it is difficult for people to live on both sides of boundaries simultaneously, even if they had the capacity to do so. This is especially true with respect to international borders. There is an important obstacle to the simultaneous ownership or use rights of territorial goods: the costs of moving.<sup>10</sup> People have to move in order to consume collective goods that are bundled with a parcel of land. This even applies at the lowest level of mobility, i.e., commuting. Property rights arrangements cannot be neutral as long as there are significant transportation costs. More advanced transportation technology and increased mobility will reduce the importance of special property rights or institutional arrangements. This is similar to the exit option in Hirschman's (1970) theory. People can live in suburbs, enjoying open space and environmental quality while working in the CBD or the core city. The enjoyment of both two types of territorial collective goods does not require special institutional arrangements as long as people are mobile (in the United States, usually driving). It is difficult to imagine what complicated (social, political, and economic) institutions would be needed to achieve the same goal if efficient surface transportation technology did not exist.

In economic terms, people's preference for sole ownership is because of the agency costs associated with split ownership. More generally, this reflects people's desire for autonomy and freedom, their wish to break away from the fixed constraints of a particular form of property rights or institutional arrangement. This is in the same spirit as people's preference for transportation autonomy (Gordon & Richardson, 2001a). In this sense, "property rights autonomy" and transportation autonomy go hand in hand.

As a result, from the property rights perspective, transportation technology and the feasibility of exit from the core city determine that traditional core city urban institutions that split the ownership of land and local collective goods may be unnecessary in the suburbs. New institutions may arise out of the freedom to contract and the freedom to choose. This lays the foundation for CIDs, which are a combination of the sole ownership of real property and a property-based governance structure of collective goods provision.

## **Market Competition in Bundled Goods**

The growth of private communities is the evolutionary result of a market for local governance structure. Private communities, in various forms, compete in the search for new urban institutions. The prevalence of CIDs in residential real estate is indicative of its current efficiency properties relative to other institutional forms in this competition. This institutional form is not designed by any planner or economist. It is market competition

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<sup>10</sup> There are generally two dimensions to the obstacles to simultaneous ownership and consumption. They are time and space. For non-spatial private goods, time costs may be more important.

that prompts real estate developers to bundle the governance structure with physical development. Profit-maximizing behavior in market competition is the “invisible hand” behind the growth of CIDs.

It should be obvious that market competition is the key efficiency property of CIDs, whether from a Hayekian evolutionary perspective or from pure institutional analysis. Nevertheless, competition is not merely among different parcels of land or real properties. Nor is it just among providers of local collective goods, as in the most elementary forms of the Tiebout model. It is competition in the bundled provision of land and local collective goods. What are the implications of this for the location of CIDs?

The traditional monocentric model of cities focuses largely on bid-rent competition and accessibility (Alonso, 1964). This treats land as only a private good. On the other hand, the traditional model of local public services (i.e., the Tiebout model, 1956), says nothing about spatial structure. Given that the consumption of land and local collective goods that can be bundled together, what happens if we combine these two models? Certainly, the competition is not only among collective goods provision but also among locations. The complication is that they can be combined. If both types of goods could be easily measured, it should not matter how they are bundled together; the competition between the provisions of any one good inside the bundle can be as less imperfect as without bundling. This is the basic assumption behind the traditional hedonic pricing approach. But there is a serious measurement problem, especially with respect to local collective goods.

Barzel (1982) advanced the concept of “measurement cost.” No good for sale is free from the cost of measuring its attributes. The buyer’s cost of measuring the good, his demand, the good’s price, and the seller’s sorting practices are all interdependent. Excess measurement may result in economic dissipation. Various market arrangements emerge to minimize this type of extra costs from the measurement problem. In the case of urban land use, the problem of measurement cost also exists. For example, it is difficult for a stranger to know the true neighborhood condition or whether the apartment manager is a nice person. The best way, of course, is to live there for a period of time. But to allow tenants to leave whenever they want imposes heavy economic burdens on the landlord. Hence, many apartment buildings ask tenants to sign a yearly lease; a month-by-month rental demands a higher rent.

When two goods are bundled together, no matter whether bundled in provision or consumption, it should not affect market competition in each good if there was no measurement problem and if the providers had no monopolistic power. Traditionally, the literature in industrial organization focuses on the role of bundling when associated with monopoly, especially leverage theory and price discrimination theory (Whinston, 1990; Stigler, 1968; Schmalensee, 1984). Few studies analyze the bundling issue from the angle of measurement cost. If there is no measurement cost, the consumer can easily figure out the total value of the bundle and the values of each good in the bundle, assuming perfect competition in each good. Even if the primary good is in a monopolistic market and the bundled good is in a competitive market, bundling cannot effectively become a tool of leverage for the monopolist.<sup>11</sup> This is basically Posner’s (1976) criticism against leverage

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<sup>11</sup> Winston (1990) points out that leverage theory still holds if the monopolist can make pre-commitments for bundling, resulting in strategic foreclosure in the tied goods market.

theory. With the measurement cost problem, competition is also “bundled” and the consumer may not be able to separate out “mentally” the goods inside the bundle. In the example of oranges used by Barzel (1982), one way for the seller of minimizing the measurement cost is to package all oranges (good and bad, sweet or sour, dried out or luscious) inside a bag so that the buyer cannot pick and choose. Because it is difficult to measure the quality of the oranges, the problem prevents competition among different tastes.<sup>12</sup> Therefore, measurement cost and/or monopoly may distort market competition in any good that is bundled with others. In other words, with measurement cost a reality, any competition is not only price competition among goods but also among market arrangements that minimize their measurement costs.

When we examine competition in providing local collective goods, the measurement problem makes perfect competition impossible because its consumption is bundled with land. Especially when the private good (land) has some monopolistic advantages, this problem may get worse. From the perspective of a monocentric city, the city center enjoys monopolistic advantages because of its unique location. The further away from the center, the more the choice of similar (or approximately equal) locations expands, and the less severe the monopoly problem becomes. Hence, suburbs have two major advantages in terms of market competition in the provision of local collective goods. First, the land monopoly problem from land dissipates. Second, with many similar locations on an annular ring at the same radial distance, competition in bundled goods is largely competition in local collective goods. Although any type of property rights or institutional arrangement could be arranged in the center of a monocentric city and even become successful, they could not reflect competition in local governance structure.<sup>13</sup> In this sense, a necessary but insufficient condition for competition in local governance structures in a metropolitan region is distance from the city center.

When a polycentric or even dispersed metropolitan structure replaces the monocentric form (Gordon & Richardson, 1996), competition in local governance structure approximates a Tiebout world. The transformation of the traditional monocentric city to a polycentric metropolitan area also helps to create the environment that breeds private communities.

## Institutions and Market Structure

As we discussed earlier, private communities are an institutional response to the political hold-up problem. In this way, *ex ante* efficiency can be enhanced by integrating landownership and collective goods provision. However, if we wish to explore the spatial implications of the hold-up problem, we find a deficiency in conventional institutional analysis: space is missing. In both Williamson’s (1985) framework of transaction cost economics and in Grossman, Hart, and Moore’s (GHM) (Grossman & Hart, 1986; Hart & John, 1988)

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<sup>12</sup> Of course, this example is based on many assumptions. For instance, we assume there is no time dimension here and, hence, consumers cannot rely on their *ex post* experience.

<sup>13</sup> City centers may nevertheless play an important role in inter-urban competition.

New Property Rights discussions, the market remains simple and exogenous. Spatial market structures are excluded.

From the perspective of *ex ante* efficiency, there are two important elements directly related to the market structure that are often simplified via exogenous assumptions. These are uncertainty in the market and the outside options of contract parties.

Uncertainty is the source of all issues related to the hold-up problem. In the absence of uncertainty, incomplete contracts disappear and no institutions are necessary. However, in most institutional studies, uncertainty is rarely, if ever, made endogenous. But uncertainty is closely related to market structure. In the case of a perpetual monopoly, there is no uncertainty. The conventional analysis on institutions and property rights (e.g., Williamson, GHM) assumes perfect competition in the market.

In urban land use, uncertainty in providing local collective goods is directly related to urban spatial structure for two reasons. First, as discussed, there is a degree of monopoly in the CBD of a monocentric city. This monopolistic advantage gradually declines with distance from the center because the number of similar locations increases on each symmetric perimeter. Hence, *ceteris paribus*, uncertainty for the landowner in *ex post* contract executions increases whenever a location is away from the center. This is true at least for the local collective goods provider. The closer to the city center, the more difficult it is for the collective goods provider to lock in a landowner.

Second, an important collective good in urban land use is the control of neighborhood externalities. This is probably the most decentralized and volatile element in land use. It can change with the new next-door neighbors or changes in the behavior of existing neighbors. This uncertainty in neighborhood externalities is also related to density. *Ceteris paribus*, more densely populated areas create more externalities among neighbors and land uses. Uncertainty for the collective goods provider is positively related to urban densities that tend to decline with distance from the city center, especially in a monocentric world. This second line of reasoning shows that it is more difficult for landowners to lock in (or hold up) the collective goods provider when distance from the center increases, because of increased competition.

These two reasons, from opposite directions, reinforce a single conclusion. That is, although uncertainties to the landowner and the collective goods provider are not symmetric along any radius, they are complementary. When uncertainty to the landowner increases in the suburbs, it is potentially reduced for the collective goods provider. Vice versa, while uncertainty for the collective goods provider is higher in the center, it is lower there for the landowner. Hence, the further away from the city center, the more likely it is that an institutional response will emphasize the hold-up problem by the collective goods provider against the landowner.

The second element in the hold-up problem related to market structure is the outside option. The outside option is what a party to the contract can receive if he discontinues the contract and switches to others in the market. It is usually treated as an exogenous variable. Nicita (1999) suggests that, if the assumption of perfect competition is dropped, the outside option can be made endogenous, resulting in interactions not only between the two parties to a contract but also including the two best competitors for each of them outside the contract. This approach combines market competition outside a contractual relationship and the hold-up problem inside a contract. In order to avoid an *ex post* contract

enforcement problem, the two parties to the contract may be tempted to under invest. They can also enhance contract enforcement by reducing their counterpart's *ex post* exit options, if we assume that contract implementation is a learning process. In the latter case, in order to deter potential competitors in their respective markets, they may be induced to overinvest so that they become specific to the contract. In a nutshell, in this complex interaction both inside and outside the contract, each party will try to reduce its vulnerability (because of specific investments) to the other party inside the contract, while strengthening its own contractual power by reducing the other party's outside option and the market entry options of potential competitors.

In urban land use, there are at least two factors that relate spatial structure to outside options in incomplete contracts. The first is the monopolistic advantage of a monocentric CBD (or central city). Landowners at the center have a high outside option that collective goods providers do not. In other words, it is more difficult for a collective goods provider to find another landowner in the city center than for a landowner to find another collective goods provider. Thus, it is relatively difficult for collective goods providers to lock-in landowners while the reverse is much easier. This relative contractual power of the landowner gradually dissipates with increasing distance from the city center.

The second factor is based on the asymmetric relationship between the landowner and the collective goods provider. The definition of collective goods implies that one collective goods provider is involved with multiple landowners or land uses. The collective goods providers have an advantage in any bargaining or enforcement of contracts; a single landowner has little power in this process. This is a typical problem that has been widely discussed (e.g., Hirschman, 1970; Olson, 1965).

What does this tell us? The spatial implication is that CIDs are more likely to be located in the suburbs, while leasehold communities are more likely to be located close to the city centers. The integration of landowner and collective goods providers initiated by the landowner is easier when the location is in the city center. However, in any model with multiple landowners it is difficult to lock-in a collective goods provider. The conclusion is that the ground lease system, in which an outside landowner also becomes the provider of local collective goods, can be more easily established when close to city centers. On the other hand, a collective goods provider can easily lock in landowners in the suburbs. Hence, integration will be in the form of one collective goods provider vis-à-vis multiple landowners. CIDs are the key examples of this type of institution.

Our analysis of the relationship between uncertainty and spatial structure also strengthens the above conclusion, in other words, why CIDs are more visible in suburbs than in central cities.

Although our arguments focused on the monocentric city, it is a simple extension to apply them to the polycentric city. In the latter case, both the CID-type of institution and even ground lease systems are also less constrained by location.

## **The Inertia of Cities**

Cities, as physical constructs, are durable and have their own inertia. The bundled consumption of real property (land and improvements) and local collective goods determines

that the growth of new market institutions has to cope with these facts. Many studies (Wheaton, 1983) have analyzed the dynamics of spatial structure based on durable assets. The key argument is that buildings cannot be immediately torn down and have to be gradually replaced, depending on physical depreciation and developer foresight. From our point of view, the question is: Can new market institutions develop in old or existing physical structures? To simplify this issue, let us assume that the physical facilities for local collective goods are already present.

Nelson proposes the privatization of existing neighborhoods into private communities by majority voting (Nelson, 1999). Given the limited *ex post* mobility of homeowners, this *ex post* privatization may limit their options by closing a time window. Although this is feasible, it is not very efficient in the sense that the minority of residents who vote against the new community organization may suffer. Without “enforced” privatization, it will certainly be much more difficult for homeowners to reach consensus to form a new CID-type community. This shows the difficulty for new CID-type communities to grow from the existing physical structures.

The problem facing new CID-type communities is less evident for ground lease-based communities. An outside owner with land and improvements does not need to worry about the consensus of the residents, who are relatively mobile without the burden of specific investments. However, there might be a practical problem. It may not be easy to assemble parcels of land if they are not already owned by a single owner. Nevertheless, this may not always be a daunting task, especially when the physical, social, and economic depreciation of the property has reached an advanced age.

It appears that new market institutions, especially CID-type communities, cannot easily grow in existing urban areas. Hence, there are two ways for market institutions to grow. First, CIDs and ground lease systems can develop simultaneously with the suburbanization process. Second, they may replace obsolete land use patterns when urban renewal takes place. Based on what we have observed to date, most CIDs will develop in the suburban areas.

We have discussed the relationship between private communities and metropolitan spatial structure from four perspectives (property rights, market competition, institutions and market structure, and the inertia of cities as physical durable assets). All suggest that the rise of private communities is intertwined with the suburbanization or exurbanization process.

Given the current debate on urban sprawl, some suggest that private communities might exacerbate some of these problems. Not necessarily. The “(l)ocation [of CIDs is] usually in more densely settled areas closer to community amenities, jobs, and other urban services; new detached housing is further removed from urban centers” (Dowden, 1980). Why? Simply because people do not need to move further away given the new market institutions that secures the provision of collective goods they want. This may not be utopia, but perhaps a compromised rationality. Exit trumps voice, but it sometimes generates voices.

## Policy Implications

The growth of private communities demonstrates a market response to the political hold-up problem in conventional zoning and land use control. Market institutions evolve to fix



not only “market failure” but also “political failure.” Given the varied scales and types of collective goods, political institutions are always necessary, but they have to be compatible with the market economy. By revealing the hold-up problem in urban land use, our analysis points to new ways of improving urban planning.

Urban planning can be market-oriented. In addition to embracing well-known approaches (such as transferable development rights), urban planning considers much more. First, urban planning can reduce the uncertainty of political decision-making. Contracts about land use and development is one option. It guarantees the future of land use patterns over a certain period of time. Despite the objections that this involves stripping away future political rights, households in the future are mobile and have the right to choose where to live. Those who are primarily affected are those who invest in a place now.

Second, private communities also illustrate why urban planning is neither omnipresent nor omnipotent. Planning should leave decentralized problems to market institutions. Conventional urban planning needs to recognize its limits.

NIMBY and regulatory takings are two persistent phenomena in American urban land use issues. Both are manifestations of the political hold-up problem. Deng (2003) discuss the policy implications of private communities in terms of NIMBY and regulatory takings. The standard proposal for regional government to solve the NIMBY problem is misleading. It does not touch on the central problem behind the NIMBY phenomenon. Contrary to its intention, it may further exacerbate the political hold-up problem by inserting more bureaucratic layers and moving decision-making decisions further away from homeowners. To mitigate the NIMBY problem and regulatory takings issues, it is very important to reduce uncertainty in land use control. Planners cannot achieve this goal by themselves. There have to be new institutional designs and new arrangements.

Our analysis of the relationship between private communities and metropolitan spatial structure may also shed light on some important policy issues. First, with the development of transportation technology, the desire for property rights autonomy increases. Households want to own not only land and improvements but also the local collective goods tied to the property. This trend in urban institutions will not go away as a result of novel architectural designs or physical planning. Given what we have discussed, the exit strategy cannot easily be reversed.

Second, urban sprawl is usually associated with social costs. Our analysis suggests that private communities, such as CIDs, may actually mitigate some of those costs. For example, given the relative certainty in land use and neighborhood externalities within private communities, households will be less likely move (e.g., further out). It is also probable that densities within private communities are higher than standard detached single-family housing. These mitigation effects reflect the market tendency toward efficiency.

Third, central city and downtown renewal has been a challenge facing American cities. Many attempts have largely failed. Our analysis suggests that institutional or property rights arrangements should be taken into account when we consider how to revitalize central cities or downtowns. Privatizing existing neighborhoods, as Nelson (1999) proposes, may not be an efficient choice. An institutional form that involves a single outside owner, such as in the ground lease system, may be a better option.



Fourth, most of our theoretical arguments are based on the monocentric city model. But they can be easily applied to polycentric metropolitan areas, a Tiebout world. In this case, our analysis is easily applied to the relationship among multiple centers, suburban, and exurban areas.

## Qualifications

When households buy into a CID they purchase a package, not all of which is benign. They may obtain security, protection of property values, and a desirable mix of collective goods (e.g., party room, exercise facilities, swimming pool, etc.) not easily obtainable outside. On the other hand, they have to tolerate some restrictions on individual liberty.<sup>14</sup> Possible examples include no RV parking, no choice of trim paint, restrictions on front yard landscaping, strict guidelines for window treatments, no display of American flags (“a lawn ornament”!), etc. The restrictions vary, but in all cases there will be some. The argument that households willingly made these choices is undermined to some degree by the fact that the CC&Rs are so long and complicated that few read them prior to purchase. Furthermore, they are very difficult to change once in place, primarily because of voter apathy. If a person objects strongly to any particular restriction(s), the most direct method to deal with the problem is to obtain a Homeowners’ Association Board that does not enforce the CC&Rs. This implies organizing a slate of candidates and running oneself, an investment of effort and time that may be inconsistent with the rational voter model, i.e., the costs of participation are so high that you have to be almost obsessively driven by the goal(s) that you want to achieve. However, it must be recognized that many have accepted the trade-offs as a price worth paying. If not, property values in CIDs would be lower not higher, and turnover rates would be much higher.

## Conclusions

Private communities, mainly in the form of CIDs and ground lease systems, are urban institutions that emerge as the result of market competition. Their common feature is that the provision of local collective goods is bundled with land and improvements. This quiet evolution was not designed by politicians or even scholars; market competition is the driving force behind this evolution in urban society.

Why bundle the provision of local collective goods and land? First, private communities are an efficient institutional response to the political hold-up problem in urban land use. The consumption of land and local collective goods are bundled together. Second, landowners

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<sup>14</sup> Blakely and Snyder (1999) have raised another objection to an important type of CID, i.e., gated communities. Their argument is based on the idea that gated communities reflect social inequities and elitism. While recognizing that the very poor will not be members of CIDs, we reject this interpretation because many moderate-income households participate in CIDs and the concept is too popular to be considered a prerogative of high-income households.

have only limited *ex post* mobility (of residential relocation) even though they may enjoy substantial *ex ante* choice. This is because of their specific investments in land and property. This combination of embedded uncertainty in the political process results in the hold-up problem. Urban planning becomes a source of uncertainty, despite its aim of correcting “market failure.” An efficient solution to the hold-up problem is to integrate the roles of the landowner and the local collective goods provider (Williamson, 1985). Private communities are an exemplar of the type of market institutions that respond to political failure.

In private communities, we observe a combination of exit and voice *a la* Hirschman (1970). This suggests the importance of the relationship between metropolitan spatial structure and private communities. There are at least four perspectives that can provide insight into the intertwined development of private communities and suburbanization and/or exurbanization. The first perspective is the relationship between property rights arrangements and transportation technology (for daily commuting). With declining transportation cost, it is easier for people to avoid complex property rights arrangement by simply owning/renting different bundles of land and collective goods at the same time. This is the exit option from the property rights perspective.

Second, because suburbs provide the possibility of multiple competitors, it is the seed for market institutions. In contrast, city centers enjoy monopolistic advantages that make them much less likely as productive settings for new market institutions.

The third perspective is market structure. This helps us to establish the relationship between urban spatial structure and urban institutions. Conventional institutional studies pay little attention to the interaction between markets and institutions, let alone their spatial implications. There are at least two elements that associate urban spatial structure to institutional forms. The first is uncertainty in urban land use. The key factor of uncertainty in urban land use is externalities among different land users/uses. It is also the explanation of uncertainty in the political process. Because externalities in land use are positively related to urban density, *ceteris paribus*, uncertainty generally declines with distance to city center. The second element is outside options to contract parties. Because of the monopolistic advantages enjoyed by city centers and the asymmetric relationship between landowners and collective goods providers, endogenous outside options determine that ground lease systems, owned and managed by an outside owner, are more likely to be located at or close to the city center. On the other hand, CID-type communities are more likely to be located in the suburbs.

Finally, any city is a collection of durable physical structures. In existing urban areas, CID-type private communities face the difficulty of *ex post* consensus. For a ground lease system with a single landowner, this is less of a problem even though it is still difficult to assemble land.

In light of all these discussions, we argue that urban planning should be market oriented, especially in order to reduce uncertainties in urban land use. Given that NIMBY and regulatory takings are both manifestations of the political hold-up problem, the remedy lies in integrating landowners’ interests with the provision of local collective goods. Our arguments on the relationship between urban spatial structure and institutions suggest that private communities may actually mitigate some costs of urban sprawl. They are new options for voice, built initially on the exit option. The spatial implications of different types of market institutions also suggest that institutional arrangements could be an indispensable part of urban renewal.

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## Chapter 11

# **The Transformation of an Olive Grove: An Institutionalist Perspective from Beirut, Lebanon**

Bishwapriya Sanyal and Mona Fawaz

In the early 1950s, when developing countries began to emerge from colonial rule, there was much discussion about how to house the urban working class who were to work in the new industries located in the cities. The policy consensus at that time was that new institutions were necessary to generate a steady supply of housing for the rapidly growing urban residents (Rodwin, 1987). The government was to play an active role in building houses and creating a vibrant construction industry which would reduce the need to import building materials. The government's effort was to complement the efforts of private industries, which would also provide some housing for their employees, following the tradition of colonial enterprises. The private market for provision of housing was, however, yet to develop. Urban land markets seemed rigid and opaque without any formal institution facilitating exchange (Burns & Grebler, 1977). There was virtually no formal credit available for housing; because most countries channeled their meager resources toward more productive sectors to generate foreign exchange (Renaud, 1984). The buying and selling of complete houses, a common practice in developed countries, was rare with hardly any developers and realtors offering their services (Van Huyck, 1986). Although, there was some disagreement among policy-makers at this time regarding whether limited national resources should be channeled toward housing, there was no disagreement about the broad direction of housing policy, namely, that new formal institutions, both public and private, were necessary to construct markets for land, credit, and building materials (Annez & Wheaton, 1984). There was also a complete agreement that existing old institutions, informally managed by social norms of a pre-modern kind, would either wither away or have to be "creatively destroyed," as Schumpeter (1984) had documented. The construction and expansion of markets, whether for urban housing, agricultural products, or other commodities, needed new institutions which would be more efficient, equitable, and accountable.

This model of housing provision, with its explicit bias toward formal institutions, both public and private, began to lose legitimacy by the early 1960s. By then, in most cities in developing countries, “informal settlements” on their periphery had steadily grown in size and were housing a growing number of the urban poor. As is well known by now, but still worth reminding ourselves, John Turner’s (1967) seminal research directly challenged the modernization paradigm for housing provision, and demonstrated, for the first time, the usefulness of informal institutions. Through his famous quote that “governments have done so little with so much, while people have done so much with so little.” Turner argued that the informal institutions that help the poor find a foothold in cities are not only more efficient but also more equitable than formal bureaucratic institutions because they are more accessible to the poor (Turner, 1969). Turner’s pragmatic approach prompted new waves of research on “informal institutions,” “informal settlements,” and “informal employment” which were to flood the development field for the next 30 years (Peattie, 1987). The often cited ILO (1972) study built on Turner’s advocacy of informal institutions constructed a holistic framework which compared, on seven characteristics, the two types of institutions and markets, i.e. formal and informal, and argued that the latter was better than the former on all seven counts.<sup>1</sup> Consequently, governments of developing countries, at both the local and national levels, were advised by international institutions to assist informal market transactions for housing as well as employment through the implementation of various policies, ranging from provision of credit (probably the most popular) to formal titles for land acquired informally by the urban poor.

A particular policy that emerged in the mid-1980s advocated that, instead of governments formalizing informal settlements by providing services, land tenure, building materials and other resources for development, the emphasis should be on “informal developers” who had helped to build such settlements and who were usually discredited as illegal profiteers. These developers were to be encouraged to expand their operations through reduced regulations of their activities (World Bank, 1993). This policy recommendation relied on several assumptions. First, informal developers could provide housing at a lower price than the formal market because they had devised ways of reducing “transaction costs.” The concept of “transaction costs” had been introduced by the New Institutional Economists (NIE) who had begun to influence the development discourse. According to this school of thought, a number of factors contributed to transaction costs for exchange of goods and services. For example, the costs of acquiring information about product quality as well as the reliability of the exchanging parties were key factors. Another equally important factor was the predictability of contract enforcement, meaning that unpredictability of the contract enforcement becomes internalized as higher prices. The informal private developers were assumed to lower such transaction costs by relying on social networks. Many development anthropologists and scholars of “legal pluralism” identified such networks, and demonstrated that such networks and exchanges relied on various social norms, ethnic ties, social trust, and relations of reciprocity to facilitate as

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<sup>1</sup> The seven characteristics are (a) ease of entry; (b) reliance on indigenous resources; (c) nature of ownership of enterprises; (d) scale of operation; (e) labor intensive and adapted technology; (f) skills needed; and (g) nature of markets — unregulated or competitive (ILO, 1972, p. 6).



well as regulate market exchanges informally (McAuslan, 1998). This domain shaped by social norms was initially thought to be functioning independent of and parallel to the distinctly different domain of formal and bureaucratic rules. Later, researchers demonstrated that what was initially considered the “lawless sphere” was, in fact, influenced by and in turn influenced the functioning of the formal legal sphere upholding the exchanges for goods and services (Razzaz, 1994; Azuela, 1987).

The research on how the urban poor provide both housing and income for themselves, took yet another distinct turn after the publication of Hernando de Soto’s (1989) seminal book which documented that the urban poor lacked formal property rights and, as a result, were not able to use this asset for capital accumulation. Building on theories of NIE that well-defined property rights are a central requirement for growing markets, De Soto argued that the urban poor in developing countries should not be denied formal titles to their property simply because they had gained access to such property through informal channels. De Soto argued that the urban poor faced extreme harassment by bureaucrats when they approached them to secure formal titles; and that such harassment obstructed the access of the poor to formal credit, thereby denying them the opportunity for further capital accumulation. De Soto’s argument and supporting evidence was so persuasive that it is now widely accepted that “Rights to Tenure” are part of the Human Rights of the urban poor. The United Nations Center for Human Settlements (UNCHS) is urging all developing countries to formalize informal settlements without resorting to heavy-handed bureaucratic procedures and is advising that, instead, they rely upon existing social and community networks within the informal settlements to enforce property rights (Payne, 2002).

Our goal in writing this paper was to test the validity of this current paradigm of housing provision which is very different from the pattern in the early 1950s. It is not that we are skeptical of the basic premise of the current paradigm. On the contrary, as city planners, we are interested in policies that will make decent housing and jobs accessible to the urban poor. What inspired our investigation was a desire to understand the institutional barriers that planners are likely to face when they seek to implement the policies that are currently in vogue. We were curious to learn: how informal areas grew over time; what specific roles the informal developers played in such growth; and, ultimately, what kind of public policies would be appropriate to retain the entrepreneurial vibrancy of these areas while formalizing their status to bring them into the formal administrative structure of the cities.

To probe such questions, a historical and institutionalist approach to problem analysis is necessary. This led us to study an area, *Hay el Sellom*, in the southern part of Beirut, Lebanon, which grew from an olive grove in 1950 to one of the most densely populated areas in the city by 2002. We do not claim our study to be exhaustive in its historical investigation, however. What we do offer is a unique way to understand the history of the area by focusing on three generations of private developers who have, indeed, helped the urban poor in Beirut gain access to housing.

Our methodology has been multi-pronged. We relied on face-to-face interviews with 50 residents and with developers to construct oral histories, and supplemented these stories with various types of official records. We examined all building permits and regularization permits granted by the planning authorities prior to 1999. We also derived information from the municipal archives, newspaper clippings, and secondary information from previously

published articles.<sup>2</sup> Drawing on these multiple sources of information and insights, provided by the residents who have lived in Hay el Sellom for at least three generations, we have constructed a story that we narrate in the next part of this paper. As the reader will note, our story of Hay el Sellom is in some ways similar to other accounts of informal housing areas in developing countries. We have endeavored to distinguish it, through the provision of three new insights, which may be of interest to policy-makers who want to encourage informal developers to expand their operation for housing the urban poor.

First, contrary to common perception that human settlements on the periphery of cities start informally and then, over time, gradually become formal, first, through provision of the services, and eventually by gaining formal property rights to the land, Hay el Sellom started on a formal footing but became increasingly informal. This reversal of the sequence, from formal to informal, may not be a common trend, we acknowledge, but its study provides some valuable insights. For example, how the increasing demand for housing, first by prospective homeowners and, later, by renters, created opportunities for profit making which, in turn, attracted a range of market agents, big and small, who had initially worked together but, as the market expanded, competed ruthlessly to increase business opportunities for themselves. The pressure to provide a large amount of housing very quickly led to the violation of many rules, particularly because the authorities in charge became increasingly powerless due to the Lebanese Civil War (1975–1991).

The institutional vacuum created by powerless local authorities was filled in the case of Hay el Sellom by a number of militias who held control of the area and never discouraged its development. In fact, these militias helped the area residents to gain access to basic services as long as they held political control over the area.<sup>3</sup> We acknowledge that it may be somewhat simplistic to describe the process of Hay el Sellom's transformation from an olive grove in the 1950s to a high-density housing area in 2002 in terms of the broad formal/informal dichotomy; because many laws, including those of property rights, were circumvented in many different ways under many different circumstances by the developers as well as by the residents. Nevertheless, on the whole, between 1950 and 2000, the housing in Hay el Sellom became increasingly more illegal as demand for housing continued to increase, first, from rural migrants, later, during the Civil War and other military conflicts, from internally displaced population groups, and more recently, from migrant workers from outside Lebanon.

A second insight of our study illuminates our currently limited understanding of the interaction between informal norms and formal rules. Our study confirmed what others had previously observed: that both formal rules and social norms facilitate market transactions; and market agents work at the interstices of norms and rules, at times drawing on their strengths and, at other times, undermining their regulatory power to suit their specific

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<sup>2</sup> Mona Fawaz spent a year (1999–2000) conducting interviews with a selected sample of households, local officials, and developers. These interviews are supplemented by surveys conducted by students at the Lebanese University in 1999 under the supervision of Mona Fawaz, Mona Harb, and Isabelle Peillen. Fawaz conducted additional detailed interviews with 20 residents in the summer of 2002. For details on the methodology, see Fawaz (2000).

<sup>3</sup> Today, the two most active groups in the area are two political parties, Amal and Hizb'Allah. These political parties mediate with public authorities who now recognize them as the representatives of the communities.

needs of the moment (Azuela & Duhau, 1989). What is unique in the case of Hay el Sellom, however, is the way developers who relied on social norms to conduct businesses also drew on the legitimacy of formal legal symbols, such as imitating official stationary, endorsement of contracts by notary seals, and measurements of property boundaries by government engineers who acted as private consultants to the developers. The intention was clearly to create a sense of trust between the buyers and developers. We consider this as an interesting insight because social networks and informal norms, are commonly assumed to contribute to trust building (Ellickson, 1991). Our story does not negate that ethnic ties and other primordial relationships facilitate market exchanges. It suggests that such ties are not sufficient to counteract the uncertainty of buyers who ultimately need the assurance of formal rules to uphold the validity of their transactions. In other words, social trust is not merely a product of organic social bonding; it also can be created and nurtured by government. In particular, the urban poor who often invest their entire savings to purchase property do not rely solely on social trust, although such trust may help them get information on property availability. To create a sense of predictability of contract enforcement, they need the assurance provided by formal rules, which the developers in areas such as Hay el Sellom provide by drawing on symbols of such rules.

The third conclusion of our study relates to the role of well-defined and documented private property rights, which is at the heart of De Soto's current campaign (De Soto, 2000). Our study indicates that even though such well-defined formal property rights were not in place in Hay el Sellom, the area experienced continuous development because it offered opportunities for capital accumulation. Hence, there is no clear cut and direct relationship between formal property rights and capital accumulation, as De Soto argues. In fact, our study suggests that there may be an inverse relationship between formal rules and capital accumulation: lack of formal rules regarding property rights may create opportunities for private capital accumulation while generating adverse social costs, such as high density, pollution, and such other negative externalities which are of the highest concern for Hay el Sellom's residents. This is not to say that the residents are oblivious of ownership rights. They are able to create such rights through a blend of norms and rules relying on various strategies for the demarcation of property boundaries. In case of disputes, they rely on informal negotiations with the assistance of the developers who keep informal records of all property transactions. Hence, it is not surprising that at the time of our interviews, the most pressing concern of Hay el Sellom's residents was not lack of well-defined property rights. What they expressed the gravest concern about was increased population and housing density which has: reduced public space and cut off sunlight; created pollution of water and air from increased economic activities; and led to traffic congestion which added to the noise and air pollution. Such "externalities" seriously hurt the quality of life of the residents and create health problems for both the children and the adults. The inhabitants clearly do not perceive such problems as emerging out of ill-defined private property rights. This is not to say that they do not care about the legalization of their titles, or that they do not sometimes mention that they wished they had access to credit, but these issues are of low priority when compared to the improvement of their living conditions. Foremost, what they seek are government regulations of the kind which are commonly

thought to stifle the entrepreneurial investment that De Soto and others argue is crucial for development.

There is an irony in the way the current inhabitants blame high density and inadequate services on the relative new comers to Hay el Sellom. As is common in popular discourse around the world, there is much nostalgia among the old inhabitants, when they remember the past as a time when everyone knew each other, when there was reciprocity and mutual trust (despite the casualties of the Civil War between Christians and Muslims) and, in general, everyone enjoyed a good quality of life. In contrast, the present is described as marked by rampant building construction, which has cut off sunlight to lower level buildings and even to the public streets. New immigrants from Syria, and as far away as Sri Lanka and India, now reside in rooms rented in old apartments or in shabbily constructed rooms added onto the roofs of houses and buildings. Huge apartment complexes have also been built by developers who are not known to the old inhabitants of the area; and these structures house waves of new comers with no previous social ties to the neighborhood. These are usually lower income residents who cannot afford housing in other areas of the city. The complexes have also attracted families who had been previously displaced by the war and who are now being paid indemnities by the Ministry of Displaced to evacuate the structures they had squatted in earlier.

Many residents themselves have profited from the influx of immigrants and increased crowding by expanding their already high-density buildings to earn additional rental income. Some long-term residents have begun to leave Hay el Sellom, however, to return to the villages where they could improve their living standards using the rental income from their urban houses.

Without giving away the full story of Hay el Sellom, which we narrate in the following section, we conclude our introduction with one other counter-intuitive observation which may be of interest to the followers of NIE. It is indeed true that information is central to any market exchange; and significant information about the availability of land is exchanged through social networks. What is interesting, however, is how private developers obstructed the access of other developers to information about the availability of land essentially to retain monopolistic control of the land market. This confirms the need for competitive markets which would lower the transaction costs for such information. We observed, however, that competition among developers also led to the fabrication of “misinformation” to induce reluctant landowners to sell their land to eager developers. To put in another way: what facilitated market exchange in this case was “misinformation” which adds yet another twist to our current understanding of what economists call information asymmetries.

We conclude the paper by drawing on three general lessons for professional planners interested in housing provision for the urban poor.

## **The Story of Hay el Sellom**

Hay el Sellom, located in the southern suburb of Beirut, between the international airport and the industrial zone of the Choueifat, has evolved from an olive grove in 1953 to one of the most congested residential areas by 2000. In terms of political jurisdiction,

Hay el Sellom is more than three-quarters within the Choueifat municipality; the rest of the settlement is located in the adjacent Mraijeh municipality. There is no definitive estimate of Hay el Sellom's population density. Estimates of density vary from 850 to 1400 persons per hectare (Fawaz & Peillen, 2002). A census conducted by the area residents in the late 1990s estimated the total number of inhabitants to be 120,000 (Fawaz, 2000). The municipalities consider this an underestimate, proposing that the actual number is higher by a margin of at least 10 percent.<sup>4</sup> The area has housed multiple flows of new residents, ranging from rural migrants in the 1950s to the Civil War refugees in the 1970s and 1980s. More recently, migrants from outside Lebanon, mostly Syrians, but also a growing number from as far as Sri Lanka and India, have moved into the area. Income estimates of families living in Hay el Sellom varies from 60 to 250 US dollars per month. Nearly 30 percent of the working age population is considered unemployed (Fawaz & Peillen, 2002).

Although the neighborhood falls under the jurisdiction of the two municipalities and hence, according to Lebanese law, should be administered by them, both municipalities cite illegality and the large scale of the problem to decline to intervene formally in servicing the area. At the Ministry of Housing, we were told that "these areas are not under the jurisdiction of the Housing authorities but that they should be managed by the Ministry of Displaced," a new Ministry created at the end of the Civil War to facilitate the return of families displaced by the Civil War. Like other informal settlements, which are also assumed to have resulted from the Lebanese Civil War (1975–1991) and, hence, constituting "temporarily displaced" households, Hay el Sellom's well-being is the responsibility of the Ministry of Displaced. Like other settlements in and around Beirut which grew quickly during the Civil War, Hay el Sellom is considered a "spontaneous settlement" providing temporary housing to refugees who will eventually return to their permanent residences with normalization of the country's political scenario. Although no one expects such normalization in the near future — in fact, the current political and economic crisis in Lebanon indicates an intensification rather than a resolution of these problems — the authorities have been reluctant to reconsider the status of areas such as Hay el Sellom. This, of course, is not officially declared by the Lebanese authorities; it is implicitly acknowledged whenever questions are raised about the role of public authorities in this neighborhood.

How did Hay el Sellom evolve from an olive grove in the early 1950s to a high-density housing area that violates all kinds of formal rules, ranging from building codes to town planning codes (which specify zoning and minimum lot areas) to health and safety codes? In describing this evolutionary history of the area, we identified three phases marked by three types of developers who shaped the development trajectory of Hay el Sellom. Understanding the changing business practices of these developers helps us understand the key questions that motivated our research — namely, how are market transactions structured and enforced without formal rules? How do such transactions evolve over time? And, ultimately, to what extent public policy can influence the nature and outcome of such transactions?

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<sup>4</sup> Unpublished survey conducted by Lebanese University students in 1999.

## The Early Years of Abu Raymond Saab (1950–1973)

The first and the most well-known resident of Hay el Sellom was a Christian man, named Michal Saab, who is popularly remembered as “Abu Raymond.” Abu Raymond’s family originally resided in an area close to Hay el Sellom, which was selected by the government in 1949 for the construction of the Beirut International Airport. Hence, in 1950 the Saab family had to move. The family decided to purchase empty land at the edge of Mraijeh, then a Christian village in Beirut’s southern suburb. The land belonged to a Christian family, which had owned other land in the area and was willing to sell a small parcel to Abu Raymond because of his similar religious and geographic affiliation. When Abu Raymond’s family built their house in 1951, legally, following the existing rules at the time, there were only two other houses in the area.

Around the same time, in 1951, a group of Muslim Shiite families from the Haydar tribe, fleeing from their villages because of a tribal dispute, arrived in Beirut. The Haydar families needed a group of houses, which they were willing to build if they could buy cheap land in the same southern suburb of Beirut where Abu Raymond had just built a house. At that time, all land in the area belonged to Christian and Druze landowners who lived in the nearby hills of Choueifat. Being a Christian and an ex-resident of Choueifat, Abu Raymond had known many of these landowners. When approached by the Haydar family, Abu Raymond introduced the head of the family to one of the landowners who agreed to sell a part of his land to them. The Haydar family members then subdivided the land among the various families, and each family built their own houses in adjacent lots, as was the tradition at the time in rural areas.

The housing of the Haydar family encouraged Abu Raymond to become a land developer. He was quick to understand that this mode of housing provision was timely and could be profitable because of the steady flow of rural migrants to the southern suburb of Beirut who usually paid high rents to rent only rooms. He was also aware of areas in the eastern suburbs of Beirut that were developing in the same way (Bourgey & Pharès, 1973). These migrants were drawn to Choueifat in the hope that they would find employment either in the new airport, which was being built, or in the factories located close to the airport. Given their agricultural background, in which land is considered a security, most of these migrant families preferred to buy property rather than rent; but they were able to pay only modest amounts from what they had saved by selling their homes in the villages from which they had migrated. The local planning guidelines at the time made it impossible for these families to purchase land because the minimum plot size was 1200 square meters.<sup>5</sup> Abu Raymond understood this constraint. He procured land from the landowners he knew well, then subdivided the land into plots smaller than 1200 square meters, and sold them to the migrants. It was Abu Raymond who gave the settlement its name: Hay el Sellom, which means, in Arabic, “The Ladder Neighborhood.” The name was appropriate because much of the housing was built on a hilly topography with steps and terraces to reduce soil erosion. Symbolically, the term ladder conveyed upward social mobility — the dream of all migrants around the world.

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<sup>5</sup> Later, after the approval of the 1964 Master Plan (Law No. 16948 of 23/07/64), known as the Ecochard Master plan, minimum plot size was increased to 2000 square meters.



## The Sale Process

In 1953, Abu Raymond, who did not know much about how to subdivide the land, sought the help of a formal land developer, Mr. Shatila, from Beirut. Because of his land development background, Mr. Shatila was able to recommend professional topographers and government engineers who were then hired by Abu Raymond to create a settlement plan. Most notably, a government-accredited topographer, who was introduced to the buyers as an Engineer, drafted the subdivision plan. Abu Raymond also hired a contractor to lay out the internal roads within the site and pour a layer of asphalt over the roads.

As the land sale began, Abu Raymond did not bypass all formalities. In fact, he got all transactions recorded in the formal notary registries (*Kateb el-'adel*); and then, when all the lots were sold, he had paid sales taxes to record the sales in the Public Land Registry. The Town Planning Unit had not been formed as yet, so there was no particular agency, other than the Choueifat Municipality, with jurisdictional authority over the area. Since the municipality did not raise any objections, Abu Raymond continued his business, becoming increasingly bolder in his defiance of formal rules, which required a lengthy process to register the details of each of his land sales with the Public Land Registry.

However, Abu Raymond always hired government-accredited topographers to survey and subdivide the land, kept his own record of the informal transactions, and gave each plot a number. On average, the plot sizes varied between 150 and 200 square meters, well below the 1200 square meters required by the 1942 French-mandated planning guidelines, and much lower than the 2000 square meters required by the newly approved Beirut master plan in 1964. Abu Raymond continued this practice, relying on his relationship with the landowners, some of whom simply sold him their land, while a few others entered in joint ventures with him.

It is clear that Abu Raymond relied heavily on his social relations as a Christian from Choueifat to procure land from owners with the same religious affiliations and geographic identity. He used those prior connections to not only build trust but also insure that he alone dealt with the landowners. Such connections were, of course, necessary for Abu Raymond's business, but they were not sufficient. He needed buyers; the plots had to be sold to a different group that had no social or religious connection to Abu Raymond. How was this managed? We learned that Abu Raymond relied on formal institutions, such as the Land Registry, to make the land sales appear legitimate to the buyers. He also wanted to secure the transactions in the event that the buyers breached their verbal contracts with him. Abu Raymond pursued these dual objectives by relying on the formal symbols of government and professional institutions to provide a credible and secure image to the prospective buyers. The subdivision map is a good example: it was drawn and certified by a government-accredited topographer who was introduced to the prospective buyers as "The Engineer."<sup>6</sup> The map was decorated with many symbols of official approval. The topographers used emblems "borrowed" from formal government documents with the

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<sup>6</sup>This title connoted professional legitimacy at a time when such modern symbols of meritocracy were highly valued by the migrant society of Hay el Sellom.



“Lebanese Republic” logo, and wrote down the lot areas in exactly the same manner as in formal subdivision documents.

Although the subdivision map was not a legal document, it was used by the residents to resolve conflicts about property boundaries. Both Abu Raymond and the topographers kept copies of the map and, in case of disputes, made them available to the residents. They also provided copies of the map to residents who preferred to apply for building permits. Through this process, this document, which was initially created to evoke a sense of formality, gained legitimacy and was eventually accepted as a valid evidence of ownership and boundaries by the government. The subdivision map was referred to by residents in the rare instances when they applied for building permits or sought to comply with other formal legal requirements.

There are other examples of how Abu Raymond and the topographer relied on government symbols and drew on formal regulations to create a set of rules and standards to protect the area against totally unrestricted housing development which would have lowered the price of plots. They applied standards from formal construction codes, such as setbacks and maximum floor area ratios, to create some broad construction guidelines hoping that their adherence to such codes would eventually allow the area to be regularized. Hence, the early settlers learned about maximum built-up areas, maximum heights, and setbacks; and they abided by the rules Abu Raymond had improvised to somewhat relax the formal standards to make them flexible enough to meet the means and needs of the residents. As a result, the initial phase of the settlement was not marked by haphazard construction and gross violations of all codes and property rights. In fact, it was quite orderly, but perhaps a bit more congested and somewhat unfinished in appearance than formally subdivided areas.

Abu Raymond was ingenious in other ways. To protect land sales to the buyers who could not initially pay the entire price, Abu Raymond devised a system whereby the name of such buyers were marked with an asterisk in the official land registry. This signified to the buyers that they could not violate their verbal contract with Abu Raymond, as the asterisk would be the proof that they had not paid the full amount. Thus, Abu Raymond did not rely on the “social network” and “trust” to protect informal transactions; he used the formal system, without paying all the costs associated with it, to ensure enforcement of the informal contracts. In effect, Abu Raymond created mortgage notations within the Registry without the formal creation or recording of mortgage documents. We do not know whether Abu Raymond bribed officials in the Land Registry to mark the names of the buyers who owed payments with asterisks. Neither do we know whether Abu Raymond ever used the registry books to either demand payment or evict defaulting residents. What we do know, however, is that the residents remember that there was a system of monitoring in place to counter the uncertainty usually associated with informal transactions and flexible payment schedules.

## **The Strategic Alliance Phase**

As the flow of rural, Muslim migrants to Hay el Sellom continued, the Haydar family, the first family housed by Abu Raymond, began to play the role of a partner in Abu Raymond’s business. There was a complementary division of labor between Abu Raymond and Hajj Hamad Haydar, the eldest member of the Haydar family. Abu Raymond concentrated on

procuring land from the landowners, and restricting the access of others to these landowners by working closely with the “land guardians” who watched the land on behalf of the landowners. So tight was Abu Raymond’s hold on the process that between 1953 and 1970 almost all land sales in Hay el Sellom were conducted by him alone. We do not know to what extent Abu Raymond’s monopolistic hold on land delivery influenced the prices he charged. We do know, however, that contrary to what is often assumed about informal land markets, access to this market was not easy. That was true for both ends of the market: how land was procured and sold as well as how it was purchased by prospective homeowners. Like Abu Raymond, who restricted the access of others to the original land owners, Hajj Hamad began to increasingly control the access of prospective buyers to Abu Raymond, preferring families with the same religious background and from the same geographic region as his own. Abu Raymond did not object to Hajj Hamad’s new role because it did not reduce the demand for plots. On the contrary, he could now rely on Hajj Hamad’s social network with the buyers to enforce informal land sales and, in some instances, to ensure recovery of credit provided to the buyers for home construction. This alliance between Abu Raymond and Hajj Hamad was informal at first. Gradually, they created a formal joint venture and expanded their operation by procuring larger plots of land and creating larger subdivisions. In 1967, as the Middle East war erupted, an unusually large flow of migration from southern Lebanon to the area further escalated the demand for housing.

In approximately 1966, Abu Raymond and Hajj Hamad not only subdivided more plots, but also constructed finished houses on some of the plots for sale.<sup>7</sup> But, these houses were not sold as quickly as Abu Raymond and Hajj Hamad had anticipated. So, the partners went back to their original strategy, expanding the operation to a level whereby new intermediaries, called *Waseets*, had to be paid small commissions to facilitate quick land sales. The *Waseet* was often the first member of a village or family to have arrived at Hay el Sellom and purchased land from Abu Raymond. He acted as an intermediary between the developers and the other members of his family/village group, providing an informal assurance of security to both parties. This explains why Hay el Sellom expanded as a set of contiguous neighborhoods that are named after the intermediaries, such as Hay Arab, Hay el Hibberiyeh, Hay Amhaz, and so on.

In 1969, the Lebanese government signed a treaty allowing the Palestinian Liberation Organization to operate in South Lebanon. This too created a large flow of migration from southern Lebanon to the suburbs of Beirut, which further escalated the demand for housing. As the number of *Waseets* increased, Abu Raymond and Hajj Hamad became increasingly less interested in making each transaction appear formal and legitimate. Instead, they relied on the *Waseets* to guarantee the transactions with the buyers who, by then, had become more confident about Hay el Sellom’s longevity. They also ignored construction restrictions and built several multi-storied structures, which they rented to migrants, creating a new rental market in the area.

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<sup>7</sup> These houses were single rooms of 50 square meters, and were built on the two largest lots in the neighborhood with special building permits obtained by the developers.

## The City Authorities' Response

Although at the very beginning, the city authority hardly noticed Abu Raymond's efforts at land subdivision, as Hay el Sellom began to consolidate, the Choueifat mayor, a Druze, summoned Abu Raymond to his office and urged him, more than once, to stop his business. Heated debates occurred at the time within the municipality, which had been forced to pave a number of roads due to strong political pressure and the mobilization of the residents. Furthermore, some politicians as well as Engineers within the municipality had called for the regularization of this area to contain its growth. The mayor was not supportive of these suggestions.

As the residents of Hay el Sellom learned that the mayor was displeased with Abu Raymond, they became anxious about the viability of the settlement. In several instances, they had approached the feudal leaders<sup>8</sup> in their areas of origin where they still voted asking for security and services.<sup>9</sup> Some residents had approached emerging political parties, such as Amal, to seek protection.<sup>10</sup> Meanwhile, Hay el Sellom continued to grow with increasing numbers of intermediaries (*Waseets*). By the early 1970s, Hajj Hamad and a few *Waseets*, all Muslims, started their own land subdivision businesses. Clearly, the city authority could no longer rebuke Abu Raymond alone for Hay el Sellom's growth. As the number of land subdividers grew, the authorities did not even know their names. Furthermore, the political protection of the area by various political groups had also increased. This added to the concern that the authorities were losing all control over Hay el Sellom. It was then, in 1973, that the central government proposed to build a highway right through Hay el Sellom.

The eruption of the Lebanese Civil War in 1975 halted the government's plan to build the proposed highway through Hay el Sellom. The Civil War quickly divided Beirut into two belligerent sections, a predominantly Muslim and an almost exclusively Christian section, each controlled by a groups of militias. This division created a difficult situation for Abu Raymond, a Christian, whose house was located in the Western section of Beirut, the section controlled by Muslim militias.

As an astute businessman, Abu Raymond had expanded his business portfolio by then. He had invested in other business ventures, including starting a stone cutting factory in partnership with Hajj Hamad. As the Civil War escalated, Abu Raymond decided to leave his nice house in Hay el Sellom and moved to the eastern section of Beirut which was then

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<sup>8</sup> The two most mentioned names at the time were Sabri Hamadeh and Adel Osseiran. Both headed the Lebanese parliament at one point or the other and were members of several cabinets before the war.

<sup>9</sup> According to decree 7279 of 1961, services cannot be provided without housing permits and the latter require full compliance with urban and construction codes. This law was suspended in 1967 (decree-law 53/67), re-approved in 1983 (decree 2347/1983) and then a few months later suspended again by a decision of the cabinet.

<sup>10</sup> Amal, also known as *Haraket el Mahroumeen*, the movement of the deprived, was founded in the late 1960s by Imam Musa el Sadr, a Muslim (Shiite) religious cleric, as a social justice movement for equal regional development, the rights of informal settlers, and other similar issues. Although the founding members of the party came from all religious groups in the country, most of the followers of the party are Muslim (Shiite), traditionally the poorest community of Lebanon. During the Lebanese Civil War, as every religious group formed its own militia, Amal too degenerated into a Shiite militia. Today, Amal is a recognized political party in Lebanon, and its leader, Nabih Berri, is also the head of the Lebanese Parliament. (For more details, see Nasr, 1985).

controlled by Christian militias. Hajj Hamad looked after Abu Raymond's house until it was badly damaged in an Israeli air raid in 1982. This prompted Abu Raymond to sell his house to a *Waseet* (an intermediary). He did not discontinue all his business ties to Hay el Sellom, however. He kept his investment in the stone-cutting factory as well as in a number of buildings that he and Hajj Hamad owned jointly and rented together. After the war, his son, Spiro, took over the business working closely with Hajj Hamad's son and they jointly managed the stone-cutting factory.

## Democratization of the Market and the Rise of Informality

Abu Raymond's exit from Hay el Sellom at the beginning of the Civil War was a turning point in the rise of a new kind of housing development in the area. The sign that a new phase was in the making was evident, however, even before Abu Raymond had left Hay el Sellom. As we mentioned earlier, Hajj Haydar was the first person to break Abu Raymond's monopoly over land sales. Later, as hundreds of the Civil War refugees flooded Hay el Sellom, many previous *Waseets* became independent land developers. Hajj Abu Ali Amhaz was one such intermediary turned developer. It is through the study of Hajj Abu Ali Amhaz that we try to understand the second phase of informality in Hay el Sellom.

Hajj Abu Ali Amhaz (from now on referred to as Abu Ali) grew up in Beka'a in a poor farming family. In 1952, he moved to Beirut, rented a room in the nearby suburb of Hadath, and found a job in the Ghandour factory in Choueifat. Ten years later, in 1962, Abu Ali first heard about Abu Raymond from his neighbors in Hadath and came to Hay el Sellom. He bought land on credit provided by Abu Raymond, built first a wooden shack, and then, three years later, a single room that gradually expanded to a four-storied building.

When Abu Ali moved to Hay el Sellom in 1962, he changed jobs and began to work as a construction worker building homes for other area residents. Soon after, he expanded his operation, became a building contractor, and hired workers to do the kinds of work he was doing himself initially. Abu Ali mentioned to us that this experience was crucial to his eventual success, as a land developer. "I arranged for building permits and other official papers. I dealt with police patrols, and learned that we could negotiate with them a lot," Abu Ali said.

Because Abu Ali was a building contractor, he came to know Abu Raymond well. Abu Raymond referred some of his land buyers to Abu Ali. Soon after, some of Abu Ali's relatives from Beka'a came to Hay el Sellom, looking for shelter and jobs, hoping they too would eventually prosper like Abu Ali. Abu Ali acted as a *Waseet* — an intermediary — between these relatives and Abu Raymond. Today, the neighborhood where Abu Ali lives is called "Hay Amhaz" (the Amhaz family neighborhood), named after the first comers to the area from the Amhaz family to which Abu Ali belongs.

## Respect and Distrust

Abu Ali concedes that he learned how to be a land developer from working with Abu Raymond as a building contractor. "We learned the business from Abu Raymond. He and the original landowners were Khawajat (gentlemen) who visited the area. We opened their car

doors, followed them, helped them, and had the opportunity to observe and learn from them,” Abu Ali mentioned to us. What Abu Ali and others learned, however, was not just business manners. They learned that contrary to what Abu Raymond had conveyed to them, he did not own the land; and that he bribed the property caretakers to stop them from giving the landowners’ names to other prospective land developers. “We had to pay the property caretakers extra bonus to direct us towards the real landowners,” Abu Ali mentioned, as he also reminded us that “all the original landowners were Christians or Druze, like Abu Raymond.” “Although we didn’t know the owners, we started a hidden competition with Abu Raymond during the last years of his monopolistic rule. When the Civil War started, and Abu Raymond had to leave, we finally had the market solely for us,” Abu Ali noted.

But, even prior to Abu Raymond’s exit from Hay el Sellom, when Abu Ali was an intermediary, he was deeply involved in the consolidation of the neighborhood, not only building houses but also neighborhood organizations. For example, in the late 1960s he had helped create a Residents’ Committee of 12 members which he headed. This Committee was eventually registered as the official Neighborhood Group with the Ministry of Interior in the early 1980s when the Lebanese government started formal registration of all neighborhood groups. Abu Ali mentioned to us that under his leadership the committee had performed several tasks, including visiting politicians, lobbying for service delivery, operating trucks for garbage collection, and even installing a sewer network, illegally, hooking it up to the public networks. Abu Ali mentioned that in performing these tasks the committee did not rely upon government agencies. Instead, before the war, he and other residents went to feudal leaders from their areas of origin who then approached government officials and requested them to put pressure on service agencies. Various religious groups also supported the residents and pressured the municipality to provide basic services. As various militias began to establish their presence in Hay el Sellom during the Civil War, the residents also asked for their help. The power of these militias grew significantly during the years of the Civil War, in part, because they were able to provide services for the residents.

Abu Ali did not disregard all government rules and regulations, however, even when protected by Amal, one of the militias. He continued Abu Raymond’s practice of recording all land transactions at the notaries, and hired a state-accredited topographer to draw the map and demarcate the land subdivisions. As the maps were drawn, Abu Ali first marked the roads before any plot was sold, and watched carefully that no one built on the roads.

As the demand for housing increased, however, because of the influx of population groups displaced by the Civil War and various other military conflicts,<sup>11</sup> Abu Ali as well as the other developers, backed by political parties, began to increasingly disregard even those regulations they had voluntarily followed in the past. For example, some developers began to encroach on public land on the banks of the Ghadeer river, taking advantage of newcomers

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<sup>11</sup> There were several waves of migration toward informal settlements in the southern suburbs of Beirut as a result of military conflicts. In 1976, immediately after the division of the city in two sections, residents of informal settlements in the eastern suburbs of Beirut were evicted from their settlements, which were razed to the ground. Many came to squat in the southern suburbs of the Beirut. Later, the two successive Israeli invasions of Lebanon in 1978 (the South only) and 1982 (all the way to Beirut), also created major waves of migration to the informal settlements. In total, around 75,000 people are estimated to have arrived to the southern suburbs of the capital city between 1975 and 1987 (Beaudoin et Kasparian, 1991).

and selling them public land; and both the developers and the residents began to build bigger and taller houses, violating regulations which restricted the maximum height of buildings and maximum floor area ratios. These houses were built primarily for renting to populations displaced by military conflicts who, unlike the earlier migrants from rural areas, perceived their situation as temporary and were both unwilling and unable to pay for houses. The pressure for new housing reached such a level that many developers, including Abu Ali, became desperate to procure land. But these new developers did not have the type of social connection with the landowners as Abu Raymond. As a result, some developers resorted to coercive practices to force the landowners to sell land. For example, according to one story, still commonly heard in Hay el Sellom, a developer had buried a dead donkey on an unsold plot of land and then informed the landowner — that his land was gradually becoming a Muslim cemetery! The owner, we were told, immediately agreed to sell the land, which was promptly used by the developer to build a multi-storied apartment building.

### **Government Reacts with more Regulation**

As Hay el Sellom was growing and becoming denser, the local authority was becoming increasingly incapable of taking corrective action. With Abu Raymond's exit and the proliferation of Muslim land developers, there was no one individual who could be either rebuked or taken to task for violating regulations. As we mentioned earlier, in 1973 the central government had planned to construct a highway, which would have cleared away a large section of Hay el Sellom. But, with the spread of the Civil War and a simultaneous invasion by Israel, the central government could not take any action — particularly, since Hay el Sellom had become an area where several militias were operating openly. It was at this time that government corruption had increased significantly, paving the way for blatant and large-scale violation of rules and regulations.

Consequently, Hay el Sellom grew rapidly, fueled by both high demand for housing and virtually no enforcement of rules. Faced with this situation, the Town Planning Institute, created in 1975, reacted by creating more regulations! Between 1975 and 1990, the Town Planning Institute issued increasingly stricter land subdivision regulations and building permit conditions, imposed more limitations on development than before, created a set of new “comprehensive codes,” and imposed new requirements on land registration procedures. Even though unenforced, each of these new regulations widened the gap between the developers, such as Abu Ali, and the local authority, and terminated even the sorts of informal linkages Abu Raymond maintained when Hay el Sellom was established.

We asked Abu Ali how he had reacted to this intensification of illegality, and whether there was any pressure from the residents for regularization to counter the uncertainty the new regulations created. Abu Ali mentioned that he had advised the residents not to press the government for regularization because, he knew that, “the government would have abused the people.” (authors interviews). We learned that Abu Ali was not against regularization, however. In fact, he had appealed earlier to leaders of religious groups, seeking their support to secure formal registration papers for the land he had subdivided. But, such appeals were fruitless. Abu Ali did not continue his effort at regularization, however, through the formal institutional channels. In fact, he had discouraged the residents from



pressuring the government for regularization, arguing that the government was not interested in lower income populations who he thought did not need to abide by state regulations. Other developers of the same era also expressed their distrust of the committees created by the government and said that they were discouraged because, when they tried to follow the procedures to legalize their properties, the costs and amount of paper work were excessive. Also, he might have been afraid that government intervention would draw attention to him and other developers who could be held accountable by the government.

Abu Ali thinks that the sheer size of Hay el Sellom prevented the government from taking any disciplinary action. As he said, “we were so many already by the 1970s that the government could not kick us all out, or put us all in jail” (*ibid.*). Moreover, he is backed by various political/militia groups (notably Amal and Hizb’Allah<sup>12</sup>) who are very active in Hay el Sellom as service providers since the end of the Civil War. These groups discourage residents in this neighborhood and elsewhere from seeking regularization so they can continue to be the “protectors” of these communities and serve as the link between the state and the neighborhoods’ residents.

When asked how he could be successful in business with an unhelpful government, Abu Ali responded: “The most important thing in life is *Sadaka* (trustworthiness). If you deal once with someone, and you prove to be trustworthy, you’ve established the first point in a positive chain. Trust and faithfulness are very effective.” It seems the importance of such “trust and faithfulness” among the developers and their business associates can only be appreciated when viewed against the backdrop of widespread violation of all formal rules which characterized Hay el Sellom until the end of the Civil War in 1991.

## The Post-Civil War Boom

With the end of the Civil War, Hay el Sellom entered a third phase of change and development which we have tried to capture by focusing on yet another developer, Mr. Abdel Raouf Darwish, who personifies a new type of developer who replaced Abu Ali and his like as the housing market took a new turn. One can recognize from the name that Mr. Darwish is “an outsider,” not from Hay el Sellom. He is neither a Hajj, nor an Abu — the two colloquial terms people of Hay el Sellom use to refer to senior male area residents. No one really knows for sure where Mr. Darwish came from. His name indicates that he is a Shiite Muslim; and that evokes some legitimacy but not strong allegiance among Hay el Sellom’s residents. They refer to him simply as “Darwish,” and mention that he never went to school, implying that he does not descend from a respected family, and, hence, the source of his wealth may be somewhat dubious. They also know that he has been involved

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<sup>12</sup> Hizb’Allah is the largest and most active political party in Lebanon. Founded in 1982, Hizb’Allah, a religious/Shiite party, has played major role in the history of Lebanese politics, notably in leading the military resistance to the Israeli occupation (1978–2000). It continues to play a central role in advocating (mostly through the political wing and its members in the parliament) as well as by operating a web of NGOs that began to provide services to the residents in the mid-1980s and continue to do so. These services include the provision of micro-credit, poverty alleviation efforts, and others (Fawaz, 1998).



in several other businesses, and that he was attracted to the lucrative business of housing construction only after the Civil War even though he had no experience in house building.

Mr. Darwish is the developer of Madinat al Abbas, a huge housing complex of 21 blocks, 535 apartment units, and 220 shops, which were built in Hay el Sellom in only two years (1994–1996). The land on which Madinat al Abbas is built was the last agricultural plantation left inside Hay el Sellom. Although privately owned, the plantation used to serve as the only public open space in Hay el Sellom until the construction of the new housing complex. Interestingly, a large section of this same piece of land had been marked for the construction of the highway in 1973. The family who owned the land did not sell it earlier to a private developer hoping they would get the best deal from the government. By 1994, however, it was evident that the proposed highway through Hay el Sellom could not be built, as it would require the demolition of approximately 800 homes.<sup>13</sup>

Madinat al Abbas was built as a joint venture between Mr. Darwish and the landowner, whereby the landowner contributed the land while Mr. Darwish was responsible for the construction and sale of the housing units. The landowner was to be paid with a fixed number of apartments which he could sell in the booming housing market, earning a profit much higher than he could have made if he simply sold the land. As for Mr. Darwish, he had initially obtained a building permit submitting a design that complied with existing rules and had also secured a bank loan for the project. The project was named Al Abbas after a prominent Shiite religious figure to appease the religious political groups who now operate in Hay el Sellom. This plan was to include a mosque, a school, and space for commercial use on the ground floor.

Madinat al Abbas was such a large housing complex that Mr. Darwish had to advertise the sale of apartments in the local newspaper. He also opened a local office where his agents received payments and dealt with the residents who never met him in person. He was under immense financial pressure to sell the apartments quickly, and had asked for advance payments from buyers to reduce the cost of interest on his bank loan. As construction proceeded, Mr. Darwish sold in advance, all of the 485 apartments in less than two years. The rate of sales was much faster than earlier housing sales, say under Abu Raymond, the first developer, who had sold as many plots in nearly 15 years as Mr. Darwish sold in two. Mr. Darwish increased the number of floors and the built up area in violation of the existing regulations.

The turning point in this episode came in 1997 when a group of buyers failed to pay the full price of their apartments. After investing their personal savings, or the indemnities they had received from the Ministry of Displaced for the down payment, many of these families ran out of money, as the economic boom of the post-war years led to a bust. Noticing that defaults in payments were increasing, Mr. Darwish began to sell the same apartment to more than one buyer, planning to transfer the apartments to whoever paid the full amount first, and to retain part of the advance payments made by the other buyers as a penalty for the delay. Unfortunately, the cash flow did not follow the trajectory Mr. Darwish had hoped for. As a result of the buyers' failure to pay, he himself defaulted

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<sup>13</sup> Survey by Lebanese University students, 1999.

on his repayment of the bank loan; he was also taken to court by a prospective buyer for selling the same apartment to multiple buyers. He had complaints filed against him at the newly opened “National Office of Complaints” at the Presidential Palace by some of the buyers who were dissatisfied with the quality of the apartments they had purchased. Many of these apartments had developed serious plumbing problems soon after construction had ended; and cracks had begun to appear on the walls infuriating the buyers who had paid very high prices for the apartments. Some wanted to sell the apartments but could not do so as the prices of these apartments had dropped significantly. Eventually, Mr. Darwish was arrested by the government and was imprisoned at the time we visited Hay el Sellom. The Bank which had loaned funds to Mr. Darwish now owns the Madinat al Abbas housing complex.

The transfer of ownership of Madinat al Abbas has not created a favorable impression of this project among the old residents of Hay el Sellom. The majority of them dislike the project for two reasons. First, they view Madinat al Abbas as contributing to an increase in density which has intensified the existing environmental problems. They mourn the loss of the “public” open space where their children used to play, and the adults could relax. Many residents of Madinat al Abbas also view the new residents with disapproval; and some even suggested that they wished for the implementation of the highway (which was planned to go right through the complex) since that would require the demolition of some of the new houses and create some open area. They complained that, due to the increasing heights of buildings overshadowing the area, there is very little direct sunlight to brighten up the lower level apartments and the narrow streets which provide the setting for much of the public activities in the community. The residents view the lack of sunlight and air pollution from additional traffic as the causes of increasing respiratory problems of the area children. The long-term residents are concerned about many children in the area who are suffering from a type of skin disease which has been spreading. They are worried that the water of the Ghadeer river, which runs through Hay el Sellom, has become polluted by industrial waste generated by industries located on the Western side of the settlement. Some blamed a garbage recycling facility at the edge of the settlement for emitting toxic gas.

In all of our interviews with the area residents, no one complained either about lack of property rights, or disputes with neighbors regarding property boundaries. Their only complaints about the area residents (as opposed to the physical conditions of the area) concerned the population density and the social diversity that weakened social ties. Some criticized the Syrian merchants; many others were resentful of the increasing number of immigrants from outside Lebanon. The resentment against the increased density in Hay el Sellom is so strong that some of the older residents have decided to return to their old villages, renting out their houses in Hay el Sellom instead of selling them. These old residents return to Hay el Sellom once a month to collect rents which are a new and more predictable source of income for them. As for the residents who continue to stay in Hay el Sellom, they now want government intervention through environmental regulations to stop the steady deterioration of the area. Meanwhile, various militias/political groups, which penetrated the area during the Civil War, now operate as grassroots based NGOs, providing essential services, including schools for children.

## Conclusion

By studying Hay el Sellom's evolution through the activities of three developers at three different time periods, we reach the conclusion that dualistic conceptual categories, such as formal/informal areas, are too simple to accurately portray the complex ways by which social and political relationships created housing for the residents of the area. Our study provides only a glimpse of these relationships, which are embedded deeply in localized context of institutional structures and social practices shaped by interacting formal rules and social norms. The rules and norms themselves change with the changing nature of the local authorities, local real estate market, and social composition of the residents. Our story of Hay el Sellom portrays, sketchily, the thick and rapidly changing relational webs and networks through which housing is created, new migrants are provided a foothold in the urban economy, profits are made, local environment is polluted, and new social and political order/disorder is articulated. Individuals, such as the three developers we described, do not simply react, however, to this web of relational structures and established social practices. As active agents, they transform this structure while working within it, constantly seeking opportunities for profit making while responding to the housing needs of the new comers to the area. The residents of Hay el Sellom are not passive agents either. As our story suggests, they too act within the dominant institutional structure of rules and norms drawing on whatever is useful for the moment for their ultimate goal to house themselves, create some investment, and belong to a "community."

One may ask how such an institutionalist perspective will help "the planners" to plan better.<sup>14</sup> This reasonable question begs a more fundamental question about who are the real planners who influenced the way Hay el Sellom emerged. It is obvious, even from our sketchy description that city planners working in either the local authority or the Town Planning Institute were only one set of actors, and a rather weak one, amidst a thick web of social and political relationships with many other actors who changed Hay el Sellom from an olive grove in 1950 to one of the most congested housing areas in Beirut by 2000.

This awareness that professional planners might be only one set of actors among many who influence housing delivery, however, should not be exaggerated to support the currently popular argument: that development efforts driven from "the top" with formal rules are inferior to efforts crafted at "the bottom" which draw on social norms. As we mentioned, in the introductory comments, Turner (1967) first popularized this approach which received a boost, recently, by James C. Scott's (1998) book, *Seeing like a State* with a subtitle that reminds us "[h]ow certain schemes to improve the human condition have failed." It is clear from our study of Hay el Sellom, however, that the outcome would have been better with a strong and effective local authority in place (particularly if the local authorities had chosen to support and regulate the production of housing). This is not to say, however, that there are no limits to the power of formal rules. It is to acknowledge that such rules, even when not fully enforced, significantly affect the nature of deliberations and market exchanges among the multiple participants involved in one way or another with housing provision. To be sure, the existing rules regarding housing provision in Beirut

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<sup>14</sup> For a detailed discussion of an institutionalist perspective, see Healey (1999).

need to be modified to better fit the conditions on the ground, which we describe in the paper. The regulations imposed by the Town Planning Authority do not reflect an institutionalist understanding of the social reality. Most of these regulations were borrowed from the French tradition and, hence, rely on assumptions regarding the state, markets and communities which are from a different time period and, more importantly, from a different social context. The inadequacy of the currently enacted provisions to meet the needs of modern-day Beirut does not negate the need for formal rules and regulations. The Hay el Sellom residents themselves are now asking for regulations to improve environmental conditions in the area. The need for formal rules, however, emerged even earlier, as multiple developers entered the housing market seeking opportunities for quick profits. As competition intensified, the codes of good conduct, that had been self-imposed by the first developer, Abu Raymond, began to be ignored. At this critical juncture, an effective local government (had one existed) would have intervened to impose some basic rules, perhaps in consultation with the developers.

A second general lesson that professional planners can draw from our study is how to deal most effectively with the developers. As our study indicated, there is more than one type of developer. As Hay el Sellom grew, the nature of the successful developers changed because the changing market created new niches for investment. The three developers we focused on in this study represented three distinct styles; they had very different resources and social networks; they also followed, implicitly, different codes of ethics regarding the extent to which they were willing to break formal rules. These variations must be understood by professional planners who are interested in forging “private–public partnerships” — a policy approach in vogue at the moment. To tap the entrepreneurial energies of the developers of various kinds without subjecting their operations to close scrutiny will not be an easy task. It is not an undertaking that can be accomplished by merely relying upon populist slogans, such as “decentralization,” “demand-driven policies,” or other meaningful but toothless phrases. Understanding how best to manage and control “informal” developers without unduly inhibiting their energy and resourcefulness will require a strong and smart local authority staffed by planners with an institutionalist perspective and an understanding that the achievement of public–private cooperation requires a preliminary resolution of some of the conflicts among the multiple stakeholders. In this paper, we merely touched on some of these conflicts — for example, between old migrants and new ones, and between the local authority and political groups/militias. Such conflicts have to be addressed innovatively; and this will require an institutionalist understanding of social reality.

Finally, professional planners need to transcend the current conceptual dichotomy between social norms and formal rules as if they belong to two different domains of social action. Our story demonstrates the influence of one on the other. It also demonstrates how norms change and evolve, probably faster than laws are altered in response to changing social and political conditions. This dynamic interaction between social norms and formal rules, even if such rules are not enforced, has to be understood by professional planners if they are to formulate effective interventionist policies. One precondition for a good understanding of the interaction between norms and laws is to transcend the current bias in favor of social norms. Many planners labor under the misconception that social norms and informal practices are generally more progressive and intimately known to the people than formal rules which are considered to be imposed by bungling and corrupt bureaucrats. A

successful institutionalist perspective is one that will look through and beyond such simplistic and ideological dichotomies to illuminate our understanding of why some types of interaction between social norms and formal laws may be more beneficial for the urban poor than other types of interaction. Such analysis may also demonstrate how such interactions evolve over time, influenced as they are by both micro variables particular to specific geographic areas, such as Hay el Sellom, and macro issues, such as Lebanon's war with external forces as well as the Civil War. The emergence of NGOs which started as militias backed by various political parties requires special attention since their ultimate goal is to influence both social norms and formal rules.

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