



## Town Planning Review

# The New Institutional Economics and the evolution of modern urban planning: Insights, issues and lessons



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### Abstract

Urban planning is constantly in tension; always evolving and forever re-inventing itself. The history of modern urban planning is the story of society in search of ways of managing spontaneity. This is a conundrum to which there is no obvious or easy answer. Failing to understand it leads to planning that does not work. To understand how cities develop at the boundary between market forces and government policy it is necessary to understand the role of both kinds of institution in allocating property rights over scarce land and land-related resources. This paper examines these ideas, first with reference to some theoretical insights from the New Institutional Economics and secondly, by drawing lessons from the evolution of the British town planning system over the last hundred years. The discussion addresses key issues at the heart of the institutional design problem, including the question of how rights should be distributed between state and private property owners – including third parties affected by contracts between one or more other parties; how state rights should be allocated between different levels and spatial scales of governance; and, which institutional mechanisms should be used to exercise those rights most effectively and efficiently in the interest of achieving better co-ordinated cities.

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Urban planning is sometimes only noticed when it is lacking. Take a look at this infographic detailing the evolution of the planning process. Cantrell Crowley created this infographic that takes a closer look into the evolution of urban planning. Since the dawn of time, cities have provided protection from outside forces and have been centers of government. In history, during attacks, the surrounding countryside rural community fled behind cities' walls and fortresses, where defense forces assembled to resist the enemy. With the introduction of modern aerial warfare, cities have become key targets for destruction rather than safe zones. Consequently, over time, the needs of cities changed. The new institutional economics seeks to account for the emergence and persistence of institutions on the basis of their efficiency. Groups adopt new institutions if they increase net gains relative to the existing institutions. One of the key concepts of the new institutional economics is transaction costs. Institutions emerge and persist when the benefits they confer are greater than the transaction costs involved in creating and sustaining them. Transaction costs encompass ex ante costs (before exchange) associated with search and negotiation, and ex post costs (after exchange) of monitorin