

## **Of demolition drives and creative destruction**

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*Posted online: Sunday, October 15, 2006 at 0000 hrs IST*

With the Delhi sealing drive set to begin again on November 1, [business](#) owners, consumers, and passers-by are on the alert for the next round of demolition, with the violence and disruption that accompanies it.

Is this “creative destruction,” to paraphrase Schumpeter’s theory of the cycles of economic change and [innovation](#)? Will the drive to remove unauthorized buildings unleash new innovation to create a new, more orderly Delhi?

Not without some attention to the underlying structural reasons that so much unauthorized [construction](#) existed in the first place. Simply knocking down offending buildings [will](#) not change the underlying conditions that have created widespread “informality” in Delhi.

The demolition drive does little to change property developers’ incentives going forward. One argument in favor of the drive is that it teaches speculators and developers who flout urban regulations a lesson. Those who have lost their buildings have no doubt learned. But the legal wrangling between the courts, the Union government, and the Delhi government weaken the signal to future builders.

Unless there is a plan for improving enforcement of zoning laws, the incentives to avoid encroaching public land or misusing zones are limited.

Enforcement cannot begin without clarifying the respective jurisdictions of city, state, and (in Delhi especially), national government. Once jurisdictions are clarified, the next step is to increase transparency of the permitting process. One way would be to make all permits provided available online for the public. These would be available anyway under the Right to Information Act, but proactively posting them would enable neighbours to spot and report discrepancies.

None of this would change developers’ incentives to comply with laws unless more resources were available to respond existing reports of violations of building and zoning laws. The sheer number of unauthorized buildings and misuse of zoned spaces currently protects any individual who wishes to violate zoning laws.

The MCD website’s list of unauthorized buildings and misuse of buildings in zoned areas lists a fraction of the estimated 400,000 small shops and 1.5 million houses in Delhi that are unauthorized or misusing zones. As of this week, the MCD’s public grievance system recorded 352 reports of encroachment of public land, of which only 18 were redressed. There were 478 violations of building bye-laws, of which 16 have been redressed.

The Delhi Master Plan 2021 was revised by the Ministry of Urban Affairs, and will likely be further revised over the coming months. As a physical plan, under the effective control of the Supreme Court for now, it may well improve to meet the circumstances for today. The mixed-use notification is very sensible in many ways: it acknowledges the balance between the evidence of the demand for commercial real estate in residential areas with the environmental and congestion impact.

But new and unforeseen circumstances will inevitably arrive and then what will the solution be? Again a PIL, the courts, an interaction between the National Capital Territory administration and the Union Government, resulting in modification?

A more transparent, credible process for revision would be an innovation that would move India closer to modern urban planning. Participatory urban planning, in which neighborhoods are given more freedom to determine their local plans (in accordance with broad city-wide guidelines), is one tool to encourage more flexible urban planning.

Market-based incentives are another means to encourage sustainable urban development that can adjust as cities' needs change. The basic principle is to set taxes, permit prices, and project requirements to encourage developers to internalise the costs that their projects impose on the neighborhoods. Those who want to build a mall in a mixed-use area, for example, would either have to provide a certain number of parking spaces at their own expense, or contribute to a public fund dedicated to providing parking. As urban economies evolve, developers' assessment of whether the projects are worthwhile can change too.

Property markets must become more white than grey for market incentives to work. Registered and tracked property exchanges can penalize the asset value of unauthorized property without destroying it. In California, for example, un-permitted additions to houses are liabilities for the seller. They cannot legally be considered part of the house to be sold, and their square footage cannot be included in the valuation of the house for obtaining a mortgage. The state or city government rarely comes to destroy them, but the reduction in asset value discourages un-permitted construction. Illegal property transfers, already off the official books, cannot make any such distinctions between legal and illegal construction.

Further reducing the stamp tax on transactions would encourage more transfers to take place in the open, rather than with a combination of black money and white. Half of the population of Delhi and Mumbai live in unauthorized areas, according to the 2006 India Infrastructure Report. These unauthorized areas are certainly a large portion of the "engine of economic growth." It would be a shame to destroy them without enabling creation. Delhi has the opportunity to be a leader in solving a widespread problem.

*Regular columnist N K Singh and Dr Jessica S. Wallack, a professor of economics at University of California, San Diego, are collaborating on a book on infrastructure reforms in India. Essays based on their research will appear on a bi-weekly basis.*