

Land markets and urban development

A theory of change for economic growth

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Cities: The opposite is also true

Thinking about interventions

Core diagnosis: incomplete theorization by domain

Implications, contribution, ecosystem

- ▶ Interest in land markets.
- ▶ Focused first on institutional design, then on political economy.
- ▶ Land titling (insurance), urban expansion and redevelopment, land-related law and history.

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Bad cities can improve

- ▶ Indian cities are underperforming on planning, infrastructure, governance dimensions, but severe urban dysfunction under growth is not historically unique.
- ▶ Many cities moved from dysfunction to high-capability urban systems:
 - ▶ London (late 19th to early 20th century).¹
 - ▶ Hong Kong (1920s/30s to 1980s).²
 - ▶ Shenzhen/Beijing in high-growth decades.³
- ▶ Cities have gone from bad to good in democracies, autocracies, monarchies, centralised states, decentralised states, free-market economies, industrial policy economies.
- ▶ The real question is: *what conditions help cities grow well?*

¹Historic England. "The Great Stink - A Victorian Solution to the Problem of London's Waste." Historic England Archive.

²Shelton, Barrie, Justyna Karakiewicz, and Thomas Kvan. The Making of Hong Kong: From Vertical to Volumetric. 1st edition. Routledge, 2010.

³"The Story of Shenzhen: Its Economic, Social and Environmental Transformation | UN-Habitat."

Core puzzle: growth creates a coping failure

- ▶ Several Indian cities looked manageable at lower rates of growth. Bangalore was a nice city until the 1990s.
- ▶ Then growth takes off, and systems fail.
- ▶ This is a **coping problem**: institutions are not adaptive.
- ▶ This lack of adaptiveness is puzzling, given that urbanization rates in India are relatively low relative to peers.⁴
- ▶ The fields of urban economics, urban institutional analysis in India have poor explanations and responses for this.

⁴Ellis, Peter, and Mark Roberts. Leveraging Urbanization in South Asia: Managing Spatial Transformation for Prosperity and Livability. Washington, DC: World Bank, 2016.

Main focus of this talk

- ▶ Central claim: *Indian cities show poor outcomes while coping with growth, and poor outcomes reflect large gaps in theorization.*
- ▶ Policy analysis and levers are downstream of theory. Master planning is downstream of town planning ideology. We have been trying to improve master planning without touching town planning ideology.

- ▶ Failure to cope with growth reflects design and adaptation failures.
- ▶ Two first-order drivers determine coping capacity:
 - ▶ regulation of land and built environment,
 - ▶ adaptiveness/responsiveness of governance institutions.
- ▶ Finance/fiscal design and political economy determine whether these can be sustained.

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Outcomes are created by a framework of state action

Outcomes are produced by:

- ▶ rules (master plans, building bye-laws, zoning, land-use rules),
- ▶ discretion (permissions, exceptions),
- ▶ enforcement/dispute resolution,
- ▶ network infrastructure (ROW, streets, trunk infrastructure).

Four intervention domains for a complete strategy

1. Regulation of land and built environment
2. Governance institutions with adaptiveness/responsiveness
3. Finance and fiscal architecture
4. Political economy and stakeholder alignment

Why these four domains?

- ▶ Regulation sets formal constraints and rights.
- ▶ Adaptive institutions determines coping and rule-updating capacity.
- ▶ Finance/fiscal mobilises resources for implementation.
- ▶ Political economy determines durability, support for reform, legitimacy.

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Regulation

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- ▶ The debate is often reduced to regulatory easing: raise FSI, relax zoning, simplify approvals.
- ▶ This is legitimate, Indian land-use regulation is highly restrictive.
- ▶ But the deeper issue is **planning rigidity**: static master plans and rigid land-use categories.
- ▶ There is also a planning **ideology** problem: priority is often order/compliance, not adaptation to changing demand.
- ▶ Our regulatory framework is not oriented towards letting land markets function.
- ▶ So reforms liberalize some rights, but city form and infrastructure logic remain the same. Higher building permissions for plots abutting the same narrow streets.

Adaptive institutions

- ▶ Our puzzle is institutional: city planning and development bodies are built for control, not adaptive governance.
- ▶ At best, we do some initial infrastructure development.
- ▶ Land-use and development plans are revised slowly, while demand and constraints move continuously.
- ▶ In practice, cities cope through case-by-case exceptions instead of transparent, periodic rule updates.

- ▶ New and better use of instruments such as development charges, impact/monetization charges, and land value capture variants.
- ▶ Several land-based instruments already exist. Their implementation is uneven, poor design from the perspective of adaptiveness.
- ▶ Also missing: explicit linkage between land-development permissions and infrastructure/service financing obligations.

Political economy and alignment

- ▶ “Technically correct” reform doesn’t seem to be getting traction.
- ▶ Politicians, developers are rational self-interested actors. Current theory of reform does not design reform strategies that align with their interests.

Measurement: We do not do much of it

- ▶ **Regulation):** measure effects of rule changes using CBAs/RIAs and observed market response.
- ▶ **Exogenous impacts:** weak demand-supply tracking after exogenous shocks (housing-loan rates, real-estate taxation, FDI inflows).
- ▶ **Institutions):** measure design and performance of planning bodies. There is little systematic analysis of planning-body design and performance; even evaluation metrics are missing.
- ▶ **Fiscal:** measure revenue buoyancy, incidence, and service outcomes of new potential financing instruments.
- ▶ **Political economy:** study incentive alignment.

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What would make a difference (given this diagnosis)

- ▶ Start with a practical measurement reset: CBAs/RIAs for major planning and building-rule changes.
- ▶ Think hard about how to build adaptive institutions: rooted in subsidiarity, responsive to markets and citizens.
- ▶ Pair land-rule changes with financing plans: development charges, value-capture choices, and service obligations.
- ▶ Treat political economy as design: identify losers early, define compensation paths, and sequence reforms for coalition durability.

Our ongoing work

- ▶ Studying urban expansion and related institutional forms.
- ▶ Understanding what happens when we deregulate without providing public goods - economic rent.
- ▶ Attempt to measure new sources of city revenues.
- ▶ Using new tools to estimate property tax collections.
- ▶ Understanding causes of land litigation.

Conclusion

- ▶ Indian cities are failing because we do not have good ideas on planning and governing cities for sustained growth.
- ▶ Make planning adaptive: measure, update, and explain changes in a predictable public cycle.
- ▶ For this, good regulation and institutional design are first order issues.
- ▶ A lot of work has to be done across individuals and institutions to develop a complete theory across regulation, institutions, finance, and political economy.