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Rent control is crippling India’s richest city

Next to bombing,” Swedish economist Assar Lindbeck wrote in 1971, “rent control seems in many cases to be the most efficient technique so far known for destroying cities.” The view from the World Trade Centre in the enclave of wealth that is Mumbai’s island city is instructive for understanding what he meant. Expensive residential high-rises—or what pass for high-rises in India—ring it in one direction. The Ambedkar Nagar slum sprawls in the other. It is a dichotomy repeated all over Mumbai. NITI Aayog chief executive officer Amitabh Kant summed it up pithily earlier this week. It’s about liveability, not wealth, he tweeted in response to Mumbai being listed in the latest New World Wealth report as the 12th richest city globally.

The city’s private wealth is a hefty $950 billion. But according to last year’s Mercer Quality of Living index, it also ranks a poor 154th among global cities when it comes to quality of life. There are several reasons for this: poor infrastructure, deficient urban planning, inadequate public transport systems. One of the most important, however, feeding into many of the other problems, is the lack of affordable and accessible rental housing in the city.

Urban economic hubs are built on the back of agglomeration economies. Such economies are fuelled by internal migration flows. This population churn leads to a spike in housing demand, pushing up prices. Governments around the world have time and again reacted by adopting the most counterproductive policy possible—imposing rent controls. This is one of the few issues that economists across the ideological spectrum agree on, a minor miracle. As Nobel Prize-winning economist Paul Krugman wrote in 2000, rent control is “among the best-understood issues in all of economics, and—among economists, anyway—one of the least controversial”.

They have had ample evidence to study. Rent control became a go-to policy in Europe in the aftermath of World War II as shattered economies and cities were rebuilt. There and elsewhere, such as New York, it has been singularly damaging. The logic is simple. Imposing price ceilings on any product below market rates will cause demand to rise even as supply dips. Thus, rent control has a host of damaging effects: The stock of new housing in the market falls as investment dries up; landlords lose the incentive to keep their property in good repair; property tax revenue falls; administrative costs and burdens rise, and with these, the potential for corruption.

And contrary to its main purpose, rent control does more to harm poor and middle-income individuals and families than help them; the wealthy have greater capability to tap into the networks that give access to rent-controlled housing. For instance, multiple studies have found that the median income of families living in rent-controlled housing in New York is higher than that of those living in unregulated housing.

Mumbai is a poster child for such policies and their inevitable consequences. A substantial chunk of it—most of the island city, in fact—comes under rent control regulations that date back to the Bombay Rents, Hotel and Lodging House Rates Control Act, 1947. The Act froze rents at 1940 rates or at rates decided by the courts. The market tried to find a way, as markets will. The *pagdi* system was one avenue. It allows rent-controlled properties to be “sold” from one tenant to another at something approaching market rates, but does little to address the rent issue. Leave and licence agreements that worked outside the rent control system were another avenue. But in 1973, the Maharashtra government brought housing operating under this arrangement under rent control as well. The Maharashtra Rent Control Act, 1999, replaced the 1947 legislation, but retained the controls for the most part, save for updating the cut-off for baseline prices.

In a 2015 paper, *Decline Of Rental Housing In India: The Case Of Mumbai*, Vaidehi Tandel, Shirish Patel, Sahil Gandhi, Abhay Pethe and Kabir Agarwal have looked at the outcomes, examining data from the new property tax cell of the municipal corporation of Greater Mumbai. The results are unsurprising. In 1961, self-occupied and tenanted housing were in about equal proportion. Between 1961 and 2010, about 95% of residential construction was for ownership and only 5% for rental. This crunch, compounded by a floor space index that is, unfathomably, among the lowest of any major city, leaves migrants with few options. Home ownership is for a small minority, given elevated prices and the difficulty of accessing credit. Another minority may be able to afford the high rentals in the slender slice of the market that comprises unrestricted rental housing. For the rest, there are the slums—or rental housing in far-flung areas, adding to the burgeoning economic cost of traffic congestion in the city and burdening its infrastructure further.

Over the past three years, there have been repeated attempts by the Devendra Fadnavis government to address the rent control problem. They have all come a cropper. Affected tenants make for a much larger vote bank than landlords, and the emotiveness of the issue makes any such attempt vulnerable to opposition pressure. Indeed, removing rent control in one go is both politically unviable and potentially too disruptive economically. But moving from the current first-generation controls to second-generation rent stabilization—where landlords are allowed to raise rents with a cap linked to market rates—is a must. And the eventual goal must be phasing out controls altogether.

There are 28 billionaires living in Mumbai. Most of the rest have it much tougher. The government should get out of the way in the housing market and let them do what they do best. After all, they are the ones who made Mumbai an economic powerhouse.

Should Mumbai repeal its rent control laws? Tell us at views@livemint.com

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