

## CONSERVATION OF HISTORIC HOUSING: IS THE MARKET THE ENEMY ?

The conservation of historic housing was the subject of presentations at the August session in the series of monthly meetings organized by the CSD at the Indian International Centre. It is apparent even to the casual observer that traditional houses, such as havelis, in historic parts of the city are seriously threatened by poor maintenance and upkeep as well as by haphazard new construction. Various speakers at the meeting provided detailed documentation of this process of destruction. What received less attention was the failure of public policy in this area. In this article we wish to offer some general comments on public policy and the role of market forces in conservation. We recognize that the issues are complex and make no claims of being comprehensive in our analysis.

At first glance it seems obvious that the progressive destruction of historic housing in Delhi is entirely due to market forces. It is clearly more profitable for owners of such houses to invest their resources in activities other preservation. However we need to ask a more basic question: why are incentives to house owners structured in this manner ? Furthermore, is this state of affairs an inevitable consequence of market pressures ? We believe that it is not. It is important to realize that market forces are strongly influenced by the environment of laws, institutions and government policies within which they operate. It is therefore not only unhelpful but actually misleading to attribute patterns of city development to market forces without reference to this background.

The pitfalls of generalization can be illustrated by the success of cities in Europe and the US in preserving their historic buildings and neighbourhoods. It is well known that zoning laws and regulation on new construction and alterations form an important element of public policy in these cities. Less appreciated is the fact that it is typically profitable for owners of old properties to invest in their conservation. A thatched-roof cottage in the English countryside is considerably more expensive than more modern accommodation. An owner who degrades such a property substantially lowers its retail value and therefore the worth of his own investment. Similarly, property prices and rentals in designated historic city areas typically command a premium over prices elsewhere. Since the value of such properties depends on its location in a historic area, conservation laws that preserve the character of a neighbourhood make the conservation of individual buildings more profitable as well. This alignment of conservation requirements and private self interest, in turn, makes it easier to enforce conservation laws. Sadly, for us, our public policies have neither been designed nor implemented in a manner which allows city laws and market forces to reinforce each other towards conservation.

Why is our record in conservation so dismal ? At the outset we need to take note of the fact that the housing market in Delhi is characterized by acute shortages. Again this is not an instance of market failure but is the outcome of a range of misguided policies (like the Rent Control Act) and the inefficiency of state monopolies (such as DDA) responsible for vital city infrastructure. This is not an appropriate place for a discussion of this matter; however we do need to recognize that it has an important bearing on the conservation of old houses. As the

ownership of these houses passes from generation to another, families are prevented from moving out by the prohibitive cost of alternative accommodation. This leads to a fragmentation of ownership and property rights. A house built initially for a single family may now be occupied by ten. The maintenance of the house acquires the characteristic of what economists call a public good. An individual who spends his money strengthening the foundations of the house is improving not just his own well being but also that of all other occupants. In general, public goods tend to be underprovided as individuals try and "free ride" on the contributions of others. (Readers who have tried to collect contributions from local residents to clear garbage from their neighbourhood will readily appreciate this point).

The poor quality of housing, the high population density and the pressure on local infrastructure in the historic areas means that property prices here are lower relative to those in other parts of the city. Since the income of residents does not depend in any way on the fact that they live in a historic neighbourhood, it is no surprise that they have no interest in preserving its character. This conflict with individual incentives also makes the enforcement of conservation laws very difficult in much the same way as it is hard to sustain a regime of high income taxation.

An argument which is sometimes advanced for our failure in conservation is that Indians are, by disposition, indifferent to their heritage, at least more so than their counterparts in the West. This may be true but is irrelevant to the matter at hand. We have remarked earlier that the success of conservation in the West is that individuals stand to benefit from it economically. Their investments and their livelihood often depend on it besides which they may have to pay large fines if they violate laws. Their "preferences" for conservation are of secondary importance.

In sum we do not believe that conservation and markets are antithetical. We do not claim that markets left to themselves will result in socially optimal levels of conservation. Laws are essential but they will have little chance of success if economic policies destroy private incentives for conservation.

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