INDIAN THINKING AND PRACTICE CONCERNING URBAN PROPERTY TAXATION AND LAND POLICIES

A Critical View

by

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Discussion Paper #47

June 1974

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Preface

This study is done by one totally unfamiliar with the institution of the property tax and of matters pertaining to urban land policy, previous to this effort. I am indebted to Dean John P. Lewis of the Woodrow Wilson School, Princeton University, for arousing my interest in this area and then sponsoring this study.

All the information was gathered or gleaned during a seven-week visit to India in December 1973 - January 1974. I acknowledge with gratitude the support of the Ford Foundation and the Indian Council of Social Science Research for financing this visit. In particular, I am grateful to Harry Wilhelm, John Sommer and C. Preston Andrade of the Ford Foundation and J. P. Naik and Ramashray Roy of the I.C.S.S.R. for facilitating matters with remarkable speed.

A large number of officials, researchers and others submitted, gladly it seemed, to my enquiries and the four Municipal Corporations of Calcutta, Madras, Delhi and Bombay provided data. Their help is greatly appreciated. I am particularly indebted to K. C. Sivaramakrishnan of the Calcutta Metropolitan Development Authority, J. B. D'Souza of C.I.D.C.O., Bombay, and S. Venkitaramanan of the Government of Tamilnadu for facilitating my visits to their respective cities.

A list of all persons interviewed for this study is provided in Appendix (1).

I am also grateful to Professors Edwin Mills and Arnold Harberger for comments on the first draft.

1. Introduction

The decade 1961-71 has been one of rapid urbanization in India. The urban population increased from about 79 million people to about 109 million -- an increase of 38% over the decade or about 3.5% a year. It is then not surprising that there is acute pressure on housing in urban areas and that values of urban land have been skyrocketing. While the problems of cities qua cities have, in general, never before claimed much attention from the government in India it is probably true to say that they are so doing now. This has partly been caused by the crisis in Calcutta in the late sixties which had to be ameliorated. There are now a fair number of agencies and institutions looking into the problems of urban planning, of low-cost housing, urban land use, etc. In addition, the imposition of rural land ceilings created interest in urban property ceilings and in urban property taxation.

Almost every Plan document has had some mention of the desirability of coordinated urban land policy to counter speculative land price rises and related ills. There has, however, been little data presented on the pattern of these price rises, their magnitude nor any analysis of their causes. Similarly, although the main tax base of each local body is the property tax, there has been almost no attempt at systematic analysis of the tax. There have been various studies describing these property tax systems but they are usually more concerned with the administrative aspects of the tax than its economic aspects. There has been no study relating the changes in property tax collections to changes in land values. While it is possible to obtain reasonable data from local authorities pertaining to property taxation, data on land values is almost impossible to get.

This is somewhat surprising considering the number of government and private pronouncements lamenting price rises of urban land values.

This study is a review of urban property taxes and thinking concerning urban land policies. It attempts to catalogue the major problems in these areas as perceived by policymakers and those administering them as revealed in published materials as well as personal interviews. There is first a general discussion of urban property taxes, then case studies of Calcutta, Bombay, Madras, and Delhi are presented. Finally a review of urban land policies is made. The review is a critical one, subsuming my personal and professional biases and predilections.

2. Central and State Taxes Pertaining to Immoveable Property in Urban Areas in India.

One of the difficulties of studying the taxation of urban property in India is the number of different taxes which impinge on urban property. Some are levied by the Centre, some by State Governments and still others by local authorities.

2.1 Central Taxes[1]

i. Income Tax: Income from urban property is also liable to income tax. The annual rental value of the house is taken as the basis for assessment whether it is being let out or self-occupied. The following deductions are made in arriving at annual value:

a) Rates and taxes paid to local authority.

b) Certain allowances for newly built properties.

c) 50% of annual value or Rs. 1800 whichever is less for owner occupied buildings.

d) 1/6 of net annual value after deducting (a), (b) and (c), for repairs, etc.

e) insurance premiums

f) mortgage charges

g) ground rent

h) interest charges on borrowed capital

i) land tax payable to government

j) rent collection charges not exceeding 6% of annual value

k) Where property is unoccupied that part of annual value which is proportionate to the time it was vacant.

The income tax rates are given in the Appendix - Table A.1.

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[1] Most of the information in this section is taken from [S.N.Banerjee, 1973].

ii. Wealth Tax

Wealth tax is levied on net wealth on the valuation date. This includes all assets wherever located belonging to the assessee on the valuation date. Additional tax is levied on ownership of urban land and buildings. There are, however, the following important exemptions of interest here:

a) One house up to a value of Rs. 100,000, whether rented or self-occupied. The excess over Rs. 100,000 is taxable.

b) All household articles e.g. furniture, utensils, wearing apparel.

c) Motor car up to a value of Rs. 25,000.

d) Equity shares issued by an industrial undertaking for 5 successive years from year of acquisition.

e) Deposits in various kinds of financial institutions.

There are a host of other exemptions which go a long way in diluting the effect of this tax.

Wealth tax rates are given in Appendix, Table A.2.

iii. Capital Gains Tax

Capital Gains Tax is levied on gains accruing from the transfer of any assets owned by the assessee in the assessment year. Short term gains are those arising from transfers of assets which are held for less than 2 years. The total capital gain is added to income from other sources and taxed at the appropriate income tax rate.

Long term gains are those arising from transfers of assets which have been held for more than two years. 65% of total capital of total capital gains after exempting the first Rs. 5000 are added to ordinary income for income tax purposes. This applies to land and buildings while it is 50% for other assets.

The following are the important exemptions:

a) If the asset transferred is a house not exceeding Rs. 25,000 in value. This exemption is not available if the assessee owns other property valued at more than Rs. 50,000.

b) If the capital gain is devoted to house-building for the assessee's own residence. If the amount of capital gain is greater than the cost of the new asset the tax applies to the difference.

iv. Estate Duty.

Estate Duty is levied on the entire estate left behind by the deceased. It is not an inheritance tax levied on the heirs' respective shares. Agricultural land is included in the estate. One house used exclusively by the deceased is exempt but if it is in an urban area, this exemption is allowed up to a value of Rs. 100,000 only. Certain allowances are also made for gift tax or capital gains tax paid on the same property and for quick succession of property when the successor dies within 5 years of the first death.

The tax rates are given in Appendix, Table A.3.

v. Gift Tax

This tax was instituted along with the Estate Duty to curb evasion of that tax. It is levied on any transfer of movable or immovable property made voluntarily and without consideration in money or money's worth. It exempts gifts to various kinds of charitable institutions, to dependents and to spouses.

The rates are given in the Appendix, Table A.4.

2.2 State Taxes

i. Urban Land Tax

Each state is empowered to levy an Urban Land Tax but not all states do. Punjab, Haryana, and Jammu and Kashmir levy this at 10% of annual rateable value. Madhya. Pradesh, Tamilnadu, Bihar, Gujarat, Assam, Maharashtra also make use of this tax.

ii. Sales, Registration Charges

Each state levies stamp duty on transfers of property and on registration of the property. The rates vary from state to state but are in the range of 2-9% of sales deed.

iii. Betterment Levy

States are also empowered to levy taxes on increased value of land due to public activities like building of roads, parks, provision of transportation, etc., which serve to increase the value of property

There is thus a multiplicity of taxes that urban immovable property is subject to. These taxes, it must be noted, are those in addition to local taxes which are, in general, much heavier. Even so it cannot be concluded that urban housing in India is particularly heavily taxed. The exemptions allowed for each tax mean that all but the most expensive properties escape central wealth related taxation. Furthermore, the number of exemptions allowed also provide an opportunity for luxury housing to escape taxation by inducing undervaluation, bribery of tax officials and so on.

Central taxes have received a fair amount of attention from economists, the government and others and therefore no further discussion is offered here. Indeed, a Finance Commission reviews them every 3 years in addition to various tax enquiry committees which are appointed from time to time. Local taxes are, however, generally neglected by economics researchers as well as the central government. They do not, for example, fall within the terms of reference of the Finance Commissions.

3. Local Property Taxes

3.1 An Overview

Property taxes form the major source of revenue for most local bodies in India. In general, it is levied more as a source of revenue than as an instrument for regulating land use. For purposes of assessment India has followed the British system of using annual rental value as the basis for taxation. The annual value is that of land and buildings taken together. Annual rental value is defined as the gross annual rent at which the property may reasonably be expected to be let from year to year. It is thus a hypothetical value which can be interpreted as the market rent of the property concerned. It is not the actual rent transacted. In practice, though, there is considerable variation in methods of assessment and the actual rents are used more often than not.

Municipal bodies in India are not statutory bodies but are formed by Municipal Acts enacted by the various state legislatures. As such, they derive all their powers from the State legislatures which are often loath to devolve too many responsibilities downwards. Some states have made the levy of property tax compulsory for all municipalities and corporations prescribing minimum and maximum limits on the rate structure.

It is very difficult to get comprehensive data on the revenue realized from property taxes over the whole country. The Central Statistical Organization does carry out a partial survey of 22 Corporations and presents annual data in its Annual Statistical Abstract. Similarly, the Reserve Bank of India has a continuing Survey of Finances of Local Authorities and publishes its data periodically in its Monthly Bulletin. The Survey began in 1951 and the latest year for which data is available is for 1967. Since

TABLE 1

Local Authorities in India 1965-66

	Port Trusts	City Corporations	Munici-palities	Others
A. No. of Local Authorities in India	7	26	1487	453
B. Addressed for R.B.I. Survey	5	26	77	--
C. No. which filed Returns	5	20	43	--

(c) as % of urban population covered by A 33.2%

Source: Reserve Bank of India Bulletin Sept. 70: Finances of Local Authorities 1965-66.

TABLE 2

Local Tax Revenue as Compared with Central and State Tax Revenues

(in current crores of Rs.)

Year	1951-52	55-56	60-61	65-66
A. National Income	9970	9980	13308	20586
B. Local Authority Rates & Taxes	22.9	29.4	59.8	103.2
(B) as % of (A)	0.2	0.3	0.4	0.5
C. Central Govt. Tax Revenue	460	412	730	1785
(C) as % of (A)	4.6	4.1	5.5	8.7
D. State Govt. Tax Revenue	281	356	624	1118
(D) as % of (A)	2.8	3.6	4.7	5.4
E. Combined Tax Revenue (B+C+D)	764	798	1414	3006
(E) as % of (A)	7.7	8.0	10.6	14.6

Source: Same as Table 1.

Note: 1 crore = 10 million

the coverage has been expanded in every survey it is not possible to obtain much idea of the trends in property taxes. However, it is estimated that property tax accounts for about 50% of all local tax receipts [B. Nanjundaiya (1971)] and that the 26 city corporations account for about 50-70% of all local tax receipts. Table 1 gives the distribution of the various types of local authorities in India and the Reserve Bank coverage of them. Table 2 gives the total tax income of local authorities as covered by the R.B.I. surveys and compares it with trends in national income, central and state taxes. Because of the improvement in coverage of the R.B.I. surveys it is not unreasonable to conclude that the proportion of local property taxes to national income has remained roughly constant while that of Central and State taxes has roughly doubled over the period 1951 to 1966. The most complete coverage of local property tax to date was made by the Zakaria Committee [Government of India, 1963] for the year 1960-61, when an estimate of Rs. 42 crores was arrived at. This seems consistent with the R.B.I. partial estimate of Rs. 30-33 crores for the same year. 42 crores in 1960-61 was about 0.31% of national income so total property taxes were probably no more than 0.35% of national income. Assuming that they have remained a constant proportion of national income,[1] total property taxes in 1970-71 were about Rs. 120 cr. In the U.S. Dick Netzer [1966] reported local property taxes to be about 3 to 3.5% of U.S. national income -- a proportion that has been largely constant for almost a hundred years.

Any comparison with the U.S. is hazardous because of the myriad of structural differences between the two economies. It is, however, pertinent to ask if the ratio of 0.35% is a very low one. The U.S. data

[1]This is probably an overestimate. The studies for Madras, Bombay and Calcutta show that property taxes have barely kept pace with the consumer price index.

indicates that even when the level of urbanization was low (20-30% of total population) in the late nineteenth century property taxes were about 3 to 3.5% of national income. This is a remarkable fact considering all the changes in the structure of the economy and in the system of taxes. One might have expected that this proportion would be lower at lower levels of urbanization. That it is not so is probably explained by a tight correlation between the level of urbanization and industrialization [E.S. Mills, 1972, p. 24] and thereby g.n.p. (We are here ignoring all other changes, e.g. in tax rates.) The elasticity of the property tax base, with respect to g.n.p. is, perhaps, unity. Can we then transfer this conjecture to the Indian economy and expect that the proportion of the property tax can be raised to a similarly high level? Probably not because the nature of current Indian urbanization is rather different from that in the U.S. in the last century. The pressure of population is much greater, the proportion of people living in abject poverty much higher and so on. The proportion of people living in houses which can be taxed is therefore much lower. Taking account of these differences and also recognizing the existence of other state and central taxes bearing on urban property it is safe to assert that property taxes can possibly be increased to 1-1.5% of national income but not much more. With the existing rate structure but improved administration and assessment it is estimated that a two-fold increase[1] is easily possible. With increased rates (particularly in the smaller cities), amendments in rent-control laws and a four to five fold increase does not appear to be an outrageous conjecture. It is not being suggested

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[1]This estimate was mentioned in various conversations by administrators and others studying property taxes.

here that this is easy or even likely given the current political and administrative constraints. What *is* being asserted is that a four-fold increase in collection (in aggregate) will not involve undue hardship to property owners.

It is important to note here that even the most generous assumptions leading to a four or five fold increase in property taxes provide only Rs. 500 crores in extra taxes i.e. about Rs. 2500 crores at 1970-71 prices over a period of five years or about 5% of the proposed outlay of the Fifth Plan. This figure incidentally is also roughly equal to combined annual deficit in the centre and state budgets over the past three years.[1] The more realistic estimate of a Rs. 100-150 cr. possible increase is then not one which will ease the national resource constraint significantly. It can make possible a marked improvement in municipal services. It is relevant to mention here that the Fourth Plan allocation to the Calcutta Metropolitan Development Authority itself amounted to Rs. 150 cr. and that suggested for the Fifth Plan is in the region of Rs. 300 cr.

3.2 Current Research on Property Taxation

All the preceding estimates are based on a number of approximations and rely on guesses at each stage of the argument. Only the availability of better data and of detailed studies relating to the incidence and elasticity of local property taxes in different places can lead to more systematic and accurate estimates. In this connection it must be mentioned that increasing amounts of data are now being collected by the Center for Training and Research in Municipal Administration (CMA) (at the Indian

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[1] 1970-71 Rs. 424 cr. 1971-72 Rs. 640 cr. 1972-73 Rs. 550 cr.
Source: [V.K.R.V. Rao etal., 1973] Table IV.

Institute for Public Administration, New Delhi) and by its regional

centers at -- Lucknow University
-- Osmania University, Hyderabad
-- All India Institute of Local Self-Government, Bombay
-- Indian Institute of Social Welfare and Business Management, Calcutta

The studies conducted at these centers are naturally of the public administration variety and usually of not much utility to the economist except as background material. The Delhi center publishes a quarterly journal Nagarlok, as does the Bombay Center: Quarterly Journal of the Local Self-Government Institute. Both journals provide an accruing body of experience with matters pertaining to municipal administration and finance. The Delhi center is attempting a comprehensive coverage of local finances but is experiencing considerable difficulty with return of questionnaires, etc. My impression is, however, that the data will be amenable to economic analysis when available.

Economics departments have traditionally neglected the field and continue to do so. The reasons are presumably the paucity of data and the difficulties of conducting first hand surveys in this field of murky and semi-legal rent and property transactions. However, to my knowledge, there are a few intrepid explorers:

i) Department of Economics, Gujarat University, Dr. Mahesh Bhatt

ii) Sardar Patel Institute of Economics and Social Research, Ahmedabad Dr. Atul Sarma

iii) Center for Development Studies, Dr. I.S. Gulati Trivandrum

iv) Center for Social Sciences, Calcutta, Dr. Nirmala Banerjee.

In addition, the National Council of Applied Economic Research, (NCAER) has recently been commissioned by the Planning Commission to do a comprehensive survey of local finances. This may well be more exhaustive than the CMA efforts since personal visits to each local authority will be possible in this study. The data collected will also be more detailed and is likely to be available to other researchers once their own study is completed.

3.3 A Review of the Current Issues

The property tax must be the most unevenly administered and the most maligned as well as being the most durable of all taxes. It has financed the major part of municipal expenditures since the first municipal councils were established in Bombay, Calcutta and Madras in the early part of the eighteenth century. Yet, as mentioned before, little is known about its overall impact, incidence and effects on resource allocation decisions. Most of the literature that can be found on the subject deals with aspects of:

i) the basis of assessment,

ii) inefficiencies in administration, and

iii) exemption provisions.

There have been 4 major central government reports over the past two decades which have investigated the local property tax in some detail:

a. 1951 The local Finance Enquiry Committee [G.O.I., 1951]

b. 1953-54 The Taxation Enquiry Commission. [G.O.I., 1954]

c. 1963 Committee on Augmentation of Financial Resources of Urban Local Bodies.
-- generally known as the Zakaria Committee. [G.O.I., 1963]

d. 1966 The Rural Urban Relationship Committee. [G.O.I., 1966] (R.U.R.C.)

The curious aspect of these reports is that, apart from a few exceptions, they have reached the same conclusions and made similar recommendations over a span of almost twenty years; yet, none of their major recommendations have been put into practice. We will here examine the main problems addressed by them.

A. Capital Value vs. Annual Value

Any study dealing with property taxation in India always discusses the relative merits and demerits of assessment of properties based on capital value or annual value.

The concept of annual rateable value as prescribed by the various municipal acts in India corresponds closely with the view of the English courts: "The rent prescribed by the statute is a hypothetical rent, as hypothetical as the tenant. It is the rent which an imaginary tenant might be reasonably expected to pay to an imaginary landlord for the tenancy of the dwelling in that locality, on the hypothesis that both are reasonable people, the landlord not being extortionate, the tenant not being under pressure, the dwelling being vacant and to let, not subject to any control, the landlord agreeing to do the repairs and pay the insurance, the tenant agreeing to pay the rates, the period not too short, not too long, simply from year to year." [D. Holland, 1970., p. 65]. The concept then is essentially that of free market rent and is hypothetical since the housing market is seldom free of distortions and control.

Capital value is generally considered to be what a willing seller could be expected to receive for his property from a willing buyer if it were offered for sale free of encumbrances and on reasonable terms. The concept here again is again the price of the property under a regime of a freely competitive market. Now since the capital value of property is the present value of the discounted stream of its expected income, theoretically, there is no conceptual difference between the two bases of assessment.

The merits and demerits of the two systems are then to be found in their administrative aspects and allocative effects. The proponents of capital value taxation (e.g. B. Nanjundaiya, private communication) usually give the following kinds of advantages:

i) Being based on current sale prices the rising market price of land can also be taxed.

ii) Vacant land would also be taxed and therefore would lead to more efficient land use.

iii) It would be possible to form an elaborate valuation code.

iv) Since some of the central taxes are based on capital valuation it would also lead to better collection of those taxes.

v) Evasion would be more difficult.

It is not, however, clear if these advantages would actually be realized were the basis of the system changed. Firstly, rising market price of land would be taxed only if properties are assessed very frequently. One could obtain the same result from the annual-value system were there no rent-control acts and the valuation cycle was short. It is probably true, though, that the rising land price could manifest itself in rising rents only with a lag. While there is rent-control it is unreasonable to tax on rising land prices and shifting it to the tenant directly (as has been suggested) makes a mockery of rent control. Capital valuation does make taxing of vacant land easier since it is difficult to calculate hypothetical rents for unimproved land. It is not insuperable though, and annual-value taxation can also tax vacant land. A valuation code for annual value can also be prepared as, indeed, has been done by Professor Deva Raj [1973] at the Center for Municipal Administration in Delhi.[1]

Among the disadvantages of the C-V system are [A. Datta, 1971]

i) The necessity of reliable records of cost of land, and

ii) need for qualified professional valuer.

Furthermore, valuation is made more difficult by the absence of active property markets. This is not a major problem in areas which are relatively newly developed but in older areas transfer of property is fairly infrequent. Data is, on the other hand, always available on current rental values. It is also true in India that a large majority of properties are let rather than owner occupied; e.g. in Calcutta about 75% of properties were rented while only 18% were owner-occupied. [Government of West Bengal, 1967]. The comparable figures for Ahmendabad are 83 and 17% respectively. [S.P. Gupta, 1971] The administrative burden is, therefore, lighter for the a-v method where tenancy is the rule as it is in India.

Each of the government committees [G.O.I., 1951, 1954, 1963, 1966] went into this question and rejected a change from the a-v method to the c-v method on grounds similar to those mentioned above. Likewise at a seminar on property tax [I.I.P.A., 1972] sponsored by the Center for Municipal Administration most participants did not favor a change to the c-v system [e.g. K. Sreeram, 1972].

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[1]This was in response to one of the recommendations made by the Zakaria Committee [G.O.I., 1963].

B. Rent Control

The problem of rent control has been alluded to a number of times already. Each state has its own rent control act most of which were enacted in the forties or early fifties. These acts froze rents at the time of their enactment and provided detailed guidelines for the computation of standard rents for buildings constructed thereafter. New buildings are often exempt for a certain number of years.

Various court judgements[1] over the years have ruled that the local authority cannot assess the annual value of any property at a value greater than the standard rent. This ruling applies even when the actual rent transacted (by mutual agreement between the landlord and tenant) is higher than the standard rent. The result of these acts is therefore to severely curtail the property tax base of all local authorities. In addition the housing market is severely distorted, old buildings do not get repaired and landlords have to adopt illegal rent transactions to maintain a reasonable 'real' rate of return on their property.

Almost every study dealing with property taxes touches on rent control problems [e.g. J. Madhab, 1968; I.R.Khurana, 1972; K. Sreeram, 1972]. Each of the government committees went into them in some detail. The Zakaria Committee and the R.U.R.C. [G.O.I., 1963; 1966] both recommended that municipal assessments should be freed from rent control and the increase in tax should be extracted from the tenant. Khurana agrees with this recommendation. Abhijit Datta [1971], in a study of property taxes in Assam, suggested that the State Government should compensate the local authority for loss in taxes owing to rent control since they are caused

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[1]A good summary is given in [R.G. Rele, 1972].

by a State act. Others have also gone along with the basic idea that municipal valuation should not suffer because of rent control acts. What is surprising is that few have recommended abolition or amendment of the rent control acts themselves. The exceptions are J. Madhab and K. Sreeram referred to above and the Taxation Enquiry Commission of 1953-54 [G.O.I., 1954]. Their position is well stated:

> "...the controlled rents must be assumed to be reasonable rent; and we are unable to agree that municipalities should in effect be permitted to ignore the very fact that a particular limit has been set by statute to the rent which the landlord may levy and make the assumption that he may 'reasonably' obtain a rent which exceeds that maximum. Nor are we able to agree with the other suggestion viz., that the landlord should be permitted to pass on to the tenant the increase in the tax which would result from the previous proposal. The real issue raised by the suggestion is in regard to the level at which rent happens to be controlled, and the proposal is in effect that, that level should be raised to the extent the tax may be raised on the basis of a 'reasonable' assessment higher than the controlled rent. This raises the larger question as to the levels at which rents should be controlled from time to time. What is clear is that the Municipality cannot through revision of assessments, be allowed in effect to decide that question and in individual cases alter the level prescribed by government." [G.O.I., 1954, Vol. 3, p.7].

This, in essence, has also been the view of the courts in various judgments concerning the problem.

I am convinced that it is rent control acts which should be abolished or amended to release property taxes from the binding constraints of controlled rents. It is not at all clear that rent controls actually benefit low income tenants nor that they redistribute income. Abhijit Datta [1973] claims that they do not. There are relevant questions to do with issues of both horizontal and vertical equity. Firstly, it is not always the case that tenants are poorer than landlords. Secondly, if we are really interested in subsidising the poor, why pick on landlords as distinguished from other owners of capital? Old settlers are protected at the cost of recent migrants, newly married couples and mobile tenants. This often involves a regressive distribution rather than a progressive one. As mentioned earlier, rent control also has the effect of discriminating against old buildings and discouraging maintenance thereby leading to unnecessary depletion of housing stock. In terms of economic efficiency it is inefficient because it is a tied subsidy; the tenant might wish to use the subsidy for other purposes were he given the choice. Datta suggests other distribution methods if we are really interested in helping the poor.

On the other hand, if a conscious political decision is made that rent control is essential there is no reason why property taxes should be freed from that decision. If the problem is of local body finances then a matching decision should be made to finance them through other means as suggested by Datta in his Assam study [1971]. As a compromise though, rent controls could be maintained but revised at frequent intervals of, say, 3 to 5 years.

C. <u>Central Valuation Authority</u>

Most students of the property tax in most countries have lamented the gross inefficiencies in assessments. This is true of the U.S. as much as it is of India. Two kinds of reasons are usually seen for these inefficiencies:

a). Local bodies being at the bottom of the governmental structure get the least qualified and able politicans as well as officials [A. Bose, 1973]. They are thus <u>ill-trained</u> or <u>unable</u> to make proper assessments.

b). Again, local bodies being the lowest form of elected governments they are nearest and most susceptible to parochial pressures. This has the result of <u>willful</u> corruption leading to improper assessments.

The latter problem is exacerbated by the multiplicity of functions thrust on municipalities: the granting of all kinds of licenses, building permits, etc. Each licensing power is a source of new corruption.

The standard solution proposed has been the setting up of a central valuation authority at the state or national level. All the government committees have suggested this as well as other commentators -- all of whom have been referred to already. The one exception is K. Sreeram [1972] who believes that local bodies should be strengthened rather than weakened and therefore should be given the responsibility for making assessments. I agree with his sentiment for it is a general tendency in India to centralize all kinds of activities in the interest of efficiency. In this case, though, the advantages of a central valuation authority outweigh its possible deleterious effects on the morale of local bodies.

J. Madhab [1968] estimated that underassessment varied from anything like 25% to 85% of annual value. If instituting a central valuation authority (C.V.A.) reduces even half of this underassessment it would be worth the reform. The mere establishment of a C.V.A. frees the process of assessment from local pressures. Such an authority can also be professionalized by appropriate training programs and therefore promote efficiency in that form. If it is made a state or central cadre it will have increased chances of attracting more able officials than local bodies are apt to. If a more decentralized solution is preferred, the C.V.A. could instead be established as a training and watch-dog agency rather than as an executing agency. It could then train valuers in a systematic fashion and help in establishing valuation norms. The valuers themselves would work for the local bodies. This arrangement could have the disadvantage of susceptibility to local pressures but it could be somewhat alleviated by the C.V.A. performing spot checks at random intervals. (A similar recommendation was made by Abhijit Datta for Assam [1971]).

The added benefits that could accrue from a C.V.A. would be in the collection of central taxes. Since wealth, gift, estate, capital gains taxes are all dependent on urban property to a large extent a C.V.A. could be providing data at a central level. Income taxes on income from property could benefit as well. The establishment of such an agency should have the effect of curbing evasion of all these taxes.

D. Other Issues

i. Central and State Govt. Properties

Government properties have been taxed at very low levels and local authorities have essentially been dependent on the largesse of central and state governments in what they can get from them as taxes or transfers in lieu of taxes. Each of the government committees has recommended an increase in these taxes in some form or another. Both the Local Finance Enquire Committee [G.O.I., 1951] as well as the Zakaria Committee [G.O.I., 1963] recommended the taxation of governmental properties at normal rates; i.e., they should be taxed like anyone else. The R.U.R.C. [G.O.I., 1966] recommended that all states follow the system adopted in Delhi. It pointed out that while the Government had agreed, in principle, in 1954 to pay service charges in lieu of property taxes it has not so done in most cases. The Delhi formula is that rateable annual value will be 9% of capital value and the government would pay.

a. full house tax + 75% service charges for buildings constructed before 1950

and b. 75% of both house tax and service charges for buildings built after 1950.

No rationale is provided for this scheme nor is it easy to deduce one.

To me there does not seem much doubt that the correct approach to government properties should be the one suggested by the other two committees. Since state governments give local authorities grants-in-aid anyway such a system could merely serve to rationalize existing financial transfers. There could be additional transfers involved from the central government. If there is a fear that such funds would be wasted at the local level they could be tied to the achievement of certain well specified efficiency norms in administration. It could be a method of providing incentives to local bodies to improve their administration.

ii. Offices and Factories

Each committee has recommended an increase in collection of taxes from factories and offices. The current practice is to tax them like anyone else. Machines are not included in the assessment of property. The Zakaria Committee favored inclusion of plant and machinery in the valuation of property and the other committees made similar recommendations. This is a complicated problem since it involves the broader issue of taxation of all capital. There needs to be more detailed studies of the effect of such a tax on investment, etc. before a clear answer can be given. Since current taxation is based on annual valuation there are further problems involved concerning the rate of return on capital to be used for computing annual value of machinery. If the object of the exercise is to increase revenues of local bodies it may be well to delink such capital taxation from property taxation. It could indeed be easier to levy a tax on a company's gross annual receipts rather than on the value of its plant and machinery.

iii. Owner Occupied Houses

While most of the municipal acts require owner occupied houses to be valued on an identical basis as those rented out, in fact, this is not done. Owner-occupiers are unofficially, though by fairly set conventions, given remissions of different kinds in all cities. S.P. Gupta [1971] has shown conclusively in a study of Gujarat cities that this practice discriminates very unfairly between tenants and owner-occupiers. He estimated that the ratio of tax liability of an owner occupant to that of a tenant occupying similar property at market rent could be anything from 1:3·5 to 1:5. The removal of such discrimination could increase property tax collections by 100% in Ahmedabad according to his estimates. Even if these are over-estimates the point remains valid and is well-taken. Such discrimination also causes distortions in the incentives to invest in housing. While the Local Finance Enquiry Committee of 1951 had favored owner-occupiers the 1953-54 Taxation Commission had reversed that recommendation and opted for equal treatment.

iv. Vacant Land

Vacant land is, in general not taxed. Each of the committees has favored its taxation in the normal way. This change would reduce land speculation and promote better land use. There is really no dissent from this recommendation. Similar arguements apply to remission of taxes for vacancies occurring in rented houses.

v. Underassessment

This issue is dealt with partly in the discussion related to the establishment of a central valuation authority. The Wanchoo Committee [G.O.I., 1971] suggested that the government should acquire undervalued properties at the value given by the owners. This would prove to be an effective inducement for people to self-assess their properties accurately. This suggestion has been endorsed almost unanimously [A. Datta, 1968; I.S. Gulati, et. al., 1973; J. Madhab, 1968]. Gulati has gone further to say that the right to buy undervalued property should be given to everyone and Datta would like to give more incentives for people not to evade taxes. The Wanchoo Committee suggestion has been legislated in 1972 and we are yet to see its results. [The legislation relates to undervaluation for purposes of Central Taxes, not local taxes.]

4. Calcutta

4.1 Introduction

To deal with any problem concerning Calcutta in the space of a few pages is a hazardous task: the more so when one is not intimately familiar with the city. While it has long been the primate city for the Bengalis and also the commercial capital of India until recently, it is only in the past decade that it has drawn world wide attention. When one thinks of urban chaos it is Calcutta that comes to mind. It has withstood vast increases in population since India's independence in 1947 but has not had matching investment in the provision of utilities and services. "Metropolitan Calcutta in effect, has grown in spite of itself -- haphazardly, unsystematically, without a suitable structure or co-ordination of the forces of growth and with a diminishing share for each of its residents in such amenities as the community affords" [C.M.P.O., 1966, p. 3].

We are mainly concerned here with problems to do with local property taxation and, to some extent, of urban land use. The Calcutta Metropolitan District consists of 3 Corporations (Calcutta, Howrah and Chandernagar), 31 Municipalities, 63 non-Municipal Urban Units and 116 semi-Urban Anchal Panchayats. Here we will be dealing with Calcutta Corporation only, although this extreme administrative fragmentation is itself a problem worth attention.

4.2 The Housing Situation

Before going into the main issues of property taxation it is worthwhile obtaining an appreciation of the nature of housing in Calcutta. The population density of the central city is about 33,000 people per sq. km. This compares with about 15,000 for central Tokyo, 26,000 for

Manhattan and about 14,000 for Shanghai. It must also be noted that Calcutta does not have the 'benefit' of skyscrapers to support this density. The housing that exists is extremely crowded as the following profile of the housing situation in Calcutta indicates:

TABLE 3

A Profile of the Housing Situation in Calcutta Corporation - 1963

Monthly Income Level of Family	Rent&Taxes as % of Income	Percentage of Families with Exclusive use of			Average Floor Space per capita
		kitchen	bathroom	Drinking water supply	
Rs.	%	%	%	%	m^2
Up to Rs. 100	16.3	15.7	1.9	8	2.5
101-200	13.8	30.7	5.7	13.6	2.4
201-350	14.5	48.9	25.6	31.9	3.1
351-700	13.3	66.7	51.2	49.2	3.7
701-1200	12.8	88.3	79.2	83.0	4.2
1200 +	10.4	99.0	93.5	94.1	6.2

Source: Survey of Housing Conditions in Calcutta Corporation in 1963 [Govt. of West Bengal, 1967].

According to estimates of the Calcutta Metropolitan Planning Organization [C.M.P.O., 1966], average number of persons per room was 2.98 in 1960 and there were 1.6 rooms per housing unit. Almost a quarter of the total population (3,148,746 in 1971) is said to live in slums and anything from 30 to 80 thousands are pavement dwellers. In 1970 as many as 67% of the households lived in just one room and the average rate of people per room had gone up to 3.4 (from about 3.0 in 1960). As far as the income distribution is concerned, the lowest 40% in the Calcutta Metropolitan District (C.M.D.) earn less than Rs. 110 per month and the lowest 85% less than Rs. 464. The lowest 60% of families share 20% of total income. [S. Ghosh, 1973]. The regressive structure of rents (and taxes connected with housing) is also shown in the second column of the Table 3 above. The systematic decline of the proportion of rent and taxes to income is remarkable.

4.3 The Property Tax

The purpose of all this is to emphasize the most well known fact about Calcutta: its poverty. The distribution of income being such and, thereby, the distribution of housing, the base of the property tax is very restricted. The number of houses subject to the property tax is fairly small. Only 120,000 holdings are subject to taxation of which only about 2,000 provide as much as half the revenue.[1] The property tax in Calcutta is a consolidated rate i.e. there is just one rate covering house tax and service taxes. The current schedule is as follows:

Annual Rateable Value	Tax Rate
Less than Rs. 1000	15 1/2%
Rs. 1000-3000	18 1/2%
Rs. 3000-12000	22 1/2%
Rs. 12000-15000	27 1/2%
Rs. 150000 +	33 1/2%

[1] Private communication M.G. Kutty - formerly Director, C.M.P.O.

Until 1972, properties worth more than Rs. 12,000 were subject to a rate of 23 1/2% only. Bustees (slums) have a special rate:

Annual Rateable Value	Tax Rate
Less Rs. 1000	15 1/2%
Rs. 1000 +	18 1/2%

4.31 Assessment

According to the Calcutta Municipal Act [Govt. of West Bengal, 1971] the tax is based on the annual rateable value (r.v.) of the property. The basis of assessment is that of hypothetical rent described earlier, r.v. is arrived at after deducting 10% for repairs. Where annual value is difficult to find it is taken as 5% of the cost of erecting the building at time of assessment, less depreciation plus present value of land. For cinemas it is taken as 5% of gross receipts. For commercial establishments the value of plant and machinery is not included.

The valuation of properties is reassessed in cycles of 6 years. However, bustee dwellers can ask for revaluation every year. New additions and demolition are also causes for revaluation.

Half the tax has to be paid by the owner of the property and half by the tenant. In the case of bustees the owner may extract from each hut half the rate payable for land and the full rate payable for the hut: the land and huts are valued separately in bustees.

4.32 Exemptions

The following are the major exemptions allowed by the act:

a. Properties used for worship, burial and burning grounds.

b. Properties belonging to charitable institutions. These are mainly those for the relief of poor, education and medicine. The Corporation can designate any institution it chooses (on application) as a charitable institution.

c. Open and public spaces

d. Properties whose annual value is less than Rs. 50.

e. Unoccupied lands or buildings are given 50% tax relief if the annual value is greater than Rs. 10,000 and if they are vacant for more than 60 days.

4.33 Collection

Table 4 gives the total tax receipts for Calcutta Corporation. The main point to note is the slight decline in receipts in real terms over a period of 14 years. As a basis for comparison the revenues of the central government and the combined revenues of all the states are given in Table A.5 in the Appendix. In real terms each of them has more than doubled in the decade 1960-61 to 1970-71 while in current prices they have almost quadrupled. For purposes of consistency the price deflator used is the urban non-manual workers consumer price index averaged for all of India. The use of any other price deflator does not alter any inferences drawn here. Clearly the central and state tax effort has been far more dynamic than the Calcutta Corporation local taxes. With a real decline in income it is then not surprising that the Corporation is not able to keep up the minimal services it was providing in the late fifties. Furthermore, with inadequate investment in utilities, etc. it is inevitable that the quality of services has been declining.

Table 5 gives the property taxes demanded and collected by Calcutta Corporation from 1958-59 to 1971-72--in current prices. Table 6 gives the same data in constant 1960-61 prices. It is, perhaps, 'unfair' to deflate property taxes by a price index since the rent control act has frozen

TABLE 4

Calcutta Corporation: Total Tax Receipts 1958 to 1972

(in thousands of Rs.)

Year	Total Tax Receipts (current prices)	Current Index	Total Tax Receipts (1960-61 Prices)	(Const) Index
1958-59	46,093	96	47,519	100
1959-60	45,539	95	46,468	97
1960-61	47,756	100	47,756	100
1961-62	53,045	111	53,520	110
1962-63	53,309	112	50,292	106
1963-64	56,268	118	50,692	106
1964-65	60,214	126	51,909	109
1965-66	63,128	132	51,324	108
1966-67	61,483	129	45,543	96
1967-68	76,080	159	51,060	107
1968-69	74,486	156	47,747	100
1969-70	76,910	161	48.069	101
1970-71	75,477	158	44,661	94
1971-72	78,892	165	45,602	96

Source: Calcutta Corporation

Note: Price deflator used is the C.P.I. for urban non-manual workers for Calcutta. See Appendix Table A.6 for series.

rents at 1940 levels. A decline in real collections then means that the tax from new construction has not been enough to offset the loss from frozen rents. Part of the decline is also caused by a fall in the ratio of tax collected to tax demanded. Indeed, if the 70% collection rate of the late fifties had been kept up the real tax collection in 1970-71 would have had an index of about 120 rather than 90. Since the population of Calcutta Corporation has been stagnant -- 2.93 million in 1961 to 3.15 million in 1971 -- a growth of 20% in real property taxes would have been a fair one given the operation of rent controls. The fall in collection rate is, of course, a reflection of the fall in administrative standards of the Corporation. That in itself may be due to the inelasticity in its tax revenues and concurrently burgeoning set of responsibilities. It is only in the last couple of years that the State Government has provided markedly increased grants-in-aid and allowed the Corporation to levy a new octroi tax. That the collection rate was as high as 90% only twenty years ago now seems unbelievable. Clearly the Corporation can increase its property tax receipts by 60-80% if it only tightens up its administration.

The following gives the trend in rising valuation of properties in Calcutta. This is the total assessment of properties done by the Corporation.

1959-60	Rs. 213.5 million
1964-65	Rs. 260.3 million
1970-71	Rs. 330.3 million

(Source: Calcutta Corporation)

TABLE 5

Calcutta: Property Taxes Demanded and Collected 1958 to 1972

(current prices)

Year	Net Demand (Rs. thou.)	Index (1960-61=100)	Net Collection (Rs. thou.)	Index (1960-61 = 100)	% Collected
1958-59	58,442	87	42,589	95	72.9
1959-60	60,951	91	42,038	94	69.0
1960-61	66,883	100	44,676	100	66.9
1961-62	71,196	107	49,557	111	69.6
1962-63	74,945	112	50,016	112	66.7
1963-64	76,390	114	51,206	115	67.0
1964-65	74,999	120	54,645	122	68.3
1965-66	81,068	121	55,107	123	68.0
1966-67	88,728	133	54,356	121	61.3
1967-68	103,438	155	68,700	154	66.4
1968-69	100,416	150	67,682	151	67.4
1969-70	113,272	169	70,271	157	62.0
1970-71	128,716	193	68,345	153	53.1
1971-72	139,924	209	70,909	159	50.7

Source: Calcutta Corporation

TABLE 6

Calcutta: Property Taxes Demanded and Collected 1958 to 1972

(in Thousands of Rs.) (1960-61 constant prices)

Year	Net Demand	Index (1960-61 =100)	Net Collection	Index (1960-61 =100)
1958-59	60,249	90	43,906	98
1959-60	62,195	93	42,896	96
1960-61	66,833	100	44,676	100
1961-62	70,495	106	49,065	110
1962-63	70,660	106	47,135	106
1963-64	68,820	103	46,132	103
1964-65	68,963	103	47,108	105
1965-66	65,909	98	44,302	100
1966-67	65,724	99	40,264	90
1967-68	69,423	104	46,107	103
1968-69	64,368	96	43,386	97
1969-70	70,794	106	43,919	98
1970-71	76,162	114	40,441	90
1971-72	80,881	121	40,988	92

Note: The price deflator used is the Consumer Price Index for Urban Non-Manual Workers for Calcutta. See Appendix Table A-6 for Series.

It was mentioned earlier that about 50% of the tax comes from the 2000 most expensive properties. In 1970-71 the distribution of properties in different tax brackets was as follows:

TABLE 7

Distribution of Properties According to Value

Annual Rateable Value (Rs.)	Total Valuation (million Rs.)	Tax Demanded (million Rs.)
Less than Rs. 1000	34.4	5.3
1000-3000	74.0	13.7
3000-12000	69.9	15.7
12000-15000	59.3	16.3
15000 +	91.0	30.5

Source: Calcutta Corporation.

The low magnitude of the tax from the cheap properties makes it almost not worth collecting. The Corporation could save itself a great amount of trouble and administrative costs if it raises the exemption limit to Rs. 1000. It could, in all probability, increase its collections dramatically by concentrating such resources released into tightening collections at higher levels. The one disadvantage of doing this would be the increase in incentive for people at the borderline to understate their property values.

The correct way of assessing the Corporation's property tax trends would have been to deflate them with a price index of land and building values. This, however, is not available and nor is there any data on land values. While the C.M.P.O. did do a couple of land value studies in the mid-sixties they were not very systematic nor accurate--according to their own impressions. It seems surprising that an organization which is basically concerned with urban planning does not have data on land values. That is perhaps why there is really no land-use plans for Calcutta in the Basic Development Plan [C.M.P.O., 1966]. From the sketchy data that is available from the Calcutta Improvement Trust[1] (based on their own land transactions) and from K. A. Ramasubramaniam [1966] it appears that land prices in central Calcutta have only doubled while they have increased as much as 14 times in peripheral areas. The data also indicates a depression in prices in the late sixties and early seventies when there was great political uncertainty in West Bengal. Despite rent controls and other kinds of distortions the land market does seem to work. We cannot, however, go much farther on such sketchy evidence.

4.34 Calcutta Improvement Trust Betterment Tax

The C.I.T. levies a betterment Tax on properties that it deems to have benefitted from its development activities. For example, if a road is improved in a neighborhood the values of properties on it are increased and these increases are regarded as unearned. The tax is 50% of the increase in annual value. I regard this tax as an unnecessary one:

i. If there was revaluation of properties at intervals shorter than 6 years, the property tax would gather part of this increment in any case.

ii. It is not only the properties on the site of betterment that benefit from the improvement. For example, all road users benefit from road widening as do the properties whose access is made easier. The tax as levied is therefore inequitable and incomplete.

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[1] Mr. Tapesh Roy - Senior Valuation Officer, Calcutta Improvement Trust. Private Communication.

Since the highest property tax rate is 33 1/2% it is true that there will be some loss in revenue. But the increase in efficiency of collection might offset the loss.

The army of assessors and collectors employed for this purpose would be more useful were they deputed to the Corporation instead.

4.4 A Review of Suggested Reforms

The C.M.P.O. Fiscal division has made a number of studies of Calcutta's municipal finances under the direction of Dr. Nirmala Banerjee. In addition, there was a series of studies sponsored by the Institute of Public Administration, New York under the Calcutta Project which were made in the early sixties. A fairly comprehensive bibliography is available in [C.M.P.O., 1969]. The publications reviewed here will be found in the bibliography mostly under T. K. Banerjee, Nirmala Banerjee, the C.M.P.O. and Abhijit Datta. We give below a brief discussion of the main issues involved.

4.41 Assessments

It is widely agreed that the current cycle of valuation of 6 years is far too long [e.g. J. Madhab, et. al., 1967; M.G. Kutty, private communication]. A shorter cycle would help in capturing increments in property values and periods of 3 to 5 years are suggested as the alternatives. This is clearly an unexceptionable reform provided the administrative resources can be found. The current assessment method is one which induces widespread corruption and inefficiency. The corporation calls for tenders by contractors and the lowest bids are awarded the assessment contracts. A large number of people apply at incredibly low rates -- rates at which they couldn't possibly make a profit [T. K. Banerjee, 1972]. The implication is that they hope to make money from the assessees which is far in excess of their actual fees. Once they do win a contract at uneconomical rates they have to make up their 'losses' and more. As a result, according to another C.M.P.O. study [quoted in J. Madhab, et. al., 1967] a large percentage of holdings surveyed were assessed for less than half the actual rents. Corruption apart, there is also the problem of assessment being done by untrained personnel in a haphazard manner. Since various contractors are involved there is considerable horizontal inequity as well. The suggestion to counter all these ills is the establishment of some form of state or central valuation authority. Such an agency would have trained valuers free from local influences and therefore assumed to be more efficient and consistent. This clearly has to be part of a country or state-wide reform. Meanwhile the institution of a valuation ombudsman type official could improve assessments.

4.42 Structure of Rates

Calcutta is one of the few cities which levies a consolidated rate on property rather than having different rates for different services along with a general house tax. There does not appear to be much difference between the two systems since the service rates are also based on annual value of the property. Indeed, a consolidated rate has the advantage of clarity which makes it somewhat easier to administer. For some years the C.M.P.O. has been recommending a change to a structure of service and general rates [e.g. J. Madhab, et. al., 1967]. The rationale for this suggestion is that users of municipal services should pay according to benefits enjoyed. The structure recommended is as follows:

(in % of AV)

A.V. (Rs.)	General	Water	Conservancy	Lighting	Total	Current
Up to 1000	2	10	6	2	20	15 1/2
1000-3000	4	10	6	2	22	18 1/2
3001-12000	7	10	6	2	25	22 1/2
12001-15000	12	10	6	2	30	27 1/2
15001 +	15	10	6	2	33	33

It is to be noted that the net effect of this suggestion is not very different from the current schedule except for raising rates at the lower levels. Furthermore, the estimated return from taxes according to such a reform is not significantly different from the current structure. The C.M.P.O. suggestions include abolition of progression in rates and the structure suggested above is a compromise in view of the political difficulties involved. It is difficult to understand their opposition to progression because:

i. It was shown in Table 3 that the poor already pay a higher proportion of income for housing. Progression in property tax rates is then eminently equitable.

ii. Table 7 showed that cheaper properties do not yield much tax anyway and an increase in rates would not significantly alter the yield.

It is therefore clearly dysfunctional to institute a reform which has political and social disadvantages and yet does not yield major economic gains. It is also wrong to assert that local government cannot be concerned with issues of income distribution because it has enough problems of its own [C.M.P.O., 1970]. Every level of government has responsibility for equity: the national government also has enough problems to worry about so if this assertion is true for one level of government it is true for others as well.

4.43 Commercial and industrial property is taxed too low. In many cases the 5% of C.V. rule is applied for calculation of annual value. This should be raised to be nearer the current average rates of return on commercial building construction. As mentioned before the issue of including machinery in valuation is a wider one and needs much more study. Vacant Land is also taxed too low -- owner pays only 25% of tax. The usual reasons concerning poor land use and speculation apply here and vacant land should be taxed at full rates [J. Madhab, et. al., 1967]. Owner Occupiers are not given preferential treatment according to the municipal act but are allowed 20% reduction on annual value by convention [C.M.P.O., 1970]. This causes inefficient use of prime land and old owner occupiers continue living in old houses. Every study has suggested that they should be taxed in the same way as rental property.

4.44 Rent Controls

Corporation officials and others decry rent controls as particularly troublesome for property taxes.[1] It induces underhand dealings between tenants and landlords and with the supply of housing being what it is tenants do not gain. Since the Corporation can assess at standard rents only even if rent transacted is higher it seems that it is only the Corporation that suffers. The C.M.P.O. has often put forward the suggestion that rent controlled properties should be subject to a tax surcharge which the landlord should be allowed to pass on to the tenant. This has been discussed earlier and the same arguments apply against this suggestion in Calcutta as well.

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[1]B.C. Ganguli -- currently Special Administrator of Calcutta Corporation expressed particular concern.

Among the other major problems faced by the Corporation is that of multiple leasing. According to various court judgments the rent paid by the first lessee is the relevant one for tax purposes. In fact, the occupier pays much more than the various intermediate lessees. The obvious correct procedure would be to follow the Municipal Act and assess these properties at their market annual values and levy tax accordingly on the owner. He could then pass as much tax on as the market would bear. Rent Control laws probably interfere in such an operation and assessing 'market' value may itself be a problem. This requires further study -- both for legal reasons and economic.

4.45 Collection Rates

As shown in Table 5 collection rates have declined dramatically over the past decade. One of the reasons is that according to the Act people appealing assessments can withold payment until a settlement is made. Appeals are made to ordinary courts which have become clogged with such cases and therefore the whole procedure is now very slow. Meanwhile the Corporation suffers mounting arrears of taxes. Two suggestions are normally made to counter this [C.M.P.O., 1970; B.C. Ganguli]

i. There should be special assessment tribunals assisted by expert assessors at regular intervals. This would unclog the courts, speed up the appeal process and, perhaps, provide more informed judgments.

ii. As in other Municipal Acts the owners should have to pay the tax on demand and then obtain refunds if allowed on appeal.

These seem to be eminently reasonable and unexceptionable suggestions and should be adopted.

5 Bombay

5.1 Introduction:

If Calcutta is regarded as the 'ideal type' of chaos city in India, Bombay is often seen as the model of efficiency as far as administration is concerned. It is certainly true that its Municipal administrative structure is well integrated and not fragmented as is that of Calcutta. Bombay Corporation is responsible for the city as well as the suburbs. It is much more highly built up than Calcutta and therefore denser in population. Its public transport system is undoubtedly the best in the country. The city generally gives an air of cleanliness and prosperity at first sight. However, this is merely on the surface and the housing situation in Bombay may well be more of a problem than elsewhere. Municipal and other strikes were relatively few until recently but events in the past six to twelve months indicate that Bombay may be on its way to being India's second Calcutta and a similar CMDA type rescue operation may be necessary here as well.

Unlike Calcutta, Bombay's rich have traditionally demonstrated more civic responsibility in provision of various public facilities like parks, hospitals, etc. There has similarly been greater participation by prominent people in the running of the Corporation which has generally been well led. Bombay is fortunate to have a Corporation that is relatively affluent.

With the absence of a C.M.P.O. type organization not as much information on Bombay is available. Recently though, CIDCO (City and Industrial Development Corporation of Maharashtra) has been formed to plan New Bombay and more information has appeared on Bombay itself.

5.2 The Housing Situation

The population density of the central city is about 45,000 per sq. km. as compared with 33,000 for Calcutta. Housing is therefore extremely crowded and rents relatively higher than all other cities in India. If the volume of black transactions is any index, shortage of housing is much more acute in Bombay than elsewhere. What follows is a summary of the present situation of housing in Bombay as described in a CIDCO study [P. Ramachandran, 1972].

There are 5 basic types of dwellings in Bombay:

i) huts - 18%

ii) chawls - which are a group of dwellings in one building with common lavatory and bath facilities - 61%

iii) flats or apartments - 20%

iv) bulgalows i.e. self contained houses - 1%

v) miscellaneous - consisting of garage-dwellings, out-houses, etc. - 1/2%

The percentages are the proportions of each type to the total. In general, as we go from categories (i) to (iv) the richer are the occupiers. Ramachandran categorises all households into 9 socio-economic status groups (SES) according to income and education and provides more detailed data with respect to each. Here, however, we are interested in rather more gross characteristics.

The majority of dwellings are one room tenements: as many as 74% of dwellings consist of one room only. 17% are 2-roomed, 5% 3-roomed and 3% with 4 or more rooms. The average floor area available per person is 39 sq. ft. which ranges from 187 sq. ft. per person for 1 person households to about 20 sq. ft. per person for 10+ person households.

The Municipal Act [Govt. of Maharashtra, 1969], incidentally, lays down a minimum of 25 sq. ft. per person. These figures are not very different from those for Calcutta. Table 8 gives a profile of facilities available with each type of dwelling. The table is self-explanatory but the following may be emphasized:

i) A majority of the people have to share basic facilities like kitchen, bathroom and lavatory with others.

ii) As many as 40% of people have no bath facilities.

iii) 32% still live without electricity in India's most modern city.

Table 8

A Profile of Housing and Facilities Available in Bombay

Facility	Type of Dwelling				
	Huts	Chawls	Flats	Bungalows	All
Kitchen	%	%	%	%	%
Separate	13	31	93	93	40
None	2	4	1	7	3
Bath					
Separate	3	21	92	84	32
None	85	40	4	8	40
Lavatory					
Separate	1	2	88	86	20
None	47	12	1	-	16
Water					
Separate	4	34	93	100	41
None	21	6	-	-	7
Electricity					
Separate	10	63	99	93	61
None	86	29	-	7	32

Source: [P. Ramachandran, 1972] Table 3.6, p. 44

Owners form about 15% of households, 'paying tenants' 77% and 'free tenants' about 7%. 54% of hut dwellers are tenants, 87% of chawl dwellers, 72% of flat dwellers and 21% of bungalow dwellers. We note that the poorest households - those in huts - are divided into owners and tenants about equally. This is because huts are easy and cheap to construct and the dwellers are probably too poor to pay any economic rent. It is interesting to note, though, that in Ramachandran's SES categorisation, SES levels 3 through 8 all have 70-85% tenants. Only the topmost category SES 9 and the lowest 2 have higher proportions of owners among them.

The Ramachandran study reveals that the average tenant paid only <u>6.9%</u> of his income for housing. The proportions according to dwelling type are:

Huts - 5.6%
Chawls - 6.0%
Flats - 10.9%
Bungalows 6.4%

The incidence of housing expense is then not regressively distributed in Bombay. The low percentages are probably caused by the wide use of underhand payments like deposits, pugree, etc. in supplement to rent. About 57% do not pay any kind of supplement while about 30% pay deposit and 20% pugree. A pugree is a lump sum payment made to both the previous tenant and the landlord at the time of occupancy.

Since the nature of this data is different from that presented for Calcutta it is difficult to make comparisons. However, chawls are a unique feature of Bombay and the large percentage (61) of households living in them indicates that the housing market is perhaps more organized in Bombay than in Calcutta. Housing is probably as crowded as are the facilities but, on average, of higher quality.

5.3 The Property Tax

In Bombay also the base of the property tax is fairly restricted. Only about 86 thousand properties in Bombay City are subject to property tax. The population of Greater Bombay was about 5.9 million in 1971, up from 4.2 million in 1961. Table 9 provides a breakdown of the properties assessed by their annual rateable value. As many as 30 thousand properties are assessed under an annual value of Rs. 200 and these therefore comprise about 35% of all properties and yield less than 5% of the property tax revenue. Bombay has a tax structure consisting of a general tax, water tax, halalkhor (conservancy) tax, and education cess and a state education cess -- all based on annual rateable value. Table 10 gives a summary of how the rates have changed over the years. We note that within 10 years the rates have increased from 27-3/4% to 35-1/4% at the lower levels and 31-1/4% to 41-1/2% at the highest levels.

Table 9

BOMBAY: Classification of Properties According to Rateable Values 1971-72

Rateable Value (Rs.)	No of Properties		
	City	Suburbs	Extended Suburbs
Less than 200	30,229	20,591	13,525
201 - 400	7,789	15,947	7,744
401 - 1,000	12,900	18,183	9,218
1,001 - 2,000	8,506	10,247	5,946
2,001 - 5,000	10,718	4,600	3,936
5,001 - 10,000	7,408	4,755	1,229
10,001 - 30,000	6,653	4,468	963
30,001 - 50,000	1,334	1,096	305
50,001 -200,000	1,272	352	170
200,001 -300,000	129	19	3
300,001 +	175	16	2

Source: Municipal Corporation of Greater Bombay: Assessment and Collection Department

Table 10

Bombay - Rates of Property Tax from 1936 to 1974

(All figures in % of rateable value)

Year	General Tax	Water Tax	Halalkhor (Conservancy) Tax	Education Cess	State Education Cess	Total
1936-45	11-1/2	3-3/4	3	-	-	18-1/4
1945-46	12-1/2	3-3/4	3	-	-	19-1/4
1946-47	14-1/2	3-3/4	3	-	-	21-1/4
1947-52	14-3/4	3-3/4	3	-	-	21-1/2
1952-58	17-3/4	3-3/4	3	-	-	24-1/2
1958-59	17-3/4	3-3/4	3-1/2	a. 0 b. 1 c. 1-1/2	-	25 - 26-1/2
1959-62	19-3/4	4-1/2	3-1/2	a. 0 b. 1 c. 1-1/2	-	27-3/4 - 29-1/4
1962-63	19-3/4	4-1/2	3-1/2	a. 0 b. 1 c. 1-1/2	a. 0 b. 2 c. 2	27-3/4 - 31-1/4
1963-67	24-3/4	4-1/2	3-1/2	a. 0 b. 2 c. 2-1/2	a. 0 b. 2 c. 2	32-3/4 - 37-1/4
1967-71	24-3/4	4-1/2	3-1/2	a. 0 b. 2 c. 2-1/2	a. 0 b. 2 c. 2-1/2	32-3/4 - 37-3/4
1971-73	24-3/4	4-1/2	3-1/2	a. 0 b. 2 c. 2-1/2	a. 0 b. 3 c. 3-3/4	32-3/4 - 39
1973 to date	24-3/4	7	3-1/2	a. 0 b. 2 c. 2-1/2	a. 0 b. 3 c. 3-3/4	35-1/4 - 41-1/2

Note: Categories of Rateable Value
- a. Rs. 1 to Rs. 74.
- b. Rs. 75 to Rs. 299.
- c. Rs. 300 and above.

Source: Municipal Corporation of Greater Bombay: Assessment and Collection Department.

Only properties with r.v. less than Rs. 5 a year are exempt from tax.

5.31 Assessment:

The basis of assessment is that of hypothetical rent described earlier. R.v. is arrived at after deducting 10% for repairs. The Municipal Act [Govt. of Maharashtra, 1969] prescribes various formulae for different types of properties and convention has added yet more ways of assessment. These are all described in great detail by the present Assessor and Collector in a manual which is used as a text by all new members of staff in his department [R.G. Rele, 1972]. The main points are given below:

i) Where normal r.v. is difficult to arrive at it is taken to be 6% of p.v. of land and 9-1/4% of p.v. of the building. These percentages have recently been raised from 5% and 6% respectively in response to rising interest rates.

ii) State Govt. properties are valued at 4% of p.v. of land, 6% of p.v. of buildings. Central Govt. properties are valued at 9% of combined p.v. of land and buildings according to the formula recommended by the Central Govt. itself.

iii) Properties like cinemas are assessed at 7-1/2% of their gross annual receipts.

iv) For industrial establishments the value of plant and machinery is not included. It is, however, included if it enhances the letting value of the structure.

Properties can be re-assessed every year under the prescribed rules of notification to owners. In practice this is done every 4 years when it has to be done according to the Municipal Act.

In Bombay the lessor is primarily liable for paying the tax. Where service charges are included in the rent they are deducted in computation of the r.v. In cases of multiple sub-leasing the superior lessor is liable but the Act provides for shifting of the tax downward where r.v. exceeds rent received by him.

5.32 Exemptions:

Properties exempt from the tax are much the same type as in Calcutta. Unoccupied lands are, however, taxed on a basis of r.v. equal to about 5% of c.v.

5.33 Collection:

Table 11 gives the property taxes demanded and collected by the Municipal Corporation of Greater Bombay for Bombay City from 1955-56 to 1971-72 in current prices and Table 12 gives the same data at constant prices. While the Corporation has kept up its efficiency of collection, i.e., about 75 to 80% of tax demanded, it still has not made a significant increase in real terms - only 6% - over the decade 1960-61 to 1971-72. This is rather surprising since

i) There has been a great amount of construction on Bombay City

ii) The Corporation conducts relatively frequent valuations. At similar collection levels even the Calcutta Corporation would have made a higher increase in real taxes. This stagnation in real taxes needs to be explained and can only be done adequately by a detailed investigation into the volume of new construction during the decade and of the actual number of properties affected by rent controls. Furthermore, such a modest increase is all the more puzzling since rates themselves have increased by about 17-18%. It is clear,

Table 11

Bombay: Property Taxes Demanded and Collected 1955 to 1972

(current prices)

Year	Net Demand (Rs. Thou)	Index (1960-61 = 100)	Net Collection (Rs. thou)	Index (1960-61 = 100)	% Collected
1955-56	88,787	60	69,765	63	78.5
56-57	90,806	62	70,902	64	78
57-58	95,270	65	74,442	67	78.1
58-59	106,933	73	79,211	71	74
69-60	125,285	85	89,734	81	71.6
60-61	147,221	100	111,029	100	75.4
61-62	147,725	100	113,015	102	76.5
62-63	152,833	104	116,926	105	76.5
63-64	182,405	124	139,960	126	76.7
64-65	190,990	130	142,237	128	74.5
65-66	206-198	140	156,190	141	75.7
66-67			152,694	138	
67-68	N.A.	N.A.	162,240	146	N.A.
68-69			176,123	159	
69-70	227,707	155	181,983	164	79.9
70-71	246,273	167	198,178	178	80.5
71-72	256,717	174	202,759	183	79.0

Source: Municipal Corporation of Greater Bombay: Assessment and Collection Department.

Note: The figures for 1966-1969 are, in fact, available from the Corporation. Their absence here is because of an error on my part.

Table 12

Bombay: Property Taxes Demanded and Collected

1955 to 1972 (1960-61 constant prices)

Year	Net Demand (Rs. thou.)	Index 1960-61 = 100	Net Collection (Rs. thou.)	Index 1960-61 = 100
1955-56	103,241	70	81,122	73
56-57	97,640	66	76,239	69
57-58	100,284	68	78,360	71
58-59	110,240	75	81,661	74
59-60	127,846	87	91,565	82
60-61	147,221	100	111,029	100
61-62	146,262	99	111,896	101
62-63	144,182	98	110,308	99
63-64	164,329	112	126,090	114
64-65	164,647	112	122,618	110
65-66	167,641	114	126,984	114
66-67			113,107	102
67-68	N.A.	N.A.	108,886	98
68-69			112,899	102
69-70	142,317	97	113,739	102
70-71	145,724	99	117,268	106
71-72	148,391	101	117,202	106

Note: The price deflator used is the c.p.i. for Urban Non Manual Workers for Bombay. See Appendix Table A.6 for series.

however, that looking at property tax receipts in real terms gives a somewhat distorted picture. Consistently high price rises have occurred since 1964-65 and it is since then that property tax receipts have been stagnant in real terms. All these different factors can only be disentangled by further disaggregation of the data. A good econometric study of the determinants of property taxes would be useful in this respect and it will probably have to be done for different categories of properties which are treated differently. The data for such studies should be available in the Corporation's registers.

There is good data to show that almost all areas in Bombay City had experienced a price rise of at least 200% and up to 1000% in land values during the period 1958 to 1966. There should have been an increase of similar magnitude from 1966 until now. The values of new constructions should reflect these increments. The following reasons for the stagnation of real tax receipts along with large increments in land values are offered as conjectures:

i) New construction, while prominent, is not enough in volume to balance the losses in real taxes owing to rent control.

ii) The volume of black or extra-legal transactions has increased with rising taxes at all levels. The proportions of rents going into pugree, etc., may have increased.

iii) In case of new buildings consisting of small tenements with r.v. less than Rs. 1200 the Municipal Act allows for a remission of 20 to 30% of general tax for a period of 10 years. This reduces

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[1]Data from Town Planning and Valuation Dept., Government of Maharashtra, communicated by CIDCO officials.

the effect of new construction on property tax receipts.

We must once again make the point that making properties of low value e.g., less than Rs. 200 liable to property tax may well be dysfunctional. As shown in Table 9, when such properties comprise as much as 35% of all properties and pay less than 5% of tax revenue it could pay to concentrate the administrative resources thus tied to tightening up assessments and collections at higher levels.

5.4 Rent Controls:

It is clear from the foregoing that although Bombay does not suffer many of the problems that Calcutta does with respect to the property tax, its trend in receipts is not markedly better. We note that

a. Its assessment cycle is of a reasonable duration.

b. Assessment is done by corporation officials and not by contract. The Assessment and Collection Dept. does train its valuers who then have to pass an examination before they can be employed permanently.

c. Rates of the tax are the highest in the country and cannot really be increased much more.

d. Vacant lands are taxed.

e. Owner occupiers are not given preferential treatment.

f. Multiple leasing is accounted for.

g. Collection rates are respectable and have been kept up.

In terms of administration of the tax the Corporation performs well.

The major problem here is that of rent controls which have probably distorted the housing market in Bombay more than anywhere else. The Bombay Rent Act was passed in 1947 which froze rents at 1940 levels or first rents for buildings constructed thereafter. The ills of rent controls have been discussed already for Calcutta and will not be repeated here. It is, however, worthwhile, reviewing a recent study conducted by the All India Institute for Local Self Govt. [N.D. Rajadhyaksha, 1973] which attempts to assess the loss to Bombay Corporation due to the Rent Control Act.

The study compared rents prevailing in 1940 and those in 1970 in different categories of buildings. It then made estimates of the r.v. of buildings now existing which are affected by rent controls and are thereby frozen at 1940 levels. Estimating possible free market rents for these buildings according to current rents prevailing in new buildings (and accounting for some depreciation) it then made estimates of increases in r.v. It was estimated that total rateable value of the City would increase by about Rs. 420 million. That would mean an <u>increase</u> of about Rs. 130 million in taxes: current total demand is about Rs. 250 million.

The study provides further interesting information on the nature of pugree transactions. It was found that when a new tenant takes up a lease he usually has to pay about 1000 months rent as a lump sum of which 250 months go to the landlord and 750 to the previous tenant. This effectively means that the landlord gets 200% extra rent in addition to the contracted rent. The tenant probably gains what <u>he</u> paid at the time of his occupancy and part of what he has to pay out again for his next apartment. It is then almost like a large down payment on a mortgage which one recovers when re-selling the property. While one expects pugree payments because of the operation of rent controls they are larger in Bombay than what economic analysis of controls would predict. This is, because of the existence of 'black money' (tax evaded money) which probably has a low discount rate and is therefore of lower value. However, the figure of 1000 months is unreasonably high: For example, an apartment whose rent is Rs. 1000 a month would then fetch Rs. 1 million as pugree! [A figure of 100 months rent seems more reasonable.] Therefore this subject needs further research which is intrinsically difficult because of the illegal nature of such transactions.

It is difficult to evaluate the accuracy of Rajadhyaksha's tax increment estimates since it is not clear what would happen to the housing market in the absence of rent controls. Investment in housing construction should increase the supply of housing and therefore decrease rents. His estimates would then be on the high side. However, he used current disclosed rents in new buildings to approximate free market rent levels. These may well be too low when one considers the existence of pugrees and other similar transactions. That would make him err on the low side. However, the study is a courageous attempt to estimate the quantitative impact of rent controls even if it uses rather rough and ready methods of estimation. It remains the only study of its kind.

6. Madras

6.1 Introduction:

Madras is 'less' of a city than the two others discussed already. It is much smaller (1971 pop. 2.5 million) less built up and looks more like a provincial capital than a metropolitan city. It is also much poorer as the following table illustrates:

Table 13: Per Capita Income in Selected Cities.

	Current prices (1960-62) Rs.
All India	334
Tamilnadu	354
Delhi	872
Greater Bombay	1180
Calcutta Metropolitan District	811
Madras Metropolitan Area	437

Source: Madras Metropolitan Plan 1971-91. (Table 13). [Govt. of Tamilnadu 1971].

It is, however, the premier city of south India and therefore demands particular attention.

The Madras Metropolitan Area (M.M.A.) covers an area of about 450 sq. miles of which Madras City itself accounts for 50 sq. miles but has 75% of the population. In addition to Madras Corporation the M.M.A. has 3 municipalities, one cantonement and 24 town panchayats as the local administrative authorities. Here we are only concerned with Madras City.

Although the Rural Development and Local Administration Department of the Govt. of Tamilnadu has published a long term Madras Metropolitan Plan and the Tamilnadu State Planning Commission [1973] has published a perspective plan for urban development for the whole state. Data for Madras City is still scarce. It is difficult to understand how these plans were framed without an adequate data base.

6.2 The Housing Situation

Madras is relatively less crowded than Calcutta and Bombay with a population density of about 20,000/sq. km as compared with 45,000 for Bombay City and 33,000 for Calcutta. The housing situation, though, is critical: about 25% or 0.6 million people live in slums and about 10-15 thousand are shelterless and live on streets and pavements. About 40% of households earned an income of less than Rs. 200 per month (according to N.S.S. data) in 1968-69. Overcrowding is high in Madras City partly because the city still has fairly large tracts of vacant or undeveloped land: housing densities range from about 50 houses/1000 population in the old residential areas to about 130 in the newer areas. The character of the stock of housing is indicated below:

Table 14:

Madras City: Housing Characteristics

Type of Structure	% a.	% b.	Age of Building	% b
Pucca	40	49.5	Up to 10 yrs.	60.4
Semi-Pucca	30	21.8	11-20 yrs.	25.7
Kutcha	30	28.7	20 + yrs.	13.9

Notes: a. Directorate of Town Planning.
b. N.S.S. data, 1968-69.

Source: Madras Metropolitan Plan, 1971-91. (Table 45) [Govt. of Tamilnadu, 1971].

'Pucca' is permanent brick type housing, and 'kutcha' refers to mud huts or other non-permanent type structures.

Unfortunately, there does not appear to be any more information on the nature of housing conditions in Madras City. This is a serious lack given the need for such data for intelligent planning.

6.3 The Property Tax

Once again, the property tax base in Madras City is fairly restricted. There are only about 120,000 assesses in a population of about 2.5 million. There is no information readily available on the breakdown of properties according to valuation. Doubtless, this information could be tabulated from the Corporation's records.

The tax structure consists of a general tax, water, drainage and lighting taxes which are usually consolidated and seen as a single property tax. The rates are progressive and the structure is shown in Table 15. The Municipal Act prescribes a minimum and maximum of 15-1/2% and 25% so it cannot be raised further without amending the Act itself. The Corporation has passed a resolution raising the highest bracket to 30% but is awaiting amendment of the Act. In addition, as the Table shows, an education tax of 4 to 5% is also levied bringing the total rates to 19-1/2% to 30%. Properties with r.v. less than Rs. 36 are exempt.

A 'High Power' committee was appointed by the Govt. of Tamilnadu to look into the finances of Madras Corporation. They have suggested raising the rates of both the General Tax as well as the Education Tax as shown in Table 15 [Govt. of Tamilnadu, 1972]. The Municipal Act places a limit of 5% on the Education Tax and will therefore have to be amended in this respect as well. Furthermore, the Committee recommended the exemption limit to be raised to properties with r.v. less than Rs. 110: it was estimated that only 1% of revenues would be lost. This is an eminently reasonable suggestion.

Madras is also subject to an Urban Land Tax which is levied by the State. Details of that tax will be provided after discussion of the local property tax.

Table 15

Madras: Structure of Property Tax

Annual Value of Property (Rs.)	General Tax		Education Tax		Total	
	a	b	a	b	a	b
Up to 36[c]	-	-	-	-	Nil	
37 - 500	15-1/2	15-1/2	4	5	19-1/2	20-1/2
501 - 1000	21	21	4-1/2	5-1/2	25-1/2	26-1/2
1001 - 5000	22-1/2	25	5	6	27-1/2	31
5000 - 7000	25	30	5	6-1/2	30	36-1/2
7000 +	25	35	5	7	30	42

a. Current rates. Source: Corporation of Madras

b. Recommended by Govt. Committee. [Tamilnadu, 1972 .]

c. The committee also recommended the raising of the exemption limit from Rs. 36 to Rs. 110.

6.31 Assessment

The basis of assessment is again that of hypothetical rent described earlier and r.v. is arrived at after deducting 10% for repairs as usual. In practice, however, rent receipts are usually taken as the basis of assessment. Owner occupiers are given an informal concession of 10-15% on r.v. though the Act does not prescribe such a concession. Where annual value is difficult to determine r.v. is taken to be 6% of c.v. which is the total estimated market value of land and the estimated cost of the building less 10% for depreciation.

Under the existing Act furniture and machinery are excluded from valuation of the property. This clause has induced owners to charge separate rents for such standard fixtures as cupboards, washbasins, etc. and to claim exemption of such rents from valuation. This exemption is usually granted because of the Act.

Cinemas, concert halls, etc. are treated differently and the following curious formula is used for valuation:

r.v. = 7-8% of 58% of gross annual receipts.

There is no explanation for the use of such a formula and it is not clear how the figure of 58% was arrived at!

Buildings with multiple-leasing are assessed on the basis of actual final letting value.

State Govt. buildings are assessed at 6% of c.v. while Central Govt. buildings are now assessed at the rates prescribed by the Central Govt. itself which have been mentioned earlier.

Valuation is done every 5 years.

6.32 Collection:

Table 16 gives the property taxes demanded and collected by the Corporation of Madras from 1960-61 to 1971-72 and Table 17 gives the same data at 1960-61 constant prices. Despite the fact that the efficiency of collection has declined dramatically from 90% in 1960-61 to 66% in 1971-72 real taxes collected have risen by about 30% in the decade. Had the collection rate been kept up a rise of 80% would have been possible. This is a remarkably good record compared with the performance of Bombay and Calcutta. One is hard pressed to find explanations for this difference. Bombay has experienced far more new construction than Madras and the Corporation has maintained a good collection rate and yet not gained a marked increase in real taxes. In the absence of more data only conjectures can be made:

i) A higher proportion of rents in Bombay is conducted in black transactions and assessments are therefore lower.

ii) The proportion of black transactions itself has risen faster in Bombay than in Madras. This is plausible because of the relative affluence of Bombay and the existance of a large number of very high income people, e.g., in the Hindi film industry. (The Tamil film industry is not quite as prosperous!).

iii) Assessment is more efficient in Madras. This is less plausible since the corporation has recently been superseded by the Govt. of Tamilnadu . for mismanagement and corruption.

Even as conjectures these explanations do not seem adequate and, once again, one can only appeal to the need for detailed studies

Table 16

Madras: Property Taxes Demanded and Collected 1960 to 1972

(current prices)

Year	Net Demand (Rs. thou)	Index (1960-61 = 100)	Net Collection (Rs. thou)	Index (1960-61 = 100)	% Collected
1960-61	21,816	100	19,634	100	90.0
61-62	24,708	113	22,196	113	89.8
62-63	27,690	127	24,811	126	89.6
63-64	30,875	142	26,825	137	86.9
64-65	34,210	157	29,254	149	85
65-66	37,984	174	32,314	165	85.5
66-67	42,475	195	34,395	175	81.0
67-68	46,156	212	35,564	181	77.1
68-69	49,832	228	36,879	188	74.0
69-70	54,749	251	40,257	205	73.5
70-71	64,724	297	42,532	217	65.7
71-72	72,508	332	47,847	244	66.0

Source: Corporation of Madras: Assessment and Collection Dept.

Table 17

Madras: Property Taxes Demanded and Collected 1960 to 1972

(1960-61 constant prices)

Year	Net Demand (Rs.thou)	Index (1960-61 = 100)	Net Collection (Rs. thou.)	Index (1960-61 + 100)
1960-61	21,816	100	19,634	100
61-62	23,531	108	21,139	108
62-63	25,173	115	22,555	115
63-64	27,083	124	25,531	120
64-65	27,813	127	23,784	121
65-66	28,995	133	24,667	126
66-67	30,124	138	24,394	124
67-68	28,491	131	21,953	112
68-69	30,201	138	22,350	114
69-70	32,205	148	23,681	121
70-71	36,362	167	23,894	122
71-72	39,406	181	26,003	132

Note: The price deflator used is the c.p.i. for Urban Non Manual Workers for Madras. See Appendix Table A-6 for series.

suggesting the economic determinants of property tax. Only then could we hope to find better explanations for differences between trends in different cities. It must be emphasized here that standard economic techniques will not work because of the existence of all the distortions involved in the housing market. Imaginative ways will have to be found for estimating the trends in tax evasion and deducing their causes.

6.4 A Review of Current Problems

Unlike Bombay and Calcutta municipal and govt. officials in Madras did not express paramount concern with rent controls. The 'High Power' Committee which reviewed the finances of the Corporation did not even mention them as a problem. The relatively impressive rise in tax collection also indicates that rent controls are not as big a constraint here. That could mean that the supply of housing in Madras is adequate for the demand -- the fulminations of the Madras Metropolitan Plan notwithstanding.

The Committee made the following other suggestions which are mostly desirable. [Govt. of Tamilnadu, 1972].

i) Buildings where a.v. is difficult to determine are assessed at 6% of c.v. This should be raised to 10% and applied to State Govt. properties as well.

ii) The Committee found widespread underassessment in a sample survey of properties. This was more pronounced for commercial and industrial properties. The establishment of a central valuation authority as well as an ombudsman type individual was suggested.

iii) Tax rates should be raised as described in Table 15 and the Municipal Act amended accordingly.

this date to 1976. There is, therefore, no question of capturing land value increments except after long intervals of time.

The story of this tax provides information on what can be expected of measures designed to mop-up increments in land values.

7. Delhi

7.1 Introduction:

Delhi is rather unlike other cities since it has grown as a city somewhat artificially as the capital city of India. It has owed its expansion to the vast increase in governmental activity since independence in 1947 and because of the stream of displaced persons on the formation of West Pakistan. Of the four major cities discussed here Delhi has the longest history -- probably about 2000 years during which it has waxed and waned as capital of the Northern Region. As such, the centre of the city has shifted a number of times and, as a result, the city has various nodes without a real central business district. Its population growth in the last 2 decades has been explosive:

1951 - 1.1 million
1961 - 2.1 million
1971 - 3.3 million

That these vast increases have somehow been accommodated is no mean achievement for any administration.

The city is looked after by 3 municipal authorities:

Delhi Municipal Corporation (DMC) 320 sq. miles
New Delhi Municipal Committee (NDMC) 5 sq. miles
Delhi Cantonement Board (DCB) 8 sq. miles

The NDMC has jurisdiction over the governmental area of New Delhi in which almost 80% of houses are government owned. The Cantonement Board looks after the military area on the fringe of Delhi which is almost totally government owned. Here we will be concerned with DMC only.

The development of Delhi has been guided by the Delhi Development Authority (DDA) since 1958 when the Delhi Master Plan was put into operation. Because of this there is a reasonable amount of information available on the housing situation in Delhi.

7,2 The Housing Situation

Most of the information in this section is taken from NCAER [1972].

The average resident of Delhi is relatively affluent. The per capita income of Delhi was estimated to be about Rs. 1428 in 1970-71 as compared with Rs. 589 for all India and Rs. 985 for Punjab. However, presumably because of its rapid expansion a large proportion of the people live in 'jhuggies' (or kutcha slums). There have been various estimates of this slum population over the years: the range in recent estimates is

NCAER:	93,500 families	= 0.4 million people
		≈ 15% of population
DMC:	230,000 families	= 1.15 million people
		= 33% of population

This would imply that even relatively well off people have to live in slums because of the shortage of housing since the income profile of households in Delhi is as follows:

Table 18:

Distribution of Households by Income Class

Income (Annual) Rs.	% of Households
Up to 1200	1.35
1200 - 3000	15.70
3000 - 5000	28.48
5000 - 7500	20.13
7500 - 15000	21.14
15000 +	13.04

Table 19

Delhi: The Housing Situation

Table 19-A Distribution of Households by Number of Rooms

No. of Rooms	1961 %	1971 %
1	63.4	52.0
2	23.7	25.6
3	7.0	11.7
4	3.3	6.7
5+	2.6	4.0

Table 19-B Distribution of Households by Income and Number of Rooms

Annual Income (Y) Rs.	Total No. of Households in Y-Group (Thou)	Proportion in 1 room %	2 rooms %	3+ rooms %
Up to 2400	91	78.5	18.6	2.9
2400-7200	239	54.0	33.7	12.3
7200-18,000	112	20.0	36.0	44.0
18,000 +	33	5.2	13.7	81.0
Total:	475	47.2	25.8	27

Source: [NCAER, 1972].

According to the NCAER estimate then most housholds earning up to Rs. 3000 a year would be living in jhuggies while the higher estimate would put most up to about Rs. 4000 in that category. Tables 19A and 19B show the distribution of households according to income and number of rooms occupied. We note that the situation has improved in the decade 1961 to 1971 during which the proportion of people in 1 room dwellings has declined from 63% to 52% and increased in all the other categories. Of course, the absolute number of households in 1 room dwellings has still increased. It is also interesting to note from Table 19B that 5% of even the highest income category live in 1 room units. Overall number of persons per room is 3.05.

Table 20 provides information on the distribution of housholds according to amenities:

Table 20

Distribution of Households According to Amenities

Amenities	1955	1970
Nil	20.2	30.0
Kitchen only	5.6	6.9
Toilet only	18.3	2.5
Bath only	0.5	6.8
Kitchen + Toilet	5.5	3.2
Kitchen + Bath	1.1	5.0
Toilet + Bath	9.7	4.7
Kitchen + Toilet + Bath	30.1	46.9

It is difficult to interpret this table as an improvement or decline in housing standards. There has been a dramatic increase in the number of households enjoying all ?the facilities while those with none have also increased. It could be interpreted to mean an improvement for the high income households along with a decline for the low income households.

Delhi has an unusually large number of owner occupiers: about 260 thousand households while there are about 220 thousand tenant households. The average annual rent assessed per room for owner occupiers is Rs. 870 and Rs. 460 for tenants. This indicates that owner occupiers are, in general, richer than tenants.

7.3 The Property Tax

Until recently Delhi has had the lowest rates of property taxes among the major cities. The tax is composed of the general tax, water tax (which cannot be levied unless a water connection is provided), scavenging tax (which cannot be levied unless the service is provided to the area) and the fire tax. The history of the rate structure since 1959 -- the date of founding of DMC -- is shown in Table 21. The rates summed to only 15-1/2% until 1968 and were uniform for residential and commercial properties. There have been a succession of reforms since 1968 which have introduced progressivity into the rates, raised them, and differentiated commercial from residential properties. The rates now range from 16-1/2 to 31-1/2% for residential properties and 25-1/2 to 31-1/2% for commercial properties. The latest set of changes introduced marginal rates for different slabs of valuation. This helps in reducing the incentive to evade at borderline levels.

The D.M.C. also levies a duty on transfer of property at 5% of c.v. at time of transfer.

Table 21

Delhi: Rates of the Property Tax

Year	Annual Value of Prop. (Rs. Thou)	General Tax % a.	General Tax % b.	Water Tax %	Scavanging Tax % a.	Scavanging Tax % b.	Fire Tax %	Total % a.	Total % b.
1959-63	All	10	10	3	1	1	1/2	14-1/2	14-1/2
1963-68	All	11	11	3	1	1	1/2	15-1/2	15-1/2
1968-69	Up to 1.8	10		3	1	5	1/2	14-1/2	24-1/2
	1.8-8	11	16					to 24-1/2	to 35-1/2
	8-12	12-1/2	18						
	12-20	15	21						
	20-40	17	23						
	40-100	19	25						
	100+	20	26						
69-72	Up to .6	10	15	5	1	5	1/2	16-1/2	25-1/2
	.6	12	16					to 28-1/2	to 40-1/2
	2	12	18						
	8-12	14	21						
	12-20	17	25						
	20-40	20	30						
	40+	22	30						
		Margin Rate							
72-74	Up to 1	10	15	5	1	5	1/2	16-1/2	25-1/2
	1-2	12	18					to 31-1/2	to 39-1/2
	2-8	15	21						
	8-12	20	26						
	12-20	25	28						
	20+	30	30						

a. Rate for residential buildings.

b. Rate for commercial buildings.

Source: Delhi Municipal Corporation.

7.31 Assessment:

The basis of valuation is the normal one of annual rental value less 10% for repairs. Although the Municipal Act provides for the inclusion of plant and machinery in valuation, it is, in fact, not done because the courts have ruled against their inclusion in the computation of standard rent.

Owner occupiers were given a remission of 25% on r.v. by convention until recently. While the Corporation now attempts to charge them according to the market rental value the courts have ruled that owner-occupiers should be charged on the basis of standard rents. In the case of multiple leasing the Corporation assesses the final lessee but the owner can recover the difference from the tenants. Cinemas, theatres, etc. are assessed in the normal way in Delhi -- not according to their gross receipts. Vacant lands are also liable to tax in Delhi.

Exemptions are given in Delhi to the usual type of charitable, religious, educational, institutions, etc.

Properties are revalued every third year. This is the shortest assessment cycle among the major cities.

&.32 Collection:

Table 22 gives the property taxes demanded and collected by Delhi Corporation from 1965-66 to 1972-73 and Table 23 gives the same data at 1960-61 constant prices. It was not possible to obtain data for the earlier years. Even the Assessment and Collection Department of the Corporation did not appear to have the data readily. We note that at current prices there has been an increase of 200% in demand and in collection. We can attribute about 100% (roughly) to an increase in rates,

Table 22

Delhi: Property Taxes Demanded and Collected 1965 to 1973

(current prices)

Year	Net Demand (Thou Rs.)	Index (1965-66 = 100)	Net Collection (Thou Rs.)	Index (1965-66 = 100)	% Collected
1965-66	28,106	100	18,234	100	64.9
66-67	31,204	111	16,194	89	51.9
67-68	34,703	123	20,152	111	58.1
68-69	46,104	164	25,839	142	56.0
69-70	54,658	194	35,284	194	64.6
70-71	61,559	219	41,580	228	67.5
71-72	66,504	237	40,899	224	61.5
72-73	83,964	299	55,349	304	65.9

Source: Delhi Municipal Corporation

Table 23

Delhi: Property Taxes Demanded and Collected 1965 to 1973
(1960-61 prices)

Year	Net Demand (Thou Rs.)	1965-66 = 100	Net Collection (Thou Rs.)	Index 1965-66
1965-66	21,788	100	14,135	100
66-67	22,448	103	11,650	82
67-68	22,982	105	13,346	94
68-69	28,636	131	16,049	114
69-70	32,927	151	21,255	150
70-71	35,583	163	24,035	170
71-72	37,362	173	22,977	163
72-73	Price Index not available.			

Note: The price deflator used is the c.p.i. for urban non-manual workers for Delhi. See Appendix Table A.6 for series.

starting in 1968-69 and the rest to new construction. At constant prices we find an increase of 60% over the 6 years. This is not an unimpressive figure but is difficult to evaluate because of the vast expansion of Delhi in population and in new construction. It is paradoxical that the Corporation's collection rates increased after an initial decline only after the tax rates were dramatically increased in 1968-69.

7.4 A Review of Current Problems

Rent control problems figured prominently once again in the concern expressed by municipal officials over property taxes. It is the Corporation's experience that provisions of the Rent Control Act are more often observed by breach of them than compliance by the landlords. Landlords charge higher than standard rents in one form or another but pay taxes on the standard rent only. Other earlier observations concerning rent controls apply here as well and nothing further need be said.

i) Cinemas: are currently assessed at standard rent like any other building. It would be better to find some formula reflecting their annual returns instead.

ii) Vacant lots in developed areas should be charged prohibitive taxes.

iii) Unauthorised occupation of government lands is widespread. Since it is the owner who is liable to pay property taxes no taxes are paid on these properties The Act should be amended to provide for liability for such construction falling on the squatters themselves. The other solution would be to legalise such unauthorised construction.

iv) N.D.M.C. areas are completely surrounded by the D.M.C. Their rates are lower than the D.M.C. They should be equalised for purposes of horizontal equity.

v) Assessment should be done by better trained assessors. There is no cooperation currently between the registration and building permit wing of the D.M.C. and the Assessment and Collection Department. Detailed plans and estimates of all new constructions have to be submitted to the D.M.C. If these were also made available to the assessment section it would make matters much simpler. Furthermore, officials are freely transferred between different departments of the Corporation. Developed expertise is thus wasted on other tasks. Furthermore, since it is generally recognised that assessment is a 'lucrative' task the incentive for corrupt practices increases when it is known that the opportunity lasts for only a few years.

vi) Corruption

It is generally known in Delhi that the assessment process is a very corrupt one. I suspect that it is no less nor more than in other cities but I have more personal experience of Delhi. It is a general practice for assessors to ask for a fee for lowering the assessment on one's property. Their bargaining power is high because of the slowness of the appeals process. An assessee has to pay the assessed tax first and then appeal for a refund if he so desires. The expenses of going to court and other inconveniences are adequate for him to bribe the official instead and get a lower assessment. High municipal officials admit the existence of such practices but feel powerless to alter them.

8. Urban Land Policies

8.1 Introduction

It is now a commonplace that speculation is rife in urban land markets which is then instrumental in raising urban land prices to undesirable levels. This activity is said to be indulged in by unscrupulous operators who make massive 'unearned' profits which are not adequately taxed. If there is anything that there is widespread agreement on among policy makers it is that this phenomenon is detrimental to the social good and that such unearned increments in land values should be mopped up for public purpose. This kind of sentiment or belief has been set forth in Plan documents since at least the III Plan but policy measures to implement it have been notably lacking. There has not really been any analysis of the causes of the phonomenon; only discussions of how to curb it.

It is certainly true that prices of urban land have risen in relation to the general price index. The quantitative magnitude of such increases is, however, unclear: we have only sketchy data on the trends in land values in a few cities. If there were a systematic price index of land values it would be easier to compare its change with that in the other factors of production. That the price of urban land should have risen in relation to that of labor and capital is not, in itself, surprising. An increased pace of industrial activity, which is usually located in urban areas, has raised their share in national income. The pace of urbanization has accelerated in response and therefore pressures on the somewhat limited supply of land have grown more intense. As peripheral lands have changed use from agricultural to residential or commercial use their value has shot up. But cities have probably not expanded as much in area as they have in population. As a result of all these influences the productivity of urban land has risen and therefore its value.

That part of the increments in land values should accrue to public account is undeniable--indeed it is eminently desirable. It is not, however, so obvious that the increase in land values themselves should be controlled. If it is granted that the increased price of the land reflects its increased marginal productivity then controlling it clearly results in gross misallocation of resources. It cannot be argued that the price is artifically high because of monopolies since they do not exist in the land market except where the government itself is the monopolist. Before going further into this question it is instructive to examine what public authorities see as the objectives of such urban land policies.

8.2 The Objectives of Urban Land Policy

The following objectives of urban land policy are distilled from those set forward in 1) Fifth Five Year Plan [Govt. of India, 1973], 2) Committee on Urban Land Policy [Govt. of India, 1966b], 3) Tamilnadu Urban Development Perspective Plan [Tamilnadu, 1973], 4) U.N.Regional Seminar on Urban Development [S. P. Sah, 1972a] and 5) a paper on Urban Land Policy by B. N. Sinha, et. al,[1972]. Each objective is followed by its source number as identified above.

a. To achieve an optimal social use of urban land [1,2,4,5]. This is merely stating the obvious which is the requirement of any public policy.

b. To make land available in adequate quantity at right time for reasonable prices to both public authorities and private individuals. [2,3]. Or 'Eliminate Scarcity of land' [4].

It is not clear what this objective means. One interpretation is that the government, or some other agency, should develop surplus land -- more than that currently necessary -- continuously so that it is readily available whenever someone wants it. The implication is that not enough land is being developed and is being sold at 'unreasonable' prices.

c. To make land available for purposes consistent with economic growth and social policy to different sections of the community and in particular to weaker sections [1,3,4].

d. To reduce, and if possible, prevent concentration of land ownership, rising land values, speculation, etc. [1,2,4,5].

e. To allow land to be used as a resource for financing urban development [1,4]. Or 'to secure for public use a satisfactory share of unearned increases in land values' [3].

We can interpret these objectives to be of 2 basic kinds: one aiming at optimal allocation of resources, however defined, for development and the second aiming at distributional equity.

Land prices are seen to be high in some absolute sense. It is not recognized or accepted that these values reflect the rising marginal productivity of land with increasing pressure of urbanization. If one doesn't believe in the efficient working of the land market and in the marginal productivity theory of value it is difficult to find other causes for rising land values. If, however, prices do reflect actual values then objectives a and b can be seen to imply that urban land policy should ensure use of land according to its price. Urban plans, zoning regulations, taxes, etc., should all be geared to this end. We would then not see one floor housing---public and private---in prime areas as is the case in New Delhi

Achieving distributional equity is, of course, a rather more difficult issue. Reducing concentration of land ownership and thereby land speculation is unexceptionable. If, even then, land prices are high in some sense so that the poor cannot afford housing should they be subsidized? This problem is really a conundrum. If people are gainfully employed their wage or income reflects their productivity. If they are poor it follows that their productivity is low. If we then want to provide subsidized land and housing for them we are really saying that their value is more than they earn. The correct policy in that case is to raise wage and salary levels. This argument applies in particular to subsidized housing in the government sector. If the government values the services of its employees so highly why does it not raise their wages?[1] Moreover, such housing subsidies are invariably regressively distributed and a tied subsidy leads to misallocation of resources anyway [A. Datta, 1973]. This is as far as a 'clean' economic argument takes us. The problem remains: where do the poor live and how do they live? The above argument implies that the poor <u>can</u> live in areas with high land values <u>if</u> they are crammed into high rise type structures or in insanitary slums as they are now. The other solution is for them to live in peripheral areas of the city where land is cheaper. The accompanying requirement is for an efficient and cheap transport system---itself a capital intensive expensive enterprise. None of the solutions seem easy or easily acceptable which is why this problem has been called a conundrum. Perhaps, as J. P. Sah [1972b]

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[1] I am indebted to S. Boothalingam (Director-General, N.C.A.E.R.] for this strand of the argument.

suggests, we have to resign ourselves to poor housing and the conundrum exists because academics and policy makers want to see a standard of housing inconsistent with the level of development the country has. Poor urban housing offends their sensibilities and by suggesting subsidized housing they are really increasing their own utility!

Associated with distributional equity is also the objective of appropriating unearned increments in land values. While we have the generally justified notion that when land values appreciate they do so without any input from the land owners it is still difficult to define what constitutes an 'unearned' increment. Increases usually occur because of land development (which may be done by a public authority) and by a general increase in economic activity. The individual owner then reaps the benefit of public activity and should therefore be taxed accordingly. Land is different from other economic resources since it appreciates in value over time while others depreciate. It is in inelastic supply while othere are not. It must, however, be pointed out here that while the supply of land is inelastic that of urban land is not since agricultural land can always be converted. So we cannot carry the idea of inelastic supply too far. Is the whole increment in value unearned? Should we not allow the owner some 'normal' return on investment, and allowance for inflation, a reward for risk taking and, perhaps, entrepreneurial ability. These are clearly all difficult to define but have to be considered if we are to have horizontal equity between owners of different kinds of capital. If the landowner also happens to be a developer but gains more in windfall gains then a normal return to his development investment should all the excess be taxed away? It may be argued that such an entrepreneuer would re-invest such gains successively and would therefore aid development without hurting equity. He should, on the other hand, be encouraged. With such imponderables and uncertainties an economist can only suggest that all wealth should be taxed equally as should all kinds of capital gains. If we are interested in growth and equity we can give incentives for investments we consider desirable from this point of view.

Having made these general comments a review of various measures for capturing windfall gains from land values is now offered.

8.3 Capturing Gains Through Taxes

It is probably true to say that all the gains we are interested in capturing would be captured if all the existing taxes were administered properly. India already has the following taxes:

1. Income Tax
2. Wealth Tax
3. Capital gains Tax
4. Gift Tax
5. Estate Duty
6. Urban Land Tax (in some states)
7. Stamp duty on transfer of property
8. Registration charges
9. Property taxes
10. Betterment levies (levied in some states and cities)

All these taxes have already been discussed and therefore only a few general comments are offered here.

One of the main problems affecting the collection of taxes connected with land value appreciation is the existence of the so-called 'parallel' or 'black' economy. With high marginal income tax rates, there is a great incentive to understate income. The income understated is then illegal and can only be used for unaccounted purposes. Its use is therefore restricted and probably has a low discount rate. The transactions it is used in then have artificially high prices. It is relatively easy to use such money in land and building transactions. Thus the prices of land do get bid up to unusually high levels and the increments are not liable to tax since the full value cannot be legally registered. Two recent government actions may alleviate this problem somewhat:

1. Marginal Income Tax Rates: The 1974-75 budget has recommended the maximum marginal tax rate to be decreased from 97.5% to 77% and correspondingly all the way down the tax structure.
2. Undervaluation of Property: If the Government now feels that a property is undervalued it has the option of buying it at the stated price. It has further been suggested that this option should be extended to the general public [I. S. Gulati, et. al., 1973].

Both these changes have been made in response to recommendations of the Wanchoo Committee Direct Taxes Enquiry report [Govt. of India, 1971], but their effects have yet to be seen. It is encouraging to note that 'expert' type committees do have some effect on government policy.

Another general problem is that of the low pay and status of tax officials. That corruption will arise when a Rs. 500 to Rs. 1000 a month official assesses a businessman earning Rs. 20,000 a month is not surprising. Similarly, when a land transaction worth Rs. 200,000 is involved it is clearly not difficult to bribe the concerned official. It is also obvious that tax officials cannot be paid as much as the richest people in the system. One can only speculate that if tax officials were among the highest paid civil servants such corruption would decrease.

As was shown in the case of the Tamilnadu Urban Land Tax, the Indian Wealth tax has such a host of exemptions that all but a few of tax assesses pay no wealth tax. These exemptions must be reduced for the tax to have any effect.

Local Property Taxes have been discussed exhaustively but it may be emphasized here that if

i. Revaluations are made at reasonable intervals

ii. Vacant land is not given any concessions

iii. A Central Valuation authority is formed

iv. As a result information on properties is shared with the central tax system.

increments in land values would be captured adequately by the combination of local property taxes, the wealth tax and the capital gains tax.

8.4 Land Use Controls

The effect of land use controls is really similar to that of taxation: since the owners' choice set is restricted by controls part of his property has effectively been expropriated. Theoretically, therefore, we can regard the effects of tax and controls to be similar. Controls being more direct and peoples' responses to land use through taxes being somewhat unpredictable we can supplement the tax system with land use controls like zoning, building codes, restricted lease patterns and so on.

The most comprehensive attempt at control of land use in India has been in Delhi through the Delhi Master Plan and the Delhi Development Authority. The CIDCO New Bombay Plan is a similar attempt with wider coverage but is yet to go into action. The Tamilnadu Urban Development Perspective Plan and the Madras Metropolitan Plan is only a statement of intentions and policies implementing them have still to follow.

8.41 The Delhi Master Plan and Delhi Development Authority (D.D.A.)

The objectives of the Delhi Master Plan were to control the rapidly expanding city and guide its development in an orderly manner. Its key objectives included distributional equity and the capturing of windfall gains due to land appreciation. Its results, as can be expected of any ambitious Plan, have been mixed.

The Authorities notified 66,000 acres of undeveloped land on the fringes of the then Delhi and froze prices at 1959 levels. D.D.A. has been largely successful in acquiring this land. Portions of the land were then allotted to different government agencies for development and housing. In addition, some land was allotted to cooperative housing societies. The D.D.A. itself took a large proportion of the land and then slowly developed it. It was decided that all the land was to be given out on leasehold only. Maximum and minimum limits were placed on plot sizes. An individual could not own more than one plot in Delhi--this clearly prevents concentration. No change in land use is allowed for 10 years--indeed no transfer of property is allowed for 10 years without the permission of D.D.A. Furthermore, the deed entitles the authority to claim up to 50% of the increase in value at time of transfer. This measure mops up the increment in land values.

The D.D.A. auctioned commercial and high income plots at whatever prices it could get. These prices are usually sky high so critics of the D.D.A. charged that the Authority itself is responsible for speculative price rises. [Ashish Bose, 1972b]. It further allots houses on a hire-purchase scheme to low income (less than Rs.7200/yr) and middle income (between Rs. 7200 and Rs. 15,000/yr) people. This is done on a no-profit basis, i.e., cost of land, development, construction is taken as the price. The leases are for 99 years with certain restrictions on transfer mentioned above. The cooperative housing societies formed were from certain kinds of professional groups, displaced persons from West Pakistan, categories of Civil Servants, etc. Many of these societies have fairly large plots (500 to 1000sq. yds.) which have been leased to society members at prices merely equal to cost of land and development.

What are the results of this massive experiment? Admirers of the scheme would say something like:

> 'The D.D.A. has been doing a commendable job of clearing undeveloped land in and around the Urban Territory of Delhi and developing them into model colonies and suburbs ...The whole policy of D.D.A. is aimed at eliminating speculative holding of land, ensuring that developed sites are available for building houses when needed and appropriating for the community the unearned increment arising from the sale of developed building plots and buildings.' [B. Nanjundaiya, 1971].

D.D.A.'s model is then recommended for other cities in India. Those taking a more critical view of the scheme would note:

a. Land prices have skyrocketed since the price freeze in 1959.

The reason: D.D.A.'s acquisition of all land curtailed the supply drastically to the driblets it released in its auctions. The auction prices are then scarcity prices not 'true' prices. Sympathetic price rises also took place in earlier free-hold areas. On the demand side there is the burgeoning diplomatic, academic, foreign consultant and high bureaucrat: : community all demanding luxury housing.

b. The allotment by lottery benefits a very small proportion of those in need. This is clearly horizontally inequitable.

c. Those who are allotted so-called low and middle income housing are not really low income if the true distribution of income is seen. Furthermore, the civil servant types who gained lands at ridiculously low prices in cooperative societies built luxury houses and rented to the ready demanders at pretty high prices. Thus vertical equity suffered as well--indeed the whole scheme was probably regressive.

d. With the restricted supply of land and slow development whole new unauthroized ramshackle neighborhoods sprang up in response to the heavy demand for low-income housing. Illegal developers gained greatly from these unauthorized colonies.

e. The restrictions on transfer of property and stipulations concerning unearned increments induced yet another black market. Properties are now transferred illegally and without registriction: the buyer pays the current price of land in addition to whatever the structure might cost. The property remains under the original lessee's name and to that extent the new owner takes a risk. He is willing to take this risk because of the non-availability of legal property.

f. Superficially, New Delhi does have a planned neat look about it which is aesthetically pleasing as long as one ignores the unauthorized slums existing next to every posh neighborhood'

(The above discussion draws heavily from [Ashish Bose, 1972b])

The foregoing may be seen to be unduly harsh on a plan which was essentially well intentioned. It may be argued that all of the various kinds of ingenious schemes people indulge in to get around the law cannot be predicted nor imagined. That may well be true but it cannot be denied that even a simple understanding of the working of the land market would have predicted the result of a severe restriction in supply.

What are the alternatives? Ashish Bose suggests:

i. The D.D.A. should have a massive house construction scheme in addition to its land activities.

ii. The D.D.A. should develop land only for the poor and middle income classes and leave the rich to their own devices.

iii. The D.D.A. should aim at block housing and vertical expansion and discontinue sale of individual plots. Private housing and development companies should be let loose; if there are low returns on housing the combined returns on land and housing should give adequate returns to the private companies to go into operation.

iv. The buildings by-laws should be revised from their colonial standards to the more realistic needs of poorer people today.

Furthermore, there should be an assault on Lutyens' Delhi with its vast colonial mansions housing ministers, generals and high civil servants. The urban sprawl of Delhi cannot be expanded much more without the provision of an adequate transport system. The energy shortage does not help either. In such conditions it is criminal to use prime land for lawns, avenues and mansions.

8.42 CIDCO and New Bombay[1]

The CIDCO plan for New Bombay has many of the features of Delhi's Master Plan but has the crucial difference that a completely new city is being planned

CIDCO has also notified all land in the New Bombay area and is in the process of acquiring it. Prices were similary frozen at 1970 levels, but various methods are being used for compensation. In the case of agricultural lands, for example, the capitalized value of annual crops is being offered. All the land is to be owned by CIDCO and offered on 60 year lease for residential purposes and 30 year lease for commercial purposes. Plots will be leased almost at cost, i.e., land costs and development costs and small profit (not precisely defined) for residential areas and at whatever market price is available for commercial plots. House construction will also be undertaken and will be self-financing. Higher income housing will have higher than cost pricing to subsidize lower income housing. The housing sector is then self-contained but with cross subsidies within it. The subsidies start at households earning less than

[1]Much of the following is drawn from [CIDCO,1973] and private communication with P.C. Nayak, Mg. Dir. and Srish Patel, Consultant to CIDCO.

Rs. 500 a month. CIDCO estimates that about a third of its residents will be so poor that they will not be able to afford any brick housing. It therefore plans to provide site and services type of developments to such residents. Designs and methods for low-cost housing will also be provided. Development will not be done indiscriminately but according to what the market can bear.

In addition, the Plan has an ambitious transportation system; the schooling system is envisaged to be particularly high in quality as well as innovative; the city is planned as a nodal city so that as many people as possible work near where they live. It is, of course, a matter of speculation as to how many of these objectives will be realized.

As far as the land market is concerned it is clear that the Plan suffers from many of the defects of the Delhi Master Plan and D.D.A. It is, however, different in that it is a completely new city and that CIDCO plans to release and develop land according to demand. How the demand will be measured remains to be seen. Another significant difference is that with the nodal pattern the plan envisages a whole spectrum of income classes to live in each neighborhood. The problem of the poorest third is explicitly recognized and CIDCO also plans to go massively into housing. Not as many restrictions are placed on transfers of property: CIDCO does not claim unearned increments but it does reserve the right of pre-emptive purchase. Land prices are expected to be controlled by CIDCO's responding to the market demand for housing and land as it develops--much as a buffer food stock operates to control food prices.

It is difficult to foresee how successfully all these policies will work. One of the encouraging features of CIDCO is that it is employing as consultants various prominent entrepreneurs in the land and housing market of Bombay. Such people are acutely conscious of the workings of the market --white as well as black. Whether they will function any better than usual planners remains to be seen. The kind of problems that have arisen already are mostly associated with lack of demand. For example, there is a disincentive to buy from CIDCO since no payments can be made in black money. Until good communications are developed with Bombay it is going to be difficult to lure economic activity across the water.

My suspicion is that, given full governmental support and competent administration, the Plan may well work well up to a certain stage. If, however, conditions of scarcity develop results similarly to Delhi will appear.

8.43 Madras Urban Development Plan

[Govt. of Tamilnadu, 1971,1973]

Both the Madras Metropolitan Plan and the Tamilnadu Urban Development Perspective Plan are not precise enough to be discussed in any great detail. As far as land policy is concerned massive land acquisition is proposed in the normal way to control land values and to capture unearned increments. The main difference is that the State Planning Commission has accepted socialization of all land as an objective. It is difficult to understand this given the fate of the Tamilnadu Urban Land Tax Act described earlier. Whatever the merits of socializing all land it is clear that it is not politically possible in the near future and is therefore irresponsible to include even in a perspective plan.

One other aspect of the Plans needs comment : when estimating housing needs existing non-pucca structures are excluded from the stock of housing and therefore astronomic figures arrived at for requirements. This is a clear care of well intentioned but economically unsound approaches to planning. We have to recognize that the country is poor and that there is nothing wrong in living in kutcha houses: indeed many of them are more habitable than matchbox type low income housing.

8.5 Confiscatory Measures: Urban Property Ceilings

In addition to the use of taxes and land use controls confiscatory measures can be used to curb the increments in land values (or to capture part of them) and to approach distributional equity. The imposition of land ceilings in rural areas has led to pressures for urban land ceilings. The idea has gained a measure of popularity in political circles as a concession to the farmers' lobby. As a practical policy, though, to achieve the goals of equity and efficient resource allocation it is an ill conceived idea.[1]

The objectives of urban land ceilings can be stated to be:

i. Counter speculative gains which accrue to private parties through rising land prices and let these gains accrue to the state for priority investment.

ii. Redistribute existing housing in favor of the poor.

iii. Reduce concentration of wealth.

iv. To discourage luxury housing but not to reduce housing supply.

Speculative gains usually evade taxes and end up as conspicuous consumption. A ceiling on urban property will not affect such speculation--assuming it exists--except that large properties will in some sense go out of the market. However, the ceiling is defined:it is not clear how the

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[1]The following discussion is based on [A.M.Khusro, 1973], [Nirmala Banerjee, et. al.,1972a] and [F.I.C.C.I, 1972].

state will capture unearned increments in value. If the ceiling is in physical terms the excess property will be acquired once and for all and re-sold. If compensation is offered at market prices as the law currently requires it is unlikely that the government would gain much in re-sale. If the ceiling is in value terms and the value keeps rising will the government acquire the excess periodically? If it pays the market value at each stage it is the owner who is gaining increments in land value. If, however, the government does not pay market values--assuming the law is changed--owners of urban property are discriminated against relative to other capital owners.

Since properties which are in excess of the ceiling are likely to be luxury structures the poor will not benefit from their acquisition. They will merely be transferred to other rich people who do not own such property. If the original owner is compensated there is no effect on the concentration of wealth since he has merely changed his portfolio of capital holdings. There is, of course, less concentration of urban property.

The supply of luxury housing will clearly be curbed as far as large properties are concerned. If the ceiling is in physical terms the intensity of luxury will increase in the smaller units. Since it is generally accepted that low income housing does not provide adequate returns for private investment we cannot expect an increased supply of housing unless specific incentives are provided for such investment as an accompanying measure. In the absence of these incentives it is relevant to ask what will happen to the investment diverted from luxury housing. Part of it may go in more socially productive channels but part of it is always black money. We can expect that part to go in increased conspicuous consumption. Worse, with restricted opportunities at home and being illegal anyway we could expect the flight of 'black capital' abroad.

In addition to these substantive difficulties urban property ceilings are also fraught with a host of practical difficulties: which value of property is to be taken into account -- before the law or after? In case of excess property which property does the government get? Where a property is one unit how is it to be divided and then distributed?... and so on.

It is therefore clear that urban property ceilings cannot be expected to achieve any of the objectives usually put forward. A judicious combination of taxes and land use controls would achieve these objectives much better.

9. A Concluding Comment

Throughout this review much accent has been laid on the role of the market as an allocative mechanism and that of prices as signals in the traditional economists' manner. This does not arise from any veneration of the sacrosanct market nor any belief in the market being superior to central controls My approach is an eclectic one: use the market where it is easy and useful; do not over-burden the government with tasks it cannot do; do not control what cannot be controlled without draconion measures. At the same time, do not expect the market to accomplish everything--least of all equity; use controls in ways which induce people to obey them; use quantity signals where they are superior to price signals. I do believe that the market operates reasonably in urban lands and housing and provides good signals. The government does have to make use of these signals and plan accordingly. The market, for example, tells us that people will not invest in low income housing because of low returns. The government can then either itself make such investments or provide tax and other incentives for private efforts. If it is true that black money has a low discount rate the Government could even induce people to invest it in low-income housing with no questions asked and perhaps get encouraging results.

Appeals for more data have been made at various points in the study. Economists are never satisfied with the data they are given. In this case though there is a real dearth of good data on all aspects of the urban housing and land markets in India. There are difficult problems to do with black money which cause this dearth but official agencies have not even been collecting data on the existing stock of housing and characteristics of their occupants. Only if more of this kind of detailed data is made available can more interesting questions concerning the determinants of property taxes, their incidence, their effects on other economic variables, their influence on locational decisions, etc., be approached.

Urban economics is a new field in the U.S. and Europe and economic models of cities are only now being suggested. I believe that models of cities in poor countries will have to be substantially different. The nature of these cities is different and the trends of urbanization are different. Furthermore, we cannot compare them with cities in the U.S. and Europe in the nineteenth century since the situation is once again qualitatively different -- at least demographically. Only when such models are forthcoming can various aspects of the land and housing market be studied in a intergrated manner.

Appendix (1)

Individuals interviewed in the course of this study:

A. General

1. S. CHAKRAVARTY, Member, Planning Commission
2. B. MANJUNDAIYA, Director, Perspective Planning Division, Planning Commission
3. A.M. KHUSRO, Director, Institute of Economic Growth, Delhi
4. ASHISH BOSE, Professor, Institute of Economic Growth, Delhi
5. S. BOOTHALINGAM, Director General NCAER
6. PRITAM SINGH, Dy, Director General NCAER
7. K.S. KRISHNASWAMY, Executive Director) Reserve Bank of India
8. N.J. JHAVERI,)
9. C.P. ANDRADE)
10. BENJAMIN FISHER) Ford Foundation, New Delhi
11. KAMLA CHOWDHRY)
12. G.L. BANSAL, Secretary General)
13. R.S. BISHT) F.I.C.C.I.
14. DEVA RAJ)
15. ABHIJIT DATTA) Indian Institute of Public Administration New Delhi
16. MOHIT BHATTACHARYA)
17. PRABHAKAR RAO, Mg. Dir., Housing and Urban Development Corp.
18. *K.N. RAJ, Director)
19. *I.S. GULATI,) Center for Development Studies, Trivandrum
20. *Y.K. ALAGH)
21. *ATUL SHARMA) Sardar Patel Institute of Economic and Social Research, Ahmedabad
22. G. V.K. RAO, Development Commissioner, Govt. of Karnataka
23. L.S. VENKATA RAMANAM) Institute for Social and Economic Change, Bangalore
24. G. THIMMAIAH)
25. D.T. LAKDAWALA, Professor, Dept. of Economics, Bombay University
26. MALCOLM ADISESIAH, Director, Madras Institute of Development Studies
27. B. NATARAJAN, Director, Institute for Techno-Economic Studies, Madras

Appendix (1) Contd.

B. CALCUTTA

28. K.C. SIVARAMAKRISHNAN, Secretary, C.M.D.A.
29. B.C. GANGULI, Special Administrator, Calcutta Corporation
30. M.G. KUTTY, Joint Secretary (Taxation), Finance Dept., Govt. of West Bengal
31. ARTHUR ROW, Consultant, C.M.P.O./Ford Foundation
32. SANTOSH GHOSH) C.M.P.O.
33. DEBASISH BANERJEE)
34. T.K. BANERJEE, State Planning Commission
35. TAPESH ROY, Sr. Valuation Officer, Calcutta Improvement Trust

C. BOMBAY

36. J.B. D'SOUZA, Chairman)
37. P.C. NAYAK, Mg. Dir.)
38. SRISH PATEL, Consultant) C.I.D.C.O.
39. SURESH GOGTE)
40. DATTA PARAB
41. R.G. RELE, Assessor and Collector) Bombay
42. PRABHAVALKAR, Dy. Municipal Commr.) Corp.

D. MADRAS

43. S. VENKITARAMANAN, Finance Secretary) Govt. of
44. G.K. GANDHI, Dy. Secretary (Rev.)) Tamilnadu
45. LAKSHMI RATTAN, Dy. Secretary (Local Administration))
46. V. SHANMUGASUNDARAM, Professor of Economics, Madras University
47. DORAISWAMY, Revenue Officer,Madras Corporation

E. DELHI

48. B.R. TAMTA, Municipal Commissioner) Delhi Municipal
49. S.P. NIGAM, Assessor & Collector) Corp.
50. G.R. JOSHI, Assistant Assessor & Collector)

* Communicated through correspondence

Appendix Table A-1

Income Tax Rates

Annual Taxable Income (Rs.)	Marginal Tax Rate (%)
1 - 5,000	Nil
5,000 - 10,000	10
10,001 - 15,000	17
15,001 - 20,000	23
20,001 - 25,000	30
25,001 - 30,000	40
30,001 - 40,000	50
40,001 - 60,000	60
60,001 - 80,000	70
80,001 - 100,000	75
100,001 - 200,000	80
200,001 +	85

Source: S.N. Banerjce [1973].

Notes:

1. Agricultural income is not taxable.
2. Certain deductions are allowed.for contributions to provident fund, life insurance premiums, etc.
3. There is an Income Tax Surcharge of i) 10% of tax - where total income does not exceed Rs. 15,000. ii) 15% of tax where total income exceeds Rs. 15,000.
4. According to the latest budget proposals for 1974-75
   a) The surcharge will be 10% of taxes for all incomes over Rs. 15,000.
   b) All tax rates have been scaled down with the maximum marginal rate now being 70%.

Appendix Table A-2

Wealth Tax Rates

Value of Net Wealth (Rs.)	Marginal Tax Rate (Individuals) %	Marginal Tax Rate (H.U.F.) %	Add. Urban Wealth Tax Rate %
1. Up to 100,000	Nil	Nil	Nil
2. 100,000 - 200,000[1]	1	Nil	Nil
3. 200,000 - 500,000	1	1	Nil
4. 500,000 - 1 million	2	2	5
5. 1 m. - 1.5 m.	3	3	7
6. 1.5 m. +	8	8	7

1. Where wealth exceeds Rs. 100,000 (for individuals) and Rs. 200,000 (for H.U.F.) tax is payable on total wealth, i.e., not merely on excess. However, no tax can exceed 10% of excess.

Note: 1. The additional wealth tax is levied on any land and buildings owned by the assessee in urban areas, i.e., towns with population over Rs. 10,000.

2. The new budget proposals for 1974-75 have raised the marginal tax rates from 2 to 3% for category (4) and from 3 to 4% for category (5).

Source: S.N. Banerjee [1973].

Appendix Table A-3

Estate Duty

Value of Estate (Rs.)	Marginal Tax Rate %
Up to 50,000	Nil
50,000 - 100,000	4
100,001 - 200,000	10
200,001 - 350,000	15
350,001 - 500,000	25
500,001 - 1 million	30
1 m. - 1.5 m.	40
1.5 m. - 2.0 m.	50
2.0 m. +	85%

Source: S. N. Banerjee [1973].

Appendix Table A-4

Gift Tax Rates

Annual Value of Gifts (Rs.)	Marginal Tax Rate %
1 - 5,000	Nil
5,001 - 20,000	5
20,001 - 50,000	10
50,001 - 100,000	15
100,001 - 200,000	20
200,001 - 500,000	25
500,001 - 1,000,000	30
1,000,001 - 1,500,000	40
1,500,001 - 2,000,000	50
2,000,001 +	75

Note: There are various exemptions from the gift tax related to charitable gifts and those to dependents and spouses.

Source: S.N. Banerjce [1973].

Appendix Table A-5

Revenue of Central and State Governments in India
(in millions of Rs.)

	Centre				States			
Year	At Current Prices	Index	At Constant Prices	Index	At Current Prices	Index	At Constant Prices	Index
1955-56	4,812	55	5,595	64	3,561	57	4,141	57
60-61	8,775	100	8,775	100	6,233	100	6,233	100
61-62	10,368	118	10,066	115	6,684	107	6,489	104
62-63	14,275	163	13,341	152	8,041	129	7,515	121
63-64	18,461	210	16,632	190	9,489	152	8,549	137
64-65	20,806	237	17,054	194	10,360	166	8,492	136
65-66	23,204	264	17,849	203	11,369	182	8,745	140
66-67	24,732	282	17,417	198	13,274	213	8,455	136
67-68	25,536	291	16,265	186	15,144	243	9,646	155
68-69	27,599	315	17,142	195	17,360	279	10,783	173
69-70	30,276	345	18,349	209	20,023	321	12,135	195
70-71	33,403	381	18,766	214	22,813	366	13,187	212
71-72	34,843	397	19,574	223	25,228	404	14,173	227

Source: Central Statistical Organisation: Basic Statistics Relating to the Indian Economy 1950-51 to 1970-71. New Delhi, 1973. (Tables 73,74).

Note: Price Deflator used is the c.p.i. for Urban Non Manual Workers - all India Average. See Appendix Table A.6 for series.

Appendix Table A.6

Price Indices

	All India	Calcutta	Bombay	Madras	Delhi
1955-56	86				
56-57	93				
57-58	95				
58-59	97				
59-60	98				
60-61	100	100	100	100	100
61-62	103	101	102	105	104
62-63	107	106	106	110	109
63-64	111	111	112	114	114
64-65	122	116	122	123	123
65-66	130	123	130	131	129
66-67	142	135	139	143	139
67-68	157	149	150	154	151
68-69	161	156	155	154	161
69-70	165	160	160	158	166
70-71	173	169	167	172	173
71-72	178	173	171	184	178

Note: The price index is the c.p.i. for urban non-manual workers.

Source: i) C.S.O.: Basic Statistics Relating to the Indian Economy 1950-1951 to 1970-71 (Table a)

ii) M. Mukherjee (1969) Table 4.1.

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1. Ashish Bose [1970b]
2. Ashish Bose [1973]
3. Leo Jakobson and Vod Prakash [1971].

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1. Housing Seminar: Papers read in:

   Seminar on Economics of Housing in National Development [Ootacamund, May 1972]

   organized by:

   - Institute for Techno Economic Studies, Madras
   - Tamilnadu Housing Board, Madras
   - National Buildings Organization, New Delhi
   - School of Planning and Architecture, New Delhi

   mimeo Forthcoming

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3. Q.J. of L.S.G.: Quarterly Journal of the Local Self Government Institute, Bombay
4. Nagarlok: Quarterly, Journal of the Centre for Municipal Administration, Research and Training, I.I.P.A., New Delhi.

5. Anvesak: Bi-annual, Journal of the Sardar Patel Institute of Social and Economic Research, Ahmedabad.

Others.

1. I.I.P.A.: Indian Institute of Public Administration, New Delhi.

2. I.C.S.S.R.: Indian Council of Social Research, New Delhi.

3. C.I.D.C.O.: City and Industrial Development Corporation of Maharastra, Bombay.

4. C.M.P.O.: Calcutta Metropolitan Planning Organization, Calcutta.

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