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Functional-Dysfunction: Mumbai's Political Economy of Rent Sharing

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Abstract: *This paper presents a conceptual account of urban governance in Mumbai as a rent-sharing system based fundamentally on control over urban space. We use rents in the economic sense, of returns that exceed what would be available in a competitive market. Formal rules and policies, which are 'flexibly' enforced, form the underlying basis for the generation of rents. Rent creation and sharing is not solely concerned with corruption or patronage. We rather argue that the system is functional for Mumbai—it does work in the organization of economic and social life in the city. This includes areas where no formal market exists, such as the use of pavements for street vending. The system also helps address commitment problems in the multifarious transactions, many of which are informal, that underpin the economy of the city, by providing a measure of stability and predictability in an uncertain legal environment. However, while the system is both resilient and functional, it thwarts prospects for transformative change.*

Keywords: India urban politics, urban governance, Mumbai, urban political economy, informal governance, informal institutions, urban development regulation

I. Introduction

It is a truism that Mumbai is a city of contrasts, between wealth and destitution, glamour and despair, fast living and slow traffic. Mumbai has an illustrious history, as a centre of capitalist production and cosmopolitan culture, and as a magnet for migrants. The city displayed extraordinary resilience in the face of the terrorist attack of November 2008, a resilience shared with New York, London and Madrid, other great cities that suffered such attacks.

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As India globalized, Mumbai's state and business elite aspired to transform it from a city of slums to a "world-class city" (GoM, 2004), with infrastructure and amenities on par with leading international cities.[2] Yet Mumbai seems stuck. It is economically dynamic, but the city's workforce is informalizing, and urban inequality is on the rise (MCGM, 2009; GoM, 2012). Citizens lament a dismal quality of life that belies Mumbai's growing wealth - worsening pollution, long and congested commutes, unaffordable housing and few open spaces and public amenities. Over sixty-five percent of the city's population, many of whom are not income-poor, live in slum settlements. The provision of public goods, from water and sanitation, transport, public health and security is severely inadequate, especially, but by no means exclusively, in slum areas. Despite the iconic Sea-Link bridge and some new expressways, the city's everyday infrastructure remains overburdened and crumbling. On the policy and regulatory front, efforts to decentralize and democratize local government, improve urban planning, redevelop slums and re-house slumdwellers, and "rationalize" property tax and urban development regimes, have failed to yield the expected outcomes.

In sum, Mumbai's leadership has been unable to leverage its economic dynamism and civic activism into building a more livable city, much less effect a transformation along the lines of "world-class" models like Shanghai or Singapore.[3] In this paper, we argue that Mumbai's signal problems can be explained as an outcome of fundamental problems in governance, rather than as a result of policy mistakes. Notwithstanding governance reforms, some highly motivated and capable bureaucrats and leaders, and new partnerships with the private sector and civic groups, the overall system in which state actors operate tends to remain in stasis.

Mumbai's governance is rooted in its political economy, which is structured around the distribution of rents accrued from control over urban space. Mumbai's political economy of rent-sharing, we argue, shapes how the various layers of the state function, how policy choices are made and implemented, and the state's relationship with the city's powerful real-estate interests. By rents we do not mean monthly payments for housing —though the mixture of sky-high and (for a few) absurdly low rents is indeed a symptom of the system. We use rents in the economic sense: as a return, valuation or preferred position that is prized because it exceeds what could be achieved in a fully competitive market or through

[2] See Vision Mumbai: Transforming Mumbai into a World-Class City at www.visionmumbai.org
[3] We refer to Shanghai and Singapore as models because they have been specifically referenced as such by Indian government leaders and state officials, not because we believe they provide an appropriate template for Mumbai (see Chattaraj, 2012 for more details).

available alternative activities. In this sense, rents are pervasive and occur in many domains. Rents flow from political and market power, bureaucratic authority, specialized information, social networks and status.

We focus on rents derived from control over urban space, due to their centrality to Mumbai's political economy and their relationship with policy and planning decisions, and therefore with political power and authority. These rents accrue from the authority, de jure or de facto, to control the possession, occupation and use of urban space. Space-related rents are embedded in negotiations over major infrastructural projects or decisions on zoning and development regulation. They are also central to the production of slums, typically a business enterprise rather than a community-organized land invasion, where rents flow from the organization of access to land, protection from enforcement and implicit or explicit state support.

These rents flow from political connectivity and relationships, between high-level politicians and bureaucrats in luxury developments, and between local politicians, police and municipal officials in the case of slums and informal work. Space-related rents are shared amongst the wealthy and influential and are also distributed to those of lower economic and social status through localized networks. Frontline government and party workers, police, leaders and fixers in slum communities are part of the rent-sharing system. Rent-sharing makes Mumbai's urban governance more responsive to (some) local demands than the state's hierarchical and relatively insulated institutional structure. The system is distorted, but is also functional: it "works" for most participants, albeit in an inequitable and suboptimal fashion.

The paper is intended as a contribution to the conceptualization of Mumbai's governance. It draws on the literature on economic rents, field research and case study literature on Mumbai, as well as official documents and media accounts. We develop our conceptualization in relation to alternative theories of urban political economy and illustrate it with examples from the domains of urban development regulation, street vending and slum renewal. We conclude by discussing why this system is resistant to the transformative changes sought by Mumbai's leaders and governance reformers. While the focus is on Mumbai, we believe the rent-sharing basis of governance is typical of Indian cities[4]—and may characterize cities in other developing countries.

II. Mumbai's political economy of rent distribution

[4] See Heller, Mukhopadhyay and Walton (2016) for a closely related comparative discussion of Bangalore, Delhi and Mumbai.

How can we usefully conceptualize how an immense, complex city such as Mumbai functions? In this section, we lay out the role of urban space related rents in shaping Mumbai's political economic logic.

Urban space, we propose, is the central factor in Mumbai's service-based, and highly informal, economy. This makes contemporary Mumbai distinct from cities based on industrial production, and indeed from industrial-era Bombay. In many service industries, the critical factors of production are human/social capital and place/space,[5] rather than physical capital. Whether in financial services, media or street vending, a distinct advantage accrues from being in Mumbai, as opposed to another city, and to specific locations within Mumbai. A street vendor with access to a prime location earns substantially more than a vendor engaged in a similar activity in a less busy spot. Economists explain the clustering of firms in cities as a result of "agglomeration economies" – these generate spatial rents associated with location near to suppliers, markets, skilled and specialized labour, networks of similar or diverse firms (Chakrovorty and Lall, 2007; Brown and Duguid, 2000; Glaeser, 2012; Jacobs 1961, Marshall, 1890; Saxenian, 1996). Social networks are spatially inscribed - for an investment banker, aspiring entrepreneur, freelance actor, or street hawker, location influences social networks and economic opportunities. This is why firms pay astronomical rents for poor quality office space in downtown Mumbai, and hopeful actors from all over India travel to Mumbai to live in cramped apartments.

The city, the built environment and the space contained within it, unlike land, is produced. Rather than an agglomeration of individual market exchanges, we understand it as the product of interplay of socially-embedded interactions between state, market and community actors (Logan and Molotch 2007, Lefebrve 1991). When we talk of urban space in Mumbai we do not just mean parcels of land or buildings, but the prerogative to sell goods on a specific train route or traffic intersection, to access public land and development rights, to gain exemptions from rules, to circumvent or reframe development plans – an open, competitive market does not exist for these rights of use of urban space. Moreover, the ability to extract value from a particular piece of land is related to political connections and networks; thus the same piece of land has different values to different individuals. Even when urban land markets are fully commodified, they do not function like markets for other sorts of goods and services, but are fundamentally shaped by state action (Molotch and Logan, 1987). State actions to redraw administrative boundaries, incentivize home-

[5] Social capital is used in Bourdieu's (1986) sense rather than Putnam's (2000).

ownership or build highways or landfills will influence local land and housing markets, as will the quality of public services and amenities.[6] Thus, an account of Mumbai's political economy that merely points out that regulations distort land markets is of little use – the question is *how* particular policies "distort" or shape urban systems and structure interests, incentives and behaviours, and how regulations themselves are "distorted" in practice.

Alternative theoretical frameworks

We very briefly present alternative accounts of urban politics and political economy, to more clearly delineate our approach.

In Dahl's (1961) classic view, city government in a democratic system is an arena in which different types of organized interest groups compete to shape policy goals. No single group has overarching influence, and the state does not have an independent agenda. By contrast, in conceptualizations of the high-modernist state, the state has its own goals of social transformation, which it implements through top-down planning (Scott 1998). In both accounts, the role of government is to implement plans and policies, and deliver public services in accordance with laws and regulations. The state organization in Mumbai has aspects of both Dahl's competitive "polyarchy" and top-down, high-modernist developmentalism. Mumbai however lacks an empowered, democratically elected metropolitan or city-level executive authority, and the city and its surrounding region are governed by an array of provincial and municipal bureaucracies. There is a moderately high level of bureaucratic capacity spread across various state institutions in Mumbai, at least relative to other Indian cities. But state actors within these bureaucracies, we argue in this paper, are far from the Weberian ideal of insulated, rule-bound technocratic administrators of policies arising from democratic process.

The Government of Maharashtra (GoM) is the state organization with overarching authority over the Mumbai metropolitan region. It is democratically elected by a provincial Maharashtra electorate that continues to have a rural majority, making it less accountable to urban interest groups. The mismatch between city and state interests was reflected in the GoM's urban policy in the post-independence period. The GoM sought to de-concentrate urban and industrial growth from Bombay,[7] then a cosmopolitan city with a largely Gujarati business class, and distribute it through the province, in planned industrial zones in adjacent

[6] Even Houston, a city loved by real-estate economists because it has no zoning and planning, is not a product of "natural" market forces, but regulations favouring single-family homes, large lot sizes and car-centric development.

[7] We refer to the Mumbai as Bombay when discussing events prior to the city's official renaming in 1995.

regions and underdeveloped areas. Within Bombay, the state imposed restrictions on developable area and building heights, to decongest the crowded and dense city. To push industries out of the city and into the new estates, the state restricted new industrial and commercial licenses and raised commercial tariffs for power and water. State bureaucracies controlled investment decisions through the “license and permit raj” as well as zoning and development regulations, but political “interference” was rampant and plans and policies were more often honoured in the breach. The implementation of policies was thus uneven, contingent and politically mediated, producing an urban landscape that is a lop-sided reflection of the stated goals of policy-makers and planners. Much of the city on the ground developed in contravention of statutory plans and regulations (Pethe, Nallathiga, Gandhi and Tandel, 2014).

In 1993, the 74th Amendment to the Constitution of India decentralized power to elected city and municipal governments, but, other than in a few states, there was little substantive devolution (Acoca, Chattaraj and Wachter 2016). The GoM line departments and parastatals play a major role in land management, planning, infrastructure development and service provision throughout the region. Seventeen municipal governments have jurisdiction alongside the GoM in the Mumbai region, but their decision-making powers are limited, as are their administrative and financial capacities. The limited authority of the city and municipal governments in the region relative to the Maharashtra state diminishes the potential for local and city-based interests to influence decision-making over urban affairs. The Greater Mumbai/ BrihanMumbai Municipal Corporation (BMC), the most powerful and well-resourced of the city governments, is India’s oldest and wealthiest local government institution. The Corporation is headed by a career civil servant appointed by the GoM, and is a “local” government authority that serves 12.5 million residents. Reflecting the Corporation’s colonial origins, its elected council has little authority over the administrative bureaucracy (Pinto and Pinto, 2005). The mismatch between the scale at which policy decisions are made (in the highly-centralized BMC or GoM bureacracies), and the scale at which urban and regional economies and neighbourhoods are organized means that there are limited channels for local interest or demand groups to influence the design of rules and policies.

Following the liberalization of India’s economy in the early 1990s, state and business elites saw Mumbai’s potential as a global economic hub, in financial and other services, and launched a large-scale project to remake the city to realize these objectives (Bombay First/McKinsey 2003). As in the rest of India, private enterprise rather than state-planned industrialization was to be the primary driver of investment, production and employment, with the state working in partnership with the city's business community to facilitate and support economic growth. In the post-liberalization era, markets were seen as key to resolving Mumbai's slum, housing and infrastructure problems. But just as Mumbai's earlier period of state development control failed to produce planned urbanization, market-based solutions have been ineffective in meeting demands for affordable housing or addressing infrastructure gaps.

Despite these major shifts in policy, we suggest that the city's underlying political economy, which we discuss in the next section, remains largely unchanged. In Maharashtra, as the Mumbai metropolitan region became an increasingly important base for political and economic power, the state-level administration consolidated control over urban development, land, housing and infrastructure policy (Chattaraj, 2012). Post-liberalization Mumbai, with its growth-centric policy agenda and state-business partnership in urban governance, superficially resembles neoliberal urban governance models (Harvey 2005; Brenner and Theodore 2002). But this framework, based on the experience of Western cities, pre-supposes an industrialized and regulated capitalist economy prior to "neoliberal" restructuring, and this moreover governed by a relatively encompassing welfare state. Neither of these conditions is true of Mumbai. "Neoliberalism" as an explanatory framework foregrounds the forces of global capital while neglecting local politics.

The concept of the "growth machine" (Logan and Molotch, 2007) is more locally-rooted, hinged on the alignment of local state and property interests to maximize property values and tax revenues by promoting high-value real-estate development. There is indeed a powerful nexus between state and real-estate interests in Mumbai. But "growth machines" occur in a fully commodified and institutionalized property market, with relatively autonomous city governments dependent on commercial land values for their revenues. If there is a location in the developing work in which a "growth" machine concept has purchase it is in the very different context of the cities of China—where political and private incentives are strongly aligned in favour of maximizing investment and growth (Acoca, Chattaraj and Wachter, 2016). In Mumbai, rather than a concerted "growth machine" that aggressively promotes urban development through coordinated policy and planning decisions, the operational logic of the real estate nexus is complex. Mumbai's "political economy of place" is more distributed and fragmented, and its relationship with the formal regulatory system that governs urban development is skewed (Chattaraj 2012). Zoning regulations, development controls and building height restrictions, born in an era of (attempted) planned urban growth control, continue to restrict developable area, making a scarce resource even more scarce (Annez, Bertaud, Patel and Pathak, 2010), and therefore valuable. Indeed, the

Government's market incentive schemes for slum redevelopment and urban renewal are dependent on a tightly controlled development regime.

Heller, Mukhopadhyay and Walton (2016), in a parallel paper, characterize urban regimes in India as a "cabal" of interconnected interests in which rent generation and sharing is a central element. In post-liberalisation Mumbai, licenses to produce goods are generally irrelevant, but the state regulates the development and use of urban space, through statutory development plans and the granting of development rights, permits and approvals. It provides sanction for residents and businesses to conduct different sorts of activities on land and public space. Zoning and municipal regulations control the *usage* of land – pavements and public spaces are meant for transit or leisure, not commerce, commercial use is restricted and industrial production barred in residential areas and slums. Yet as anyone who has spent time in Mumbai will have noticed, laws and regulations governing the built environment and the usage of public space are flouted on a regular basis.

In most countries in the world, including capitalist democracies, the state is seen to have a compelling public interest in implementing some form of urban planning or regulatory control over urban development. What is distinct about Mumbai is not that the state has power over these matters, but that its formal regulatory machinery exerts limited influence in shaping or coordinating the city, owing to the widespread informality both in the production of the built environment and in the economic activities that place within it. Mumbai's combination of extensive and rigid state controls on urban development along with weak or "flexible" enforcement provide the setting within which rent-distribution networks emerge to organize the city's spatial and economic activity. Although Mumbai's governing institutions are centralized, hierarchical bureaucracies, mid-level and frontline public actors are responsive in a weakly coordinated way; to bureaucratic superiors, political elites as well as local political actors, to productive and extractive business interests, to "demand groups" (Rudolph and Rudolph, 1987) within the communities they serve. The rent-distribution networks, along with the formal bureaucratic structures or official partnerships with private or civil society actors, then constitute the complex "authorizing environment," (Moore, 1995) within which public actors in Mumbai operate.

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Rents and Rent distribution

Each of the theoretical perspectives discussed in the previous section has elements that describe Mumbai. However, all are inadequate as a general account of how Mumbai is governed and organized. We offer an alternative account, using the prism of rents and rent distribution, grounded in Mumbai's particular political and institutional context. We believe it may be useful to understand more generally how cities in India work, and may potentially in apply to cities in other developing countries.

Rent, in the conventional sense of the term, is the price for use of land or housing and forms the income of those who supply it. In the economic sense, a rent is a financial flow to an individual or group greater than could be obtained in alternative uses. This is typically created by protected economic power or privileged control over a resource in restricted supply. A classic source comes from market power generated by the preferential granting of a license to produce. If there were pure competition in production—or if licenses were auctioned to anyone with full information—such rents would be bid away. Individuals who control access to productive urban space - legally or illegally - gain rents, often in both senses of the term.

Access and control over urban space in Mumbai does not occur through exchanges in an open, competitive and regulated market where information is widely available, as in western cities.[8] The restrictive development regime serves to generate the underlying rents in urban space, rents that are then allocated between major political and private interests through networks. Mumbai's urban development is regulated by a complex and sometimes contradictory body of laws and regulations, designed and enforced by a plethora of state agencies and departments, including line departments within the Maharashtra state bureaucracy, the GoM's district administration, the Municipal Corporation, various parastatals, the police and the courts (Center for Good Governance, 2010). Legal and illegal accommodations around formal regulations are typical, such that the system works within a blend of formal rules and informal processes. The involvement of multiple state agencies, the opacity of the regulatory system and pervasive informality imply that the ability to extract rents is distributed across many actors rather than centralized. Politicians and bureaucrats at the apex of the state have "political capital" or power, by virtue of their position that allows them to create rents and share the proceeds. High-level state actors shape the value of land/urban space through decisions on infrastructure development and by making plans, rules and regulations, while mid-level and lower-level actors do so through their decisions to selectively enforce or flexibly interpret them. Access to information is often non-transparent and localized, and is a source of rents for fixers, brokers and intermediaries that connect state and non-state actors.

[8] The real estate market is *comparatively* speaking more transparent, open and regulated in US/Western cities, with information on prices and transactions more widely available; we are not suggesting that it operates as a perfect market.

We are not merely making the case that the state is too weak, corrupt or ineffective to implement its rules and policies, or that the rules are inconsequential. Instead, we argue that the rules and their implementation practices provide the scaffolding on which the system of rent-distribution is organized. The power that state actors at multiple levels have to grant exemptions, modify development regulations and plans, flexibly interpret rules, turn a blind eye to infractions and regularize informal development lies at the crux of the functional-dysfunction of Mumbai's political economy of rent-distribution. "Flexibility" in the interpretation and enforcement of rules and regulations at various rungs provides multiple opportunities for rent extraction, but also allows a formally top-down and rigid planning system to be more responsive to (some) demands and to better accommodate transition and change than if actors simply followed the rules. For example, the distribution of rents underlies urban expansion and development in rural areas adjoining major cities, which typically proceeds ahead of legal changes in land use from agriculture to urban (Donthi 2014).

The example of a rent created by a license or approval illustrates an essential feature of this kind of rent: it has a relational dimension. A bureaucrat who allocates a license, a politician who uses his influence to get a slum redevelopment project underway, a fixer who mediates between informal businesses and officials, typically partakes in a mutually agreed sharing of the underlying economic rents, for example in the form of a "hafta", bribe or future political finance. Social networks are central to the structuring and maintenance of advantage—whether these are connections local fixers and brokers make with political leaders and municipal workers to acquire and sustain *de facto* "rights" over space, or the high-level connections that mediate land and infrastructure deals, or changes in development rules. Rents are embedded in *relationships* between individuals and groups - politician/bureaucrat/fixer/land developer; hawker/"hawker lord"/policemen; slum community fixer/broker/state actor/builder. Their fruits are distributed within rent-sharing networks. However, just as rents often arise from differences and inequalities – in wealth, status, political power, social capital, legal status and citizenship - their distribution is highly unequal.[9] Some actors within the networks exercise control, while others merely gain access to earn a better livelihood. The system is resilient, because, as part of the rent-sharing network, participants still gain some share of the rent, over and above their alternative options. And through rents acquired from urban space, social and political capital can be deployed to accumulate economic capital. For example, slum leaders can convert political "capital" earned through their capacity to mobilize slum residents and organize votes into

[9] A full account of the relational dimension would need to address sociological concepts of different forms of capital (Bourdieu), and is beyond the scope of this paper.

economic opportunities by leveraging their connections with profit-making enterprises (Weinsten, 2008).

Are rents always bad? In both mainstream economic analysis and Indian political debates, rents and rent-seeking are considered inimical to the functionality and optimality of a system. In India, the term "rent-seeking" typically implies corrupt dealings. We argue, instead, that rents are both pervasive and *functional* in Mumbai. While it is indeed often the case that rents are linked to inequalities, illegal transactions and sources of distortion in economic functioning, it is important to recognize that they do work. Despite its many failures and problems, the city *functions*, as an immensely complex economic and social system. The sharing of rents is a central part of this functionality, to a degree solving the commitment problems in the multifarious transactional and investment relationships that underpin the activity of the city. Rent-sharing creates an interest in the various actors in the continuance of transactions and, for much of the time, in the protection of property rights, even if they are more often de facto than de jure (Chattaraj, 2016).

Rents are sources of incentives—including for invention and investments—and rent-sharing arrangements can provide the basis for behaviours that make an economic and social system function, with credible enforcement mechanisms a central part of the story (Khan, 2011; North et al, 2010; Roy 2010). Opportunistic behaviour to break the rules, to renege on deals, is punished by others in the system who share in the rents, and stand to lose. Social networks are central to the structuring and credibility of deals, which are typically based on repeated transactions and trust.

Much of Mumbai's economic activity takes place within a legal grey area, whether it is the production of slums, hawking and other informal economic activity, or the systemic violation of planning, environmental, municipal and labour regulations that occurs outside manifestly informal spaces like slums. These activities are facilitated through transactions between state and non-state actors, often involving bribes and corruption. The enforcers and executors of the law have substantial power over individuals and households who live or work in some form of informality, creating a source of rents and set of rent-sharing relationships. Intermediaries with the political power and influence to mediate with the powers that be - community leaders, fixers and brokers, help organize access to land and services, approvals and permits, or in their absence, state laxity in rule enforcement (Chattaraj, 2016; Chatterji, 2005; Hansen, 2001; Sharma, 2010; Weinstein, 2008),

Politicians play an active role in establishing and "regularizing" slums and informal settlements in return for political support by sustaining “vote-banks”, as well as monetary gains – Mumbai’s slums are a profitable business. Are we then merely talking about patron-client relations? There are without doubt elements of clientelism, but this is too limiting a view of rent distribution networks in Mumbai. We argue that rents are *functional*, not merely in terms of exchanging votes for patronage. First, they provide a system to organize and supply a scarce but essential factor in Mumbai’s economic and social life, urban space, for which a competitive, open market does not exist. Rent distribution networks provide a measure of stability and predictability in an uncertain legal environment, supporting the continuation of production and investment. Second, these rent-sharing arrangements go beyond bilateral relations, and involve a variety of intermediaries, fixers, brokers and local leaders. Although these networks are skewed and unequal, they are not strictly hierarchical. If we think of the relationship between the municipal engineer and local politician, both of whom acquire rents from their role in the production of slums, it is not a patron-client dispensation of favours, but a mutually agreed exchange. This requires local organisational networks to make both sides of the deal credible—to ensure that votes really are delivered, and the politician provides some public or private goods in return.

III. Domains of rent-sharing

In this section we briefly sketch out how rent-sharing shapes Mumbai’s land nexus, helps organize street hawking as well as slum redevelopment. We draw on and synthesize existing literature and documentation along across several domains to illustrate our overall proposition on Mumbai’s political economy.

Mumbai’s Land Nexus

Just as real-estate-based “growth machines” in the US emerged in a time of de-industrialization and shrinking federal support for cities, Mumbai’s “land nexus” took root in a period of de-industrialization and informalization, as the city’s changing economic base intersected with land policies and development regimes.

In the early post-independence period, the Congress government in Maharashtra sought to “re-balance” the concentration of commercial and industrial development in the core city of Bombay, by promoting development in the surrounding region. Public land acquisition and development formed the core of the Maharashtra government’s developmental and redistributive activities. Parastatals like the Maharashtra Industrial Development Corporation, the City and Industrial Development Corporation, the Maharashtra Housing and Area Development Authority and the Maharashtra Metropolitan and Regional Development

Authority, were given bulk land acquisition powers.

Land acquisition was governed by the Land Acquisition Act (1894), and specially enacted legislations governing the various parastatals. In 1976, the GoM passed the Urban Land (Ceiling and Regulation) Act (UL(CR)A), intended to prevent land speculation and private land concentration.[10] UL(CR)A allowed the state to acquire at minimal cost "surplus" land over a fixed ceiling for low-cost housing and public purposes. Under these laws, there was little requirement for the government to be parsimonious – state agencies could acquire land in reserve, without a specific project underway, for broadly defined "public purposes." Detailed rules and procedures governed the land acquisition process, and landowners could challenge the state in court – land could be taken for non-specific reasons but not in arbitrary ways. Various government agencies were involved, including the Maharashtra district revenue administration, which maintained land records and was responsible for monitoring encroachments, the state agencies seeking land, the courts, and the municipal corporation. The district administration managed land acquisition procedures, while the police were responsible for evicting recalcitrant residents or occupiers.

The state's formal *powers* to acquire land were expansive; but its actual ability to do so, and make use of the land for intended purposes, was constrained by legal process, lack of finances and administrative capacity, political "interference" and the challenges of resettlement. The "notification" of land for acquisition had the effect of "freezing" its market value, to prevent land speculation and minimize costs to the government. Far more land was "notified" for acquisition than was actually acquired, and the UL(CR)A allowed discretionary "exemptions" following notification (Narayanan, 2003). In reality, other than large-scale land acquisition to build the city of New Bombay, little land was acquired by the state. Much of the land notified for acquisition was tied up in protracted litigation. Acquired land was often not taken possession of by state agencies, and a very small proportion of this land was actually developed and utilized for the intended purpose[11] (Narayanan 2003) . Bombay's land nexus emerged in this context. Politically-connected developers and builders bought up and consolidated land holdings under the prospect of state acquisition, paying a slightly higher price than official compensation rates.[12] Rent-sharing relationships developed between state

[10] UL(CR)A was repealed in 2007, but this did not have the intended effect of increasing land supply, as much of the notified land remained under litigation, or had been exempted.
[11] Narayanan (2003), in one of the few published studies on UL(CR)A implementation, estimated that only 0.8 to 5 percent of land that could have potentially been acquired was taken possession of by state authorities.
[12] The UL(CR)A, paradoxically, may have led to the consolidation of land amongst a few private land-owners, rather than achieving redistribution. Details of land ownership in Mumbai are opaque, but a survey by the state slum redevelopment agency found that nearly 20 percent of habitable land was owned by 9 private trusts. A 2003 investigation by the Economic Times found similarly concentrated land ownership.

actors at various rungs and stages of the process, propertied interests and land developers, who through legal exemptions or illegal encroachment (facilitated by state actors) were able to gain control and make profitable use of an increasingly valuable resource. Real land prices in the city, already higher than elsewhere in India, increased by 720 percent between 1966 and 1981 (Dowall, 1992).

The Municipal Corporation did not have the same powers of land acquisition as GoM parastatals and was required to pay the market price for land. But it can notify land in order to implement its masterplan, which identifies and "reserves" land parcels for public utilities, markets, schools, hospitals, parks and open spaces. Lacking funds, the BMC acquired few "reserved" land parcels, and was engaged in long-term legal disputes with landowners over compensation. "Reserved" lands were often encroached by slums, while slums already existed on some of the plan "reservations." Although land invasions are commonly understood as a self-organized means of housing by the urban poor, Mumbai's slums were developed by private slum developers or slumlords, often belonging to organized crime groups, with links to government officials and political leaders which enabled them access to public or "reserved" land (Weinstein, 2008; Zaidi, 2012). For Mumbai's working poor and new migrants, slums offered affordable if sub-standard housing that neither the state not the formal market provided. Facilitated by rent-sharing networks between slum developers, municipal and state officials, politicians, slums acquired "de facto" tenure security and a measure of public services, with community brokers and fixers organizing votes in return for urban services and controlling access to these services. Rent-sharing arrangements undergird the relative stability of Mumbai's slums, enabling informal markets for housing, industrial and commercial space to operate (Chattaraj, 2016).

As Bombay de-industrialized in the 1980s, the city's wealth began to centre on land, rather than productive industry. Mumbai textile mills sit on valuable tracts, much of it publicly owned and historically transferred on subsidized long-term leases to promote industrial development. In the late-eighties and nineties, mill owners, who had already moved production to more profitable, small-scale power looms outside the city, allowed mills to become "sick," in order to realize their real-estate value, while availing public funding to revive them (D'Monte, 2002). Revival efforts were abandoned by the 1990s, and Mumbai's masterplan was changed to make mill land available for commercial development, housing and public open space, in equal share – manna for city and housing authorities and space-starved residents. But the Maharashtra Government changed the development rules to

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http://articles.economictimes.indiatimes.com/2003-10-10/news/27543278_1_private-sector-mumbai-port-trust-acres substantially increase the portion of land for private commercial development and reduce land available for housing and public use (Adarkar and Phatak, 2005). The new regulations were challenged in Court proceedings that united mill worker unions, environmental activists and the city Corporation against the Government of Maharashtra, but the GoM prevailed – as per India's constitution, the state government has ultimate authority to regulate land and urban development. The mill land case is perhaps the most egregious and high profile case of political authority being deployed to realize space-related rents, at a high cost to Mumbai's ordinary citizens and workers. But this form of centralized rent distribution is not the whole story, nor indeed the most widespread manifestation of Mumbai's political economy of rent-sharing.

Hawking

Mumbai's rent-sharing networks are key to making non-commodifiable public spaces such as pavements, roads, plazas and street corners available for economic activity and making informal claims on space relatively secure. The organization of street hawking in Mumbai is a telling example. Mumbai has 200,000 to 500,000 street vendors, the largest number in any Indian city (Bhowmik, 2005). A sizeable number have moved from formal employment in mills to street vending. The rents that hawkers appropriate are at the opposite end of the scale of those at the top of the land nexus, merely enabling them to earn a living by accessing a viable space to work. The allocation of space to hawkers is regulated informally by localized rent-sharing networks that involve multiple actors - politicians, hawker union leaders and local fixers (Sharma, 2000). These rents are shared with the "street-level" workers of the state—municipal officials and police —charged with enforcing regulations. A small percentage of hawkers have official licenses, and even licensed hawkers routinely violate municipal laws by setting up semi-permanent structures or hawking in proscribed (generally the most viable and lucrative) areas (Bhowmik, 2005). State actors apply rules and restrictions in a selective and differentiated fashion to maximize rents, which vary depending upon location and the types of goods. Unions often organize the collection of money for bribes to the authorities and union leaders negotiate and share in the rents (Sharma, 2000). Small amounts from numerous vendors add up to sizeable revenue to the BMC from "official" fees (Anjaria, 2006), as well as to individuals through additional haftas and bribes. Street vending is consequently a significant source of rents for poorly-paid officials at the lower levels of government, and for local "bosses" and political leaders who shield hawkers from enforcement.

Although the state periodically conducts "crackdowns", the removal of hawking imposes costs not only on the hawkers, but on the rent-sharing machinery that regulates them. The distribution of rents underlies the resilience of the existing system, which although unfair and exploitative, enables Mumbai's vast numbers of street vendors to work and earn a livelihood with some stability. In contrast to the city's official regulatory framework, it is flexible enough to accommodate the large numbers of households dependent on street vending for their livelihoods as well as consumption needs.

In recent years, street-vending has become a site of contestation as elite civil society groups organize to rid the city of the "hawker menace." They petition the judiciary to compel the city government to enforce laws and regulations on hawking, making street vendors more vulnerable to state harassment and predation (Anjaria, 2006). On Court orders, an official policy on street vending was drafted,[13] but conflicts over the number of licenses and demarcation of street vending zones have stalled its implementation. Such a policy might destabilize the rent-sharing system, but it is unclear if it will lead to a more transparent system, or merely centralize the control of rents and leave non-licensed vendors more vulnerable.[14]

Slum Redevelopment

In 1995, the newly elected BJP-Shiv Sena[15] government in Maharashtra introduced an innovative new program, the Slum Rehabilitation Scheme (SRS), which used market actors and incentives to redevelop the city's slums. The SRS aimed to fulfil an election promise to provide free housing for 400,000 slum families, while also clearing Mumbai of its slums. These goals were to be realized with minimal public investment by leveraging Mumbai's then sky-rocketing real-estate prices. Private developers who participated in the SRS were given incentives in the form of "free" land and developable floor area (FSI). For each "free" (in-situ) housing unit they provided for eligible slum households,[16] they could build and sell multiple market rate flats (Mukhija 2016, Patel 2005). In Mumbai's restrictive urban development regime, slum renewal became a lucrative means to access a restricted resource (development rights). Market-rate FSI could be used in "up-market" neighborhoods through the mechanism of transferable development rights (TDRs). Private developers bore the costs of building slum housing, but construction costs were negligible compared to profits to

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[13] The policy was in keeping with the national Street Vendors (Protection of Livelihood and Regulation of Street Vending) Act 2014, supported by major street vendors organizations as well as civil society groups.

[15] The Shiv Sena is a Marathi nativist party with origins in Bombay/ Mumbai which has had electoral success primarily at the city Corporation level. Its alliance with the national BJP allowed it to gain power at the Maharashtra state level for the first time.

[16] Eligibility was restricted to household that provide documentary evidence of their residence in Mumbai prior to a "cut-off" date of 1 January 1996.

be made from the market-rate housing—these in turn sustained by the restrictions on urban development. The state played a minimal "facilitating" role in the process; slum residents formed co-operative societies and engaged private developers to undertake redevelopment. For an SRS project to proceed, the consent of seventy percent of affected residents was required. Thus, the SRS provided established Mumbai slum-dwellers with a source of rents, not available to more recent migrants (and typically poorer and less connected) ineligible for the scheme.[17] Residents in slums located on desirable tracts of land can gain additional rents – developers compete to acquire this land and (informally) offer larger or better quality homes or cash incentives.[18]

The SRS dramatically increased the value of rents that could be acquired through the networks that organized Mumbai's slums and informal settlements. Political leaders from different parties are "custodians" of the scheme in different areas of the city, leveraging their connections to gain rents. Intermediaries at various rungs of the process, from community gate-keepers to office bearers in the cooperatives to fixers who liaise with government officials in various departments also capitalize on their positions and relationships to gain a share of the rents.[19] Although it relies on market actors and incentives, slum redevelopment works not as a competitive open market, but one with high entry barriers. Participation requires little investment upfront – land, the most expensive component of any real estate project in Mumbai, is acquired at no cost other than the transactions costs. However, transactions costs in the complex, politically charged environments of slums can be enormously high. Successful SRS developers were rooted in, or able to tap into, the existing rent-sharing networks that produced Mumbai's slums in order to minimize the transactions costs involved in organizing and negotiating with slum residents, collecting documentary evidence and paperwork, organizing temporary housing, clearing land for development, gaining official clearances and approvals at each stage. A new class of private development firms emerged and flourished under the SRS, leveraging their ability to navigate the political environment of slum settlements, and their connections with power brokers within and outside slum communities. Their strengths lie in their networks, rather than real-estate development experience or technical expertise.[20]

While falling far short of the targeted 400,000 "free houses for slum dwellers," the SRS re-

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[17] Although the SRS allows established eligible slum households to access rents, their power and influence is much lower relative to politicians, private developers and state officials involved in the process. There have been reports of intimidation against slum residents resisting redevelopment efforts.

[18] Personal interviews by S.Chattaraj with SRS developers and officials during Mumbai fieldwork from 2009-2010 and August 2015.

[19] ibid

[20] ibid

housed 125,000 slum families by 2011 (Makhija, 2016), considerably more low-income housing than produced under earlier state housing programmes. Although there has been a sizeable increase in the city's housing stock that could be attributable to the SRS, there is no *increase* in the supply of low-cost housing units available for Mumbai's poor, since each slum unit is merely replaced. Thus, new slums and informal settlements continue to be produced (mostly on the city's outskirts). The market-rate housing built under the SRS caters to the city's wealthy and speculative investment, while Mumbai continues to face an acute shortfall of affordable housing (McKinsey, 2009).

Despite its limited success and many flaws, the SRS, with its twin planks of free housing for slum dwellers and large profits for real estate developers, remains the dominant approach for housing and slum redevelopment in Mumbai. Upgradation and public sector models have fallen out of favour. Because the SRS distributes rents horizontally and vertically through the system, it benefits opposition as well as governing parties, and has survived several changes in the ruling party. By regulating access to a scarce resource, land/development rights, the SRS has engendered and sustains an entrenched rent-distribution nexus between the state's political leadership, the real estate industry, government officials, and a range of power brokers including local politicians, promoters, consultants, government functionaries, community brokers and various other fixers.

IV. Conclusion

In this paper, we argue that Mumbai's political economy is organized around structured rent-sharing relationships. The control and use of urban space lies at the core of this system. Rent-sharing networks link state and non-state actors, and co-exist with formal governmental organizations, planning and regulatory institutions. Formal rules and policies form the underlying basis for the generation of rents. Legal forms of rent-sharing are sometimes incorporated into these rules, but rent distribution often takes the form of informal, ad hoc or illegal departures from the rules, as in the encroachment or illegal transfer of public lands or the regularized system of payments for pavement use by hawkers. Politicians and bureaucrats are part of the rent-sharing relations, because of the influence they have over both formal policy design and actual implementation of rules over use of urban space.

We are not arguing that urban development regulation is bad per se. Cities need laws to safeguard citizens' health and safety, protect the environment or promote the building of affordable housing. But Mumbai's regulatory framework has been ineffective in meeting these objectives. It is singularly inconsistent with the scale of the growing city, the needs of its residents and businesses. It exists largely divorced from the *intent* of laws and policies and local democratic processes. The rent-distribution networks that have evolved around this framework, we argue, is why Mumbai remains resistant to broad-based institutional change.

While this account may seem subtle at first sight, we argue that rent distribution is fundamental to Mumbai's socio-economic system. It plays an important role in organizing a political economic system that is far from the ideal of an effective and encompassing regulatory state governing an institutionalized capitalist economy. Mumbai does indeed have functional political and state institutions, but much of the city's economic activity is informal, occurring outside or on the margin of formal institutional structures. In this context, the rent distribution system is functional—it is why the city works in many domains. It undergirds the stability and dynamism of Mumbai's "informal" economy, which is not merely a subsistence economy but one of growth and accumulation.

Is the rent-sharing system intrinsically suboptimal in economic and social welfare terms? In the absence of the (utopian) construct of competitive markets and well-designed, functional and unbiased regulation, rent-sharing helps solve an array of commitment problems to ensure the continued transactions and activities that underpin a city's economic life take place. Some of these are genuinely productive and welfare-improving, where as others involve regressive redistributions and are welfare-reducing. As there is no general answer to the question, we characterize the system as "functional" albeit with, overall, a suboptimal outcome relative to the *potential* for both economic dynamism and quality of life.

Beyond dynamic inefficiencies, the rent distribution system is associated with the continuance of deep inequalities. Rent-sharing relationships occur between groups with widely differing degrees of wealth, social status, political power and cultural advantage. These inequalities shape the terms of exchange: for example, the rewards that hawkers and slum-dwellers gain through participation in rent-distribution systems are marginal and less secure compared to individuals in more advantageous positions. Those more deeply embedded do better, for example, established slum-dwellers compared to recent migrants, or, for that matter, entrenched private land developers to potential new investors. The ability of the system to incorporate and distribute a share of rents to gate-keepers and intermediaries in poor communities helps explain why we see little sustained "resistance" or broad-based political mobilization amongst Mumbai's poor communities.

The rent-sharing “cabal” of political, state and real-interests (Heller, Mukhopadhyay and Walton, 2016) has an incentive to maintain the status quo. The ability of the system to accommodate demands while apportioning rents thwarts prospects for a more democratic, transparent or even technocratic urban governance regime (see Chattaraj, 2012). It is thus a source of an array of inefficiencies, in the form of the under-provision of public goods for citizens and impediments to transformative institutional changes. The system tends to be self-reinforcing: the participating groups have an interest in its continuance relative to alternatives, and attempts to change will be resisted. Policy attempts at market-oriented reforms since the 1990s, such as efforts to ease development controls or the SRS programme, have led to a mix of capture and little substantive change. This is a function of the interlocking nature of the rent-sharing processes: for example, private developers and politicians have an interest in keeping real-estate values high and development rights restricted to maximize gains, while local politicians and community gate-keepers in slums seek to retain rewards secured as intermediaries and brokers. The system is multi-layered: when higher-level administrators wanted to “crack down” on petty corruption (or perhaps centralize the control of rents) they face resistance from front-line operators of the system—municipal engineers, ward officers, inspectors and police who partake in rents but also ensure that the city works. This creates a situation where top-down attempts to “clean up” the streets of hawkers or enforce rules and regulations are sporadic and ineffective, but result in harm and greater insecurity for the city’s poor and disadvantaged. Resistance to change is reinforced by the fact that Mumbai is part of a broader political economy of rent extraction and sharing within India. Mumbai’s rents are central to the provincial (and national) political economy, in terms of political finance (Kapur and Vaishnav, 2011), private rent extraction and the overall relationship between India’s business and political elites.

Within the constraints of Mumbai’s existing political economic system, how can governance work better for urban residents, particularly the city’s poor? “Getting rid of rents” is usually impossible and is sometimes undesirable. Recognizing how rents work within this system shifts the policy question away from the goal of simply “getting rid of rents” to understanding the work that rent-sharing relationships perform, how they shape incentives and decisions. In Mumbai’s case, the rent- sharing networks described in this paper constitute an important part of the “authorizing environment” (Moore 1995), only partially grounded in bureaucratic hierarchies and formal public private or civil society partnerships, within which public actors operate. These patterns are not, however, unique to Mumbai – we see similar configurations in other Indian cities (Heller et al 2016). We suggest that similar rent-distribution based organizational structures that span state and non-state actors may found in cities across the developing world, characterized, like Mumbai, by an incongruence between their formal institutional and regulatory arrangements and the organization of economic and social life in the city. The concept of the "authorizing environment" provides a useful framework for future empirical and comparative research to understand how the embeddedness of state actors in rent-sharing relationships influences their responsiveness to different groups, the workings of municipal bureaucracies and the "public value" they provide, and the locally contingent outcomes of policy.

Mumbai is sustained by a system of functional-dysfunction. Transformative change can only come from politics, but there is no sign thus far in Mumbai of the political processes that might deliver, such as broad-based urban social movements or a deepening of local democracy. Mumbai will continue to function and grow, but the prospect of it becoming a "World Class" city, or even a more livable city for its residents remains elusive.

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