

**IB Economics - Internal Assessment - Commentary 1 (Microeconomics)**

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Article Text:

## **BMC ignoring its own pollution norms in Bandra East, residents livid**

By Sabah Virani

Mumbai: While demolition of a few old buildings in the 90-acre Government Colony in Bandra East took off in the first week of August, residents of neighbouring establishments are left bearing the brunt of dust pollution.

The buildings – 1 and 4 -- being brought down in the 64-year-old colony housed class-4 workers and were in the poorest condition among all the others.

Buildings 2 and 3 overlook those being demolished, flouting guidelines established by the Brihanmumbai Municipal Corporation (BMC) in October, 2023, to mitigate air pollution. Green cloth and steel sheets cover only 10-feet of the demolition sites, whereas rules mandate that they cover the entire span of the sites for protection. The civic body's rule applies to both government and private agencies.

Unable to bear the noise and dust pollution, residents shot off a complaint letter to the H East ward office earlier this week, but have yet to receive any acknowledgement from them.

“Last Saturday, they brought down the building right opposite my door,” said Saidi Sagar Kadam, a ground floor resident of building 3. The buildings are designed like chawls where the windows and the entrance door to the homes face a common corridor – all overlooking the demolition site. “That day, the dust had created a storm cloud. I immediately had an allergy attack.” Kadam added that it was even more dangerous as bits of concrete fell on their compound, which may have hurt anyone passing by. Two other residents on the first floor of the building complained of chest congestion due to the constant exposure to dust.

“There weren’t proper barriers, such as a green sheet, put up. When we complained, they complied but only partially. Parts of the enclosure are still open,” said Vijay Naik. “Also, the sound that goes on all day is a bother.”

Umesh Yelve, another resident, underlined that no amount of dusting through the day keeps their home clean. "All of us, including my kids, have developed a cough; it has only worsened over the last few weeks, as there are no protective barriers to restrict the dust," said Yelve, calling attention to the low make-shift barriers. "They should also have put up a board at all the sides of the demolition site telling people to keep their distance while walking."

As the demolition of the two buildings are nearing completion axing the concrete debris to size to enable transportation is another irritant. "This work going on opposite is not going to end for a while. We will continue to be in the line of fire. Instead, the government should have shifted us and started work on all the buildings simultaneously," he added.

The erstwhile residents of the building under demolition have been given alternative accommodation in Dnyaneshwar Nagar, not too far from their earlier residences. Those in the buildings 2 and 3 are awaiting similar notices. "We have been told that it will come to us around Diwali, but we do not have any real confirmation," said Kadam, while Yelve suspected they would be staying on for at least a year.

Five small shops owned by mechanics of vehicles, close to the buildings being demolished, are also facing similar brunt. "Our home, which is above the shop, has been vibrating since the demolition started," said Sunil Soni, a shop owner of A to Z Fabrication. "While the dust in the air has caused respiratory problems, the noise that is on till 3 am is keeping us awake," he said.

Soni, whose shop was constructed 35 years ago, had submitted the complaint letter to the H East ward office on Monday, detailing all the problems faced by residents. He said he is staying put for fear of losing his property. "The deputy collector gave us a notice on August 5, asking us to remove our unauthorised shop within two days or they will be demolished, even though we have all the documents in place. Six shops have already been demolished. The five of us left have gone to court."

When HT reached out to the head of BMC's environment department, Minesh Pimple, he said, "The air pollution guidelines are in place. A squad is supposed to immediately check once a complaint is received – written or through BMC's Air mobile app. We will follow up on this complaint."

### **A reimagined Bandra Government Colony**

The Bandra Government Colony houses government staff from class-1 to class-4 categories.

It is spread across 90 acres, and lies between Bandra Kurla Complex (BKC) and the Western Express Highway.

370 buildings, which have 4782 flats, were constructed between 1958 and 1973.

Till May, 2024, 68 buildings were demolished as they were in a poor condition.

As part of the redevelopment plan of the colony, 30 acres are reserved for the Bombay high court, while 12 high-rises of 16 storeys each have been planned on the remaining 60 acres – part of it will be used to rehabilitate government workers and the rest put up for sale.

### **Guidelines before demolition**

Before any structure is demolished, it must be covered with tarpaulin or green cloth or a jute sheet from top to bottom.

It is mandatory to sprinkle or spray water continuously when the demolition is on, so that the dust settles down.

Water fogging to be carried out during loading and unloading of materials at the construction sites. Stationary or anti-smog guns can be used for the purpose.

**Commentary:**

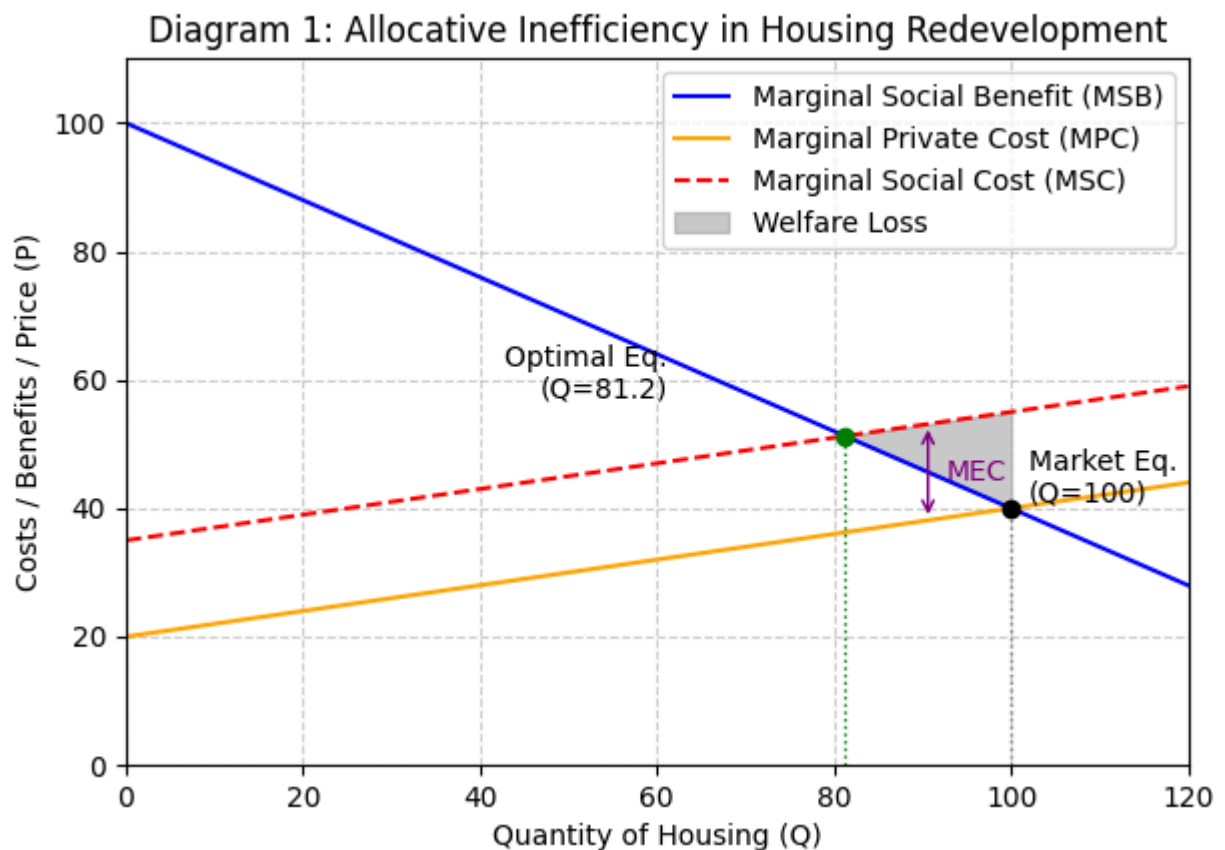
Urban redevelopment projects, such as the demolition of older buildings in Bandra East, are justified by promises of modernization, increased property values, and enhanced living standards. However, these projects also create economic challenges and externalities often requiring **intervention**, analysed via microeconomic theory. The demolition process in Bandra East, particularly its impact on housing markets and resource allocation, illustrates key issues in allocative efficiency and market failure.

**Public Goods and Market Failure**

Housing in densely populated areas like Bandra East can be conceptualised through its public and private good characteristics. The demolished buildings, often low-cost housing options, were a source of affordable shelter for many low-income families. From an economic perspective, such housing partially exhibited public good characteristics, contributing to social stability and economic productivity for marginalised communities. However, with redevelopment projects prioritising luxury housing, the resultant market equilibrium may no longer reflect allocative efficiency where marginal social benefit (MSB) equals marginal social cost (MSC).

As illustrated in **Figure 1**, the redevelopment shifts the marginal private cost (MPC) curve upwards due to higher construction costs and the transition to luxury housing. While the MPC reflects costs to developers, the marginal external cost (MEC) must also be considered, representing the societal impacts such as displacement, loss of community, and increased congestion. The efficient output of housing, therefore, lies where the new MSC curve ( $MPC + MEC$ ) intersects the MSB curve, highlighting potential overproduction of luxury housing relative to societal needs.

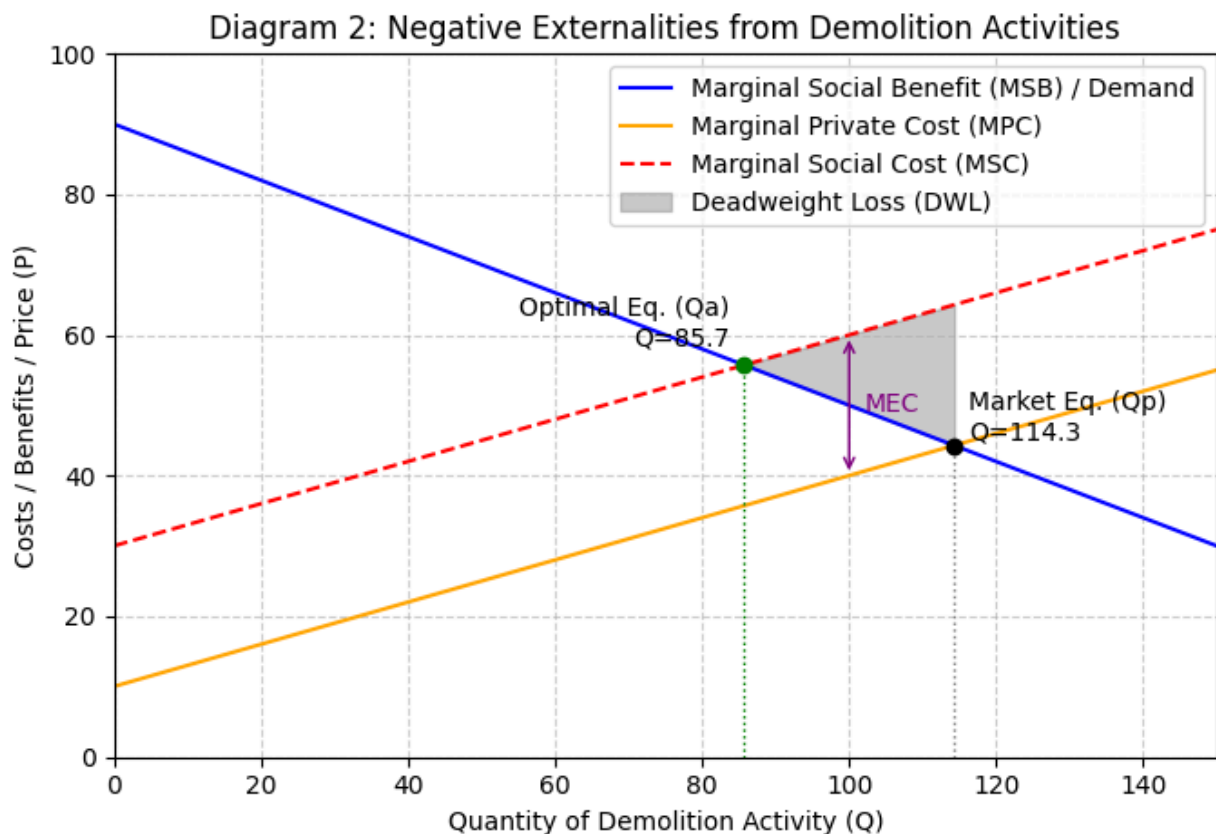
**Figure 1: Diagram illustrating Allocative inefficiency in housing redevelopment**



### Externalities and the Demolition Process

Demolition itself introduces negative externalities that compound market inefficiencies. Noise, dust pollution, and disruptions to local businesses impose costs on third parties not accounted for in the market price of redevelopment projects. These negative production externalities shift the MSC curve above the MPC curve, as shown in **Figure 2**, reducing social welfare. Government **intervention** is justified here; corrective measures could include taxing developers or imposing stricter regulations to internalise these external costs, aligning MSC with MSB.

**Figure 2: Diagram illustrating Negative externalities from demolition activities**



### Price Mechanism and Displacement Effects

The replacement of affordable housing with luxury apartments skews the housing market's price mechanism. The increase in supply of high-cost housing may result in a surplus in this market segment, while the demand for affordable housing remains unmet, leading to allocative inefficiency. As prices for luxury apartments remain high, low-income residents are effectively excluded from the market, a phenomenon exacerbated by the inelastic nature of demand for housing in urban centres.

Further government **intervention**, such as rent controls or subsidies for displaced families, can mitigate these effects but may introduce unintended consequences. For instance, rent controls could discourage developers from investing in affordable housing, perpetuating supply shortages. This highlights the complexity of achieving allocative efficiency in markets with competing stakeholder interests.

### Evaluation of Solutions

To address the pollution where current **intervention** failed, alternatives include Pigouvian taxes, performance bonds forfeited for violations, or stricter, heavily fined standards curbing demolition's negative externalities. Addressing the broader externalities and inefficiencies identified requires careful policy **intervention**. One **intervention** involves inclusive zoning laws mandating that a percentage of new housing developments be allocated to low-income residents. Such policies aim to

address inequities and ensure more equitable resource distribution. However, enforcement challenges and potential pushback from developers may limit their effectiveness.

Alternatively, **intervention** via financial incentives for developers who prioritise affordable housing could encourage market-driven solutions. These incentives might include tax breaks or expedited approvals for projects meeting social housing criteria. Yet, there is a risk that developers may exploit these incentives without genuinely addressing the underlying housing shortage.

Another approach is the provision of public housing funded by municipal or state governments. Public housing can serve as a safety net for displaced families, ensuring basic shelter while stabilising the housing market. However, this strategy requires significant investment and long-term maintenance, which may strain public resources.

### **Long-Term Implications and Limitations**

While redevelopment projects like those in Bandra East aim to modernise urban areas, their reliance on market forces to deliver public goods remains problematic. The static models used to illustrate these effects have limitations; they cannot fully capture dynamic market behaviours or long-term technological advancements. For instance, advancements in sustainable construction techniques may reduce future external costs, shifting MSC closer to MPC over time.

Furthermore, the intangible social costs of displacement—like eroding cultural identity and community networks—are challenging to quantify within standard economic frameworks. Policymakers must consider these qualitative factors when designing **interventions**, ensuring that economic models are supplemented with sociological insights.

### **Conclusion**

The demolition and redevelopment activities in Bandra East highlight the compromises inherent in urban renewal projects. While these initiatives promise growth and modernization, they often fail to address allocative inefficiency and the housing market externalities. A balanced approach, combining regulatory oversight with market incentives, is essential to align redevelopment outcomes with societal welfare. Ultimately, achieving allocative efficiency requires a commitment to equitable policies that consider both economic and social dimensions, ensuring that redevelopment projects serve as catalysts for inclusive growth rather than perpetuators of inequality.