

Mexico City Urban Development Law: worrying economic policy

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On 1 August last the Mexico City Legislative Assembly approved certain changes to the Urban Development Law, although these have yet to be published in the Mexico City Gazette. This law contains some very worrying features which, if they come into force, will create very significant economic distortions which in turn will lead to the city's growing in an even more disorderly and inefficient manner, as well as affecting entry-level home buyers.

I shall refer in particular to two aspects that we need to consider carefully: The first stipulates that when housing is to be built for workers with public housing rights, i.e. dwellings costing up to 1.6 million pesos for members of Infonavit and Fovissste, the buildings must be nine storeys high. It is of course desirable for the city to grow vertically. But this process must be shaped by market forces, not by governmental decree. New York City, and particularly the borough of Manhattan, where land is scarce, grew vertically because the incentives were there, not because of any governmental ordinance. This change in the law is not a good idea, for various reasons.

For example, it may be that building social housing of fewer than nine storeys would be efficient because of the characteristics of the land. In some cases it might even be more economic to build lower-rise buildings without the lift (elevator) which is required in a nine-storey building and which can substantially increase the cost of purchasing and maintaining these dwellings. In other cases, the ground may not be safe to construct nine storeys on.

And anyway, why nine, as opposed to twelve, or twenty, or five? If the market is liberalised, the pricing system will create the incentives for construction to become more and more vertical; the more housing units are allowed in a building on a given piece of land, the greater the margins obtained by the builders and the lower the unit prices paid by consumers. In fact, one of the reasons why Mexico City has grown horizontally is that there were previously restrictions on constructing social housing of more than five storeys. The measure proposed imposes restrictions on supply, which always leads to an increase in prices for consumers and inefficiencies in the allocation of resources.

The second aspect of this law prohibits anyone who has acquired a dwelling intended for Infonavit and Fovissste beneficiaries from selling it for more than the purchase price adjusted for inflation in the seven years following its purchase. It is difficult to understand the reasoning behind this rule. I imagine the thinking is that this may discourage speculation with social housing. This makes no sense. Workers are being prevented from obtaining capital gains on what is in most cases the most significant investment in their lives.

Furthermore it is a regressive policy. So people buying expensive houses can make capital gains and those buying social housing cannot? Anyone buying a residential property, irrespective of its value, and realising a gain on its sale thanks to its price having risen, should pay the corresponding tax, which is revenue for the government, and be allowed to retain the remainder of the gain. If the fear is that people will speculate with subsidised housing, then the proper remedy is to remove the subsidies (which mostly end up being

appropriated by the constructors and creating distortions) instead of imposing this measure. If passed, this measure will act as an incentive for the creation of a black market in housing.

It will also discourage house buying and therefore investment: people will have less incentive to buy if they know that they cannot make gains for seven years. These rules are examples of policies that may be well intentioned but which end up affecting consumers, and particularly those with the least resources.

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