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The State of Urbanisation:

Yesterday, Today and Tomorrow

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The State of Urbanisation: Yesterday, Today and Tomorrow

I must thank Dr Alakh Sharma and his colleagues at the Institute for Human Development for inviting me to deliver this valedictory lecture at this important international conference on inclusive and sustainable urban development in the global South. I am thanking him rather than blaming him for burdening me with this task since it gave me the opportunity to think again about issues in urbanisation and urban development after a very long time. My first professional work for almost 12 years from 1974 onwards was indeed in this area, including an assignment in the Planning Commission from 1981 to 1983. I am delighted that you have devoted three days to this conference, which suggests a new level of importance being given to concerns related to urban development. I say this because I left this area, which I was indeed passionate about, because I found that even by the late 1980s there was very little interest in urban development at the highest policy levels in India.

I. A Brief History of Urbanisation: Some Reflections

Most of us have been urban residents throughout our lives so we give little thought to how new the phenomenon of cities is. Urbanisation, the emergence of towns and cities, and their continuing growth is now seen as a very normal and natural process. The fact is that in a historical framework, the experience of living in towns and cities is relatively new: it is mainly a 20th century phenomenon, which is of course continuing for the foreseeable future. In 1900, the level of global urbanisation was only about 15%, which was a significant rise from the 2% level a hundred years earlier. There were only about 250 million urban residents at the turn of the 20th century. By the turn of the millennium, in 2000, the global urban population had shot up to about 2.9 billion, an increase of 2.1 billion in the previous 50 years. So, there was a remarkable acceleration in the number of towns and cities and in urban population during the 20th century. Looking forward, it is expected that the accretion to urban population between 2000 and 2030 will also be about the same magnitude, about 2.1 billion, as in the second half of the 20th century: another significant acceleration. About two-thirds of this increase is happening in Asia.

So, we are living in a period of the fastest addition to urban population in world history. In terms of percentage growth, of course, it is somewhat slower than in the last century, because of a higher base.

What I find remarkable is that, despite this unprecedented phenomenon there is no sense of exceptional attention being devoted to urbanisation that one might have expected at the present time: either in academic or policy circles. Is this perception on my part influenced excessively by the Indian experience or is it true in other fast urbanising countries also?

Where are we in India in this context?

Although the world crossed the 50% level of urbanisation in around 2006-07, the level of Indian urbanisation is only about 35-36% now. We cannot be sure of what the number is since the 2021 census has not yet even begun, a break from the regular decennial census that has been carried out in India since 1861. Indian urbanisation went up from 11% in 1900 to only about 28% at the end of the century, while global urbanisation increased from 15% in 1900 to almost 50% by 2000. So, India was not a major participant in the new phenomenon of urbanisation of the 20th century.

To put matters in context, the level of Chinese urbanisation in 1980 was around 20% comparable with 23% in India. It had reached almost 50% by 2010, when India had reached only about 31%. The current expectation is that India's urbanisation level will not cross 50% until around 2050.

So, our rate of urban growth has been somewhat slower than what might have been expected. On the one hand, many people celebrate the fact that we have been urbanising slowly: how would we have coped if our towns and cities had grown even faster? On the other hand, is our slow urbanisation a cause for worry in terms of the quality and speed of the development process?

II. Urbanisation and Economic Development

The title of my 1977 PhD dissertation was *Development, Structural Change and Urbanization: Explorations with a Dynamic Three Sector General Equilibrium Model Applied to India 1951-1984*. So, this is a subject close to my heart and mind.

Structural change in the development process has always been associated with the transfer of people from agriculture to manufacturing, and from rural areas to urban areas. This is then associated with acceleration in economic growth since productivity in manufacturing is typically a multiple of that in agriculture. In fact, as labour moves from agricultural pursuits to different kinds of urban pursuits, the average productivity in agriculture in rural areas also goes up, thereby adding to economic growth. The process of urbanisation is therefore associated with higher economic growth.

But it is now being realised more and more that the transfer of labour from agriculture is simultaneously to both manufacturing and services, which are typically located in urban areas. To some extent, as in the Indian census, urban areas are defined as such by the presence of these activities and the absence of agriculture. I'm glad to say that this was indeed among the key characteristics of the model that I developed for my dissertation to point out this simultaneous transfer of labour to both manufacturing and services. So, I'm delighted to see that people have caught up with me after 46 years!

The share of services is now more than that of manufacturing in both value-added and employment in almost all countries, developed and developing alike.

However, faster urbanisation has indeed been associated with high growth in manufacturing, as exhibited by countries in Southeast and East Asia. The remarkable economic growth of Japan, South Korea, and later, China, has been associated with corresponding faster urbanisation. The dramatic growth of manufacturing and exports in China, along with urbanisation from about 20% in 1982 to almost 50% by 2010, and 65% now, bears witness to this phenomenon. The relatively slow growth of both manufacturing value-added and manufacturing employment in India can perhaps explain the corresponding slow rate of urbanisation in the country. The share of manufacturing value-added has fallen from 17-18% in the early 1990s to less than 15% now.

While India's urbanisation trend has followed the standard script of continuously increasing over time, there seems to be a break in trend as far as urban share of income

is concerned. According to official estimates, the share of urban GDP in the total was stagnant at about 52% from 1999 to 2012. My colleagues, Shishir Gupta and Ashley Jose, estimate that this proportion is around 55% now. Moreover, it is reported by some researchers, like my friend Ejaz Ghani, that the share of rural areas in organised manufacturing has been increasing in recent decades.

If this is correct, this would explain the slowing urban growth in India over the last three or more decades. It is also quite inconsistent with the experience elsewhere, in both advanced and developing economies, historically and in contemporary experience. Furthermore, in India, industrial growth has been relatively more capital-intensive and not labour-using, leading to relative stagnancy in employment in organised manufacturing. There also appears to be evidence that manufacturing in urban areas is getting more informalised and hence exhibiting slowing productivity, leading to slow income growth in urban areas and urbanisation.

It is important for the health of our cities, and for the Indian economy in general that more research is done to understand this rather strange phenomenon of industrialisation and urbanisation in India, quite inconsistent with other fast-growing countries. Casual empiricism suggests that the lack of growth in quality employment could be leading to higher rates of unemployment, particularly among the educated young, whose numbers have grown almost exponentially since the turn of the millennium. The increasing occurrence of social tensions and resulting violence may also be a consequence of inadequate manufacturing output and employment growth in our cities.

III. Large Cities

This leads me to articulate some reflections on the emergence and continuing growth of large cities.

There were 52 cities with a million plus population each in India according to the 2011 census. Without the 2021 census, one can only estimate how many there are now. Most projections seem to suggest that there are probably around 65 cities with a million plus population each in India at present. China, in comparison, already has about 115 or so cities with a million plus population each. According to current expectations, India will reach such a number by around 2050.

Even with the existence of 65 cities with a million plus population, it is imperative that more policy attention is given to the emergence of such cities and their continued expansion. Are they good for us? Should we encourage them? How do we make them more productive?

The key point is that large cities increase overall economic productivity, which leads to higher incomes, potentially greater social welfare, and better quality of life. A great deal of research across the world suggests that productivity increases with city size. It has been estimated that, in the US for example, wages rise by 6% as city density doubles. Why does this happen? Mostly because of agglomeration economies. People benefit in many ways by being around other people; face-to-face contact is very important for both personal lives as well as economic activities. Large cities have large labour markets which promotes flexibility for both employers and employees; employees can shop for better jobs without having to change their residence because of the availability of much greater choice in terms of jobs. Similarly, employers can find new employees, both for expansion and substitution of employees who leave. The availability of many people in one geographical area also enables much greater service activities including entertainment, restaurants, sports, and the like. The income generated from such activities increases demand for both manufactured goods and other services.

It is therefore possible that the general Indian policy of locating industries far away from urban centres may reduce their own productivity along with the loss of agglomeration economies overall for the economy and generation of further economic activity of the kind mentioned above. The ruralisation of the Indian industry may not be desirable. We need to devise policies so that manufacturing is encouraged to locate

in towns and cities while, of course, taking care of pollution, harmful emissions and the like.

Large cities also exist because of the agglomeration economies that arise from large transport hubs such as airports, ports, bus and railway stations. These facilities create substantive demand for a whole host of services from other transportation, accounting, financial services, hotels, restaurants, and the like. Similarly, large hospitals and other health facilities cannot exist outside large cities since they exhibit significant economies of scale. Medical specialities need an adequate number of patients on a regular basis, who can only be supplied within large cities and their environs. The same is true for entertainment centres like cinemas, theatres, bars and restaurants. In each case, economic activity begets economic activity and that is the essence of agglomeration economies.

Cities are also centres of knowledge that give rise to new activities, innovation, and new areas of activity in general. Typically, large, great universities, medical schools, technology institutions, business schools, law schools, etc. are located in and give rise to large vibrant cities. For example, the metropolitan area comprising Boston, Cambridge and other towns in the vicinity has essentially arisen out of the location of many educational institutions. Within India, which are the cities that are currently seen as vibrant, expanding, and attractive places to live despite their expanding size? Pune, Ahmedabad, Chennai, Bangalore, Hyderabad, Chandigarh, Delhi, Mumbai, and possibly Lucknow/Kanpur come to mind. Among other things, what is common between them: essentially the existence of large educational institutions, hospitals, and other significant facilities.

The late Senator Moynihan is reported to have said, "If you want to build a world-class city, build a great university and wait for 200 years"!

Large cities exist for a variety of reasons, but a common characteristic is the benefits of the gain from agglomeration economies arising from a whole host of activities including both manufacturing and services.

So, our attitude should be to celebrate the existence of large cities and to concentrate on how we can make them more liveable and productive.

For this to happen the governance of our cities needs to improve very substantially.

V. Governance of Cities

As mentioned, we already have about 65 cities with a million plus population each whose number will keep increasing in the time to come. Yet, the governance of even the largest of our cities continues to be very weak. The overall administrative system of the country is based on the delineation of districts as the basic units of administration, which are governed by officers of the All-India Services, the Indian Administrative Service (IAS) and the Indian Police Service (IPS). Hence there is some overlap between the jurisdiction of the general district administration and municipal corporations. The smooth development and administration of large cities needs a much stronger and unified system of governance, as is the case in most large cities in other countries. The mayor or mayor equivalent is the chief executive in charge of these cities, much as the Chief Minister is in charge of a state and the Prime Minister of the country. In India, however, the mayor is essentially a ceremonial head and much of the administrative responsibility is shouldered by the Municipal Commissioner who is appointed by the state government from among the IAS or provincial service officers. Thus, the chief administrator of the city has no connection with the city that he or she serves and can be transferred at frequent intervals.

The provision of basic services in the city involves the universal supply of clean water, sanitation, solid waste disposal, power, roads for mobility, convenient modes of transportation, facilitation of housing, and the like. Many of these have to be provided as public goods by some level of government, although some are private goods amenable to user charges. These are the key urban basic services that must be provided by the city for the welfare of its citizens. Since they are largely public goods, the city government should be empowered and competent enough to supply or facilitate these services for their citizens. Hence the need for the availability of adequate resources to the city governments.

Large Indian cities, and particularly the largest ones, have budgets that are larger than some of the smaller states in India and are also larger than those of many countries in the world. But the administrative capacity as well as the powers of our city governments are very weak. The technical competence of much of the staff is also very low. The governance of such large cities leaves much to be desired: they need much greater competence and powers to administer the city well and to have a vision for their development over time. Such a change could effectively make the mayors of some of

the largest cities competitors to state government leaders such as senior ministers and even the chief minister. Similarly, the chief administrators of restructured ministry corporations would also be effective competitors to senior IAS officials. Hence, there has been no appetite for major city government reforms and restructuring in the country.

But, if we are to have cities that are dynamic, vibrant, responsive to their citizens' concerns, and more liveable, city governments must be restructured urgently and made more powerful, competent, and accountable. There really isn't much choice. But this discussion hasn't even begun in our country. We must strengthen our municipal corporations at all levels.

Many years ago, I was speaking in Mumbai to a very large gathering of about a thousand people that included a few hundred college students. Among others, I also had Mr Narayana Murthy on the panel. So, I asked the students to raise their hands if any of them would like to work for the Mumbai municipal corporation. I think one hand went up! And then I asked them how many of them would want to work for Mr Murthy at Infosys. Almost half the students raise their hands. This demonstrates how poor the reputation and prestige of municipal corporations is among our young. This is a real pity since shaping and managing cities should be very exciting work. Hence the rejuvenation of city government must include a major campaign to increase their prestige.

To increase competence in local governments they need to be staffed with a whole set of professionals from different areas such as financial experts, accountants, urban planners, architects, engineers, lawyers, and the like. In view of the huge expansion in education that has taken place over the last couple of decades at the college level, along with the proliferation of professional schools, there is no dearth of talent available for almost all these professions. We also need a campaign to include urban management and urban development subjects in universities, business schools, law schools, schools of architecture and planning, etc.

The increased use of IT in governance and in the functions of cities also indicates the need for IT professionals to have a large role in the administration of cities.

Working in municipal corporations should be seen as exciting and rewarding to attract the youth to shape the future of the cities.

If municipal corporations are to be made more powerful and responsible, their sources of revenue must be expanded very considerably. Local government revenue in India, as a proportion of GDP, is among the lowest among major countries in the world. The property tax, in particular, is inexplicably not used to its fullest potential. The huge expansion of formal housing, commercial spaces, malls, and a host of other structures is clearly visible to all of us. There is no reason why all such use of land should not be taxed appropriately. With the use of information technology, there is no problem in both the enumeration of all such properties and in the levy of property tax on them. The current levels are either negligible or very low, so much so that many of us don't even know how much property tax we pay. If municipal corporations provide a whole host of services many of those can also be levied for appropriate use of charges. If all this is done, cities would then be less dependent on devolution of resources from higher levels.

As tax income streams become clearer, it would also be possible for cities to float municipal bonds to raise resources for needed capital investment. That, of course, would need much better accounting and transparency in municipal finances so that these municipal corporations can be credit-rated for appropriate signalling to the markets.

The objective of city governments must be to make their cities economic engines, havens of productivity, centres of knowledge, centres of art and creativity, centres of entertainment, and in general, easy and comfortable to live.

V. Some Issues on the Future of Urbanisation

Many life-changing technologies and events are taking place, or are in the offing, that may make the experience of urbanisation rather different in the years to come.

I have placed a great deal of emphasis on the need for large cities and their productivity-enhancing nature, attributed largely to the advantages arising from agglomeration economies. The COVID pandemic and its associated lockdowns necessitated a great deal of work-from-home. In this process, many people even moved away from their places of work to remote locations. Questions are therefore being raised on the necessity of people commuting to work and if there is a real need for face-to-face contact in many activities. It is reported that in some of the key cities in the world, many office buildings have been vacated by large corporations who are either moving to locations outside big cities or allowing their employees to work remotely. This phenomenon will no doubt have significant effects on the pattern of both employment and residential location in urban areas, and hence on the evolving structure of cities.

With the advent of the proliferation of streaming services for all kinds of content, what used to be a shared experience of entertainment is now becoming a solitary one. Similarly, it is being said that education at all levels can also be done remotely, and more efficiently, precluding the need for students and teachers to congregate at schools, colleges, and universities. Business in law courts could also potentially be done remotely, as is now being enabled in the new criminal procedures bill. E-commerce is also changing the face of commercial retail business, to the extent that many shopping malls in the United States and other countries are being shut down; while, in our country shopping malls are still in their infancy. We can already see the future in what is happening elsewhere. Food delivery services are also substituting the experience of eating in restaurants with friends and family eating at home. With a large proportion of books, journals, and other publications having been digitised, there is also no need for people to go to libraries. When I was teaching at Yale University in recent years, almost all course material was available to students in digitised form. The library spaces were then used by students only to sit with their laptops in comfortable surroundings, much as they do in cafés. They have no need to access the articles or books in hard copy for which we used to go in libraries in the years gone by.

Time alone will tell whether this kind of technology-induced change will alter behaviour in the manner described above, leading to unprecedented changes in urbanisation and the structure of large cities in the future.

My own, perhaps somewhat old-fashioned, view is that human beings are social animals and that, after some initial enthusiasm for such isolated activities, the demand for face-to-face contact and shared community activities will arise again. There is no doubt, however, that there will be changes in behaviour that will lead to the evolution of urban structures that may still be difficult for us to imagine. But we need to keep thinking about this and fashion the evolution of our cities accordingly.

The other literally earth-shaking phenomenon is, of course, that of imminent climate change. Cities in developing countries are already suffering from the ills of widespread pollution caused by different kinds of urban activities, from both industrialisation and widespread emission-causing transportation. I am a regular observer of air quality in major cities across the world. I'm particularly impressed by the consistently high level of air quality in London. I can recall my student days there in the late 1960s when there was a high degree of incidence of smog in the winters, when visibility was sometimes limited. Those of us of my generation who were avid readers of Sherlock Holmes mysteries can remember the consistent description of smog-covered London. The transformation of London and other cities in advanced economies that has taken place in this sphere illustrates the power of technology to cope with emerging problems. But things often get worse before they get better.

In any case, there is no question in my mind that urban structures will need to change to implement effective mitigation measures along with adaptation. This would involve transformative changes in patterns of urban transportation, building design, methods of cooling and warming, industrial pollution and mission-reducing technologies. The fact that India is still only 35-36% urbanised suggests that we may be better placed to reorder our pattern and structure of urbanisation than many countries that are more advanced than we are.

I believe that despite the many ills that bedevil the living experience in Indian cities, and the upcoming challenges of the future, it is within our capability, imagination, and strength of purpose that we can look forward to much more liveable cities: places where citizens can walk around safely; can interact with others for both social and economic

purposes; have access to parks for recreation; experience easy mobility; and generally, have fulfilling urban lives.