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THE STATE OF URBANISATION

Yesterday, Today, and Tomorrow

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CSEP RESEARCH



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THE STATE OF URBANISATION

Yesterday, Today, and Tomorrow

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This is an edited version of the valedictory lecture that was delivered by Rakesh Mohan at a conference titled “Inclusive and Sustainable Urban Development in the Global South”, hosted by the Institute for Human Development, New Delhi, on August 12, 2023.

Contents

Acknowledgment	5
Brief History of Urbanisation: Some Reflections	6
Where Does India Stand in This Context?	6
Urbanisation and Economic Development	7
Large Cities	8
Governance of Cities	9
Some Issues on the Future of Urbanisation	11
About the author	14

Acknowledgment

I am grateful to Dr Alakh Sharma and his colleagues at the Institute for Human Development for inviting me to deliver this valedictory lecture at their important international conference on inclusive and sustainable urban development in the Global South. This opportunity has allowed me to revisit issues in urbanisation and urban development after a considerable period. My initial professional work, spanning almost 12 years from 1974 onwards, was dedicated to this area, including an assignment in the Planning Commission from 1981 to 1983. The three days dedicated to this conference signify the increasing importance given to concerns related to urban development. This is a welcome change from the limited interest in urban development I observed at the highest policy levels in India during the late 1980s, which ultimately led me to shift my focus to other areas.

Brief History of Urbanisation: Some Reflections

Most of us, who have spent our lives as urban residents, rarely contemplate the novelty of cities. We perceive urbanisation—the emergence and continuous growth of towns and cities—as a natural process. However, from a historical perspective, the experience of urban living is relatively recent, primarily a 20th-century phenomenon, that continues to unfold today. In 1900, the global urbanisation level stood at only 15%, which was still a significant rise from the 2% level a century earlier. At the turn of the 20th century, there were only about 250 million urban residents globally, just over half of India's current urban population. In 2000, the global urban population had surged to approximately 2.9 billion, with an increase of 2.1 billion in the preceding 50 years. This demonstrates a remarkable acceleration in both urban population and the number of towns and cities during the 20th century. Current estimates place the global urban population at just over 4.5 billion, and with global urban population expected to reach about 5 billion by 2030, the addition of approximately 2.1 billion urban residents between 2000 and 2030 would match the increase witnessed in the second half of the 20th century, marking another significant acceleration. Notably, about half of this increase is expected to be in Asia.

We are, therefore, living in a period of unprecedented urban population growth in world history. While the percentage growth is somewhat slower than in the last century due to a larger base, the sheer scale of urban expansion is staggering.

What I find remarkable is that despite this unprecedented phenomenon, there seems to be a lack of exceptional attention devoted to urbanisation, both in academic and policy circles. Is this perception influenced excessively by the Indian experience, or is it a broader trend in other rapidly urbanising countries?

Where Does India Stand in this Context?

Although the world surpassed 50% urbanisation around 2006–2007, India's urbanisation level currently stands at only around 35–36%. The precise figure remains uncertain due to the delay of the 2021 census, a departure from the regular decennial census conducted in India since 1872. Indian urbanisation rose from 11% in 1900 to only about 28% by the end of the century, while global urbanisation increased from 15% in 1900 to almost 50% by 2000. Consequently, India did not play a major role in the 20th-century urbanisation phenomenon.

For further context, China's urbanisation level in 1980 was around 20%, comparable to India's 23%. By 2010, it had reached almost 50%, while India's level had reached about 31%. China's urbanisation level is estimated to have now reached around 65%, compared to India's estimated level of around 35–36%. Current projections suggest that India's urbanisation level will not exceed 50% until around 2050.

Therefore, India's rate of urban growth has been slower than anticipated. While many celebrate the fact that India has been urbanising slowly, questioning how the

country would have managed if its towns and cities had grown even faster, others view this slow urbanisation as a potential concern for the quality and speed of the development process.

Urbanisation and Economic Development

My 1977 PhD dissertation, titled “Development, Structural Change and Urbanisation: Explorations with a Dynamic Three Sector General Equilibrium Model Applied to India 1951–1984”, reflects my enduring interest in this subject.

Structural change in the development process has always been associated with the transfer of people from agriculture to manufacturing and from rural to urban areas. This shift is linked to accelerated economic growth, as productivity in manufacturing is typically a multiple of that in agriculture. Furthermore, as labour moves from agricultural pursuits to various urban pursuits, the average productivity in agriculture in rural areas also increases, further contributing to economic growth. Therefore, the process of urbanisation is intrinsically linked to higher economic growth.

However, there is a growing recognition that the transfer of labour from agriculture is occurring 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 by the presence of these activities and the absence of agriculture. The key characteristic of the model I developed for my dissertation was the simultaneous transfer of labour to both manufacturing and services, a departure from earlier models that focused exclusively on the transfer of labour from agriculture to manufacturing. It is gratifying to see that this understanding has gained wider acceptance in the 46 years since my dissertation.

Services now account for a larger share of both value-added and employment than manufacturing in almost all countries, developed and developing alike.

However, faster urbanisation has typically been associated with high growth in manufacturing, as seen in Southeast and East Asian countries. The remarkable economic growth of Japan, South Korea, and later, China, has been accompanied by correspondingly faster urbanisation. The dramatic growth of Chinese manufacturing and exports, along with urbanisation from about 20% in 1982 to almost 65% now, provides compelling evidence of this relationship.

However, in the Indian context, while services have grown rapidly, there appears to be a break in the trend concerning the urban share of income. Official estimates indicate that the share of urban GDP in the total remained stagnant at about 52% from 1999 to 2012. My colleagues, Shishir Gupta and Ashley Jose, estimate that this proportion is around 55% now.¹ Moreover, some researchers, including my friend Ejaz Ghani, report that the share of rural areas in organised manufacturing has been increasing in recent decades.

If accurate, this finding would explain the slowing urban growth in India over the last three or more decades. It also deviates from the historical and contemporary expe-

¹ Personal communication on work in progress.

riences of other advanced and developing economies. Additionally, evidence suggests that manufacturing in urban areas is becoming more informalised, leading to slowing productivity growth. This trend contributes to slow income growth in urban areas and, consequently, slow urbanisation.

For the well-being of our cities and the Indian economy as a whole, it is crucial to conduct more research to understand this unusual phenomenon of industrialisation and urbanisation in India, which is quite inconsistent with the historical experience of other rapidly growing countries. Casual observation suggests that the lack of growth in quality employment could be leading to higher rates of unemployment, particularly among educated youth, whose numbers have grown almost exponentially since the turn of the millennium. The increasing social tensions and resulting violence may also stem from inadequate manufacturing output and employment growth in our cities.

Large Cities

This leads me to reflect on the emergence and continuing growth of large cities.

According to the 2011 census, India had 52 million-plus cities. Without the 2021 census data, we can only estimate the current number. Most projections suggest that India likely has around 65 million-plus cities at present, compared to China's 115 or so. According to current expectations, India will reach a similar number by around 2050.

Even with the existing 65 million-plus cities, it is crucial to devote more policy attention to their emergence and continued expansion. Are they beneficial? Should their growth be encouraged? How can we enhance their productivity?

The key point is that large cities increase overall economic productivity, leading to higher incomes, potentially greater social welfare, and improved quality of living. Extensive research across the world suggests that productivity increases with city size. For instance, studies in the US estimate that wages rise by 6% as city density doubles.² Why does this happen? Primarily because of agglomeration economies. People benefit in various ways by being in close proximity to one another; face-to-face contact is crucial for both personal and economic activities.

Large cities offer extensive labour markets that promote flexibility for both employers and employees. Employees can explore better job opportunities without relocating, thanks to the wider range of available jobs. Similarly, employers can easily find new employees for both expansion and replacement, given the concentration of potential candidates. The density of people in a geographical area also facilitates a broader range of service activities, including entertainment, restaurants, sports, and other amenities. The income generated from such activities, in turn, increases demand for both manufactured goods and services.

Therefore, the general Indian policy of locating industries far away from urban centres, in place since at least the 1970s, may reduce their productivity while also limiting

² Glaeser, Edward, and Abha Joshi Ghani. "Rethinking Cities" in Glaeser, Edward, and Abha Joshi Ghani (eds.) *The Urban Imperative Towards Competitive Cities*. New York: Oxford University Press. 2015

overall agglomeration economies for the economy and hindering the generation of further economic activity. The ruralisation of Indian industry may not be desirable. Policies should be devised to encourage manufacturing to locate within and around towns and cities, while simultaneously addressing pollution, harmful emissions, and other environmental concerns. Large cities also thrive due to agglomeration economies arising from major transportation hubs such as airports, ports, bus, and railway stations. These facilities generate substantial demand for a wide array of services, including transportation, accounting, financial services, hotels, restaurants, and more. Similarly, large hospitals and other health facilities, which exhibit significant economies of scale, are typically located in large cities. Medical specialists require a steady influx of patients, which can only be sustained within large cities and their surrounding areas. The same principle applies to entertainment centres such as cinemas, theatres, bars, and restaurants. In each case, economic activity begets economic activity, which forms the essence of agglomeration economies.

Furthermore, cities are centres of knowledge that foster new activities, innovation, and the emergence of new areas of activity. Large, prestigious universities, medical schools, technology institutions, business schools, law schools, and other similar institutions are commonly located in and contribute to the growth of large, vibrant cities. For example, the metropolitan area encompassing Boston, Cambridge, and surrounding towns has largely arisen from the presence of numerous educational institutions. Within India, cities currently perceived as vibrant, expanding, and attractive include Pune, Ahmedabad, Chennai, Bengaluru, Hyderabad, Chandigarh, Delhi, Mumbai, and possibly Lucknow/Kanpur. A common factor among these cities is the presence of large educational institutions, hospitals, and other significant facilities.

The late Senator Moynihan is quoted as saying, “If you want to build a world-class city, build a great university and wait for 200 years”!

While large cities exist for diverse reasons, a common characteristic is the benefit derived from agglomeration economies generated by a multitude of activities, encompassing both manufacturing and services.

Therefore, our approach should be to embrace the existence of large cities and focus on enhancing their liveability and productivity. Achieving this objective necessitates substantial improvements in the governance of our cities.

Governance of Cities

As previously mentioned, India already has approximately 65 million-plus cities, and this number will continue to grow. Yet, the governance of even the largest cities remains significantly weak. India’s overall administrative system is based on districts as the fundamental units of administration, governed by officers of the All-India Services—the Indian Administrative Service (IAS) and the Indian Police Service (IPS). Consequently, there is some overlap between the jurisdiction of the general district administration and municipal corporations. The smooth development and administration of large cities require a much stronger and unified system of governance, as seen in most

large cities worldwide.

In many countries, the mayor or a mayor-equivalent serves as the chief executive responsible for the city, similar to the Chief Minister overseeing a state and the Prime Minister governing the country. In India, however, the mayor is essentially a ceremonial head, and much of the administrative responsibility falls upon the Municipal Commissioner, appointed by the state government from among the IAS or provincial service officers. As a result, the chief administrator of the city has no inherent connection to the city they serve and can be transferred frequently. Providing basic services in a city entails the universal supply of clean water, sanitation, solid waste disposal, power, roads for mobility, convenient modes of transportation, facilitation of housing, and other essential services. Many of these must 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 essential for the welfare of a city's citizens. Since these services are largely public goods, city governments should be empowered and competent enough to supply or facilitate them. Hence, adequate resources are crucial for effective city governance.

Large Indian cities, particularly the largest ones, have larger budgets than some of India's smaller states and many countries worldwide. Of the ten largest cities in the world by population, two are in India: Delhi and Mumbai. However, the administrative capacity and powers of Indian city governments remain limited. Technical competence among staff is often low. Consequently, the governance of such large cities leaves much to be desired. They require significantly greater competence and powers to administer the city effectively and to develop a long-term vision for their development.

If city governments are empowered in this manner, it could make the mayors of some of the largest cities the competitors of such state government leaders as senior ministers and even the Chief Minister. Similarly, the chief administrators of restructured municipal corporations would become effective competitors to senior IAS officials. This potential for shifting power dynamics has resulted in a lack of appetite for major city government reforms and restructuring in the country.

However, if India aims to foster dynamic, vibrant, responsive, and liveable cities, city governments must be urgently restructured and empowered. There is no real alternative. However, this crucial discussion has not yet begun in India. Strengthening municipal corporations at all levels is imperative.

Many years ago, while speaking in Mumbai to a large audience of about a thousand people, including several hundred college students, I posed a question. On the panel with me was Mr Narayana Murthy, among others. I asked the students to raise their hands if they aspired to work for the Mumbai municipal corporation. Only one hand went up! Then, I asked how many would want to work for Mr Murthy at Infosys. Almost half the students raised their hands. This anecdote illustrates the poor reputation and prestige of municipal corporations among Indian youth. This is a grave concern, as shaping and managing cities should be a highly fulfilling and exciting endeavour. Therefore, revitalising city government must involve a major campaign to enhance its prestige

and attract talented individuals.

To increase competence in local governments, they need to be staffed with professionals from diverse fields, including financial experts, accountants, urban planners, architects, engineers, lawyers, and more. Given the significant expansion of higher education in India over the last two decades, along with the proliferation of professional schools, there is no shortage of talent in these professions. We also need to promote the inclusion of urban management and urban development subjects in universities, business schools, law schools, schools of architecture and planning, etc. The increasing use of IT in governance and city functions necessitates a significant role for IT professionals in city administration. Working in municipal corporations should be perceived as exciting and rewarding, attracting young talent to shape the future of our cities.

If municipal corporations are to be empowered and made more accountable, their revenue sources must be expanded considerably. Local government revenue in India, as a proportion of GDP, is among the lowest among major countries globally. Inexplicably, the property tax is not utilised to its full potential. The dramatic expansion of formal housing, commercial spaces, malls, and other structures is evident. There is no reason why all such land use should not be taxed appropriately. With the advent of information technology, there are no significant obstacles to enumerating such properties and levying property taxes on them. Current property tax levels are either negligible or very low, to the extent that many citizens are unaware of how much property tax they pay. If municipal corporations are tasked with providing a wider range of services, appropriate user charges can be levied for many of these services. By diversifying and enhancing their revenue streams, cities would become less reliant on resource devolution from higher levels of government.

As tax income streams become clearer, it would also enable cities to float municipal bonds to raise funds for necessary capital investments. This would, of course, require improved accounting and transparency in municipal finances to facilitate credit rating and effective signalling to the markets.

The overarching objective of city governments must be to transform their cities into economic engines, havens of productivity, centres of knowledge, art, and creativity, hubs of entertainment, and overall, easy, and comfortable places to live in.

Some Issues on the Future of Urbanisation

Numerous transformative technologies and events are either currently unfolding or on the horizon, with the potential to significantly alter the experience of urbanisation in the years to come.

I have emphasised the need for large cities and their ability to enhance productivity, largely attributed to the advantages of agglomeration economies. However, the COVID-19 pandemic and its associated lockdowns necessitated a significant shift towards work-from-home arrangements. During this period, many people even moved away from their workplaces to remote locations. This shift has sparked questions about the necessity of

commuting to work and the continued importance of face-to-face contact in various activities. Reports indicate that in some major cities around the world, large corporations are vacating office buildings, either relocating outside big cities or allowing employees to work remotely. This phenomenon will undoubtedly impact employment and residential patterns in urban areas, influencing the evolving structure of cities.

With the proliferation of streaming services offering all types of content, what was once a shared entertainment experience is becoming increasingly solitary. Similarly, arguments are being made that education at all levels can be delivered remotely and more efficiently, potentially eliminating the need for students and teachers to gather at schools, colleges, and universities. Legal proceedings in courts could also potentially be conducted remotely, as is now being enabled by the new criminal procedures bill in India.

E-commerce is transforming the face of commercial retail business, leading to the closure of numerous shopping malls in the United States and other countries, while in India, shopping malls are still in their nascent stages. We can glean insights into the future by observing trends in other parts of the world. Food delivery services are also replacing the experience of dining out with friends and family, with people opting to eat at home instead. As a vast proportion of books, journals, and other publications are digitised, the need for physical libraries is diminishing. During my recent tenure teaching at Yale University, almost all course materials were available to students in digital format. Library spaces were primarily used by students as comfortable environments for working on their laptops, much like in internet cafés. There was no longer a need to access articles or books in hard copy, a stark contrast to my own student days in the late 1960s. Only time will tell if these technology-driven changes will fundamentally alter behaviour in the manner described, leading to unprecedented shifts in urbanisation and the structure of large cities. We must acknowledge that work-from-home arrangements, e-commerce, food delivery, and other similar services rely on a workforce providing these services in person. These services also depend on the existence of large warehouses, kitchens, and other service facilities where workers must congregate. Therefore, the precise impact of these technological changes on urban patterns remains unclear.

My personal view, perhaps somewhat traditional, is that human beings are inherently social creatures. After an initial period of enthusiasm for isolated activities, the desire for face-to-face interaction and shared community experiences will likely re-emerge. There are already reports of increasing loneliness, partly due to the COVID-19 lockdowns, potentially leading to significant mental health issues. While there is no doubt that these changes will impact behaviour and lead to the evolution of urban structures in ways that are difficult to predict, we must remain mindful of these trends and adapt our approach to city planning accordingly.

Another significant development with far-reaching implications is, of course, climate change. Cities in developing countries already grapple with widespread pollution stemming from various urban activities, including industrialisation and emissions-intensive transportation. I regularly monitor air quality in major cities worldwide and

am consistently impressed by the high level of air quality in London. This stands in stark contrast to my student days there in the late 1960s, when smog was a frequent occurrence during winters, sometimes severely limiting visibility. Those of my generation who are avid readers of Sherlock Holmes mysteries will recall the consistent descriptions of smog-covered London. The transformation of London and other cities in advanced economies in this regard demonstrates the power of technology to address emerging problems. However, it is important to remember that things often worsen before they improve.

Regardless, it is evident that urban structures will need to adapt to implement effective mitigation measures and adapt to the challenges posed by climate change. This will necessitate transformative changes in urban transportation patterns, building design, cooling and warming methods, industrial pollution control, and emissions-reducing technologies. Given that India is still only 35–36% urbanised, the country may be better positioned to restructure its pattern and structure of urbanisation compared to more developed nations.

Despite the numerous challenges that plague the living experience in Indian cities, including pollution, inadequate infrastructure, and the upcoming challenges of the future, I remain optimistic. I believe that through ingenuity, imagination, and a steadfast commitment to progress, India can create more liveable cities: cities where citizens can walk safely, engage in meaningful social and economic interactions, enjoy recreational spaces, experience seamless mobility, and lead fulfilling urban lives.

About the author



Dr Rakesh Mohan is President Emeritus and Distinguished Fellow at CSEP.

Prior to this, he was President and Distinguished Fellow, CSEP from October 2020 till May 2023. In March 2024, he was appointed to serve on the World Bank Group's Economic Advisory Panel. He has been a member of the Prime Minister's Economic Advisory Council (EAC-PM) since October 2021.

Prior to joining CSEP, Dr Mohan was Senior Fellow in the Jackson Institute for Global Affairs, Yale University and was also Professor in the Practice of International Economics and Finance at the School of Management at Yale University, 2010-12. He has also served as Distinguished Consulting Professor at Stanford University in 2009. Dr Mohan was also a Distinguished Fellow with Brookings India.

He has been closely associated with the Indian economic reforms process from the late 1980s. He was Executive Director on the Board of the International Monetary Fund, Deputy Governor of the Reserve Bank of India, Secretary, Economic Affairs, and Chief Economic Adviser of the Indian Ministry of Finance, and Economic Adviser in the Ministry of Industry.

He was also Chairman of Government committees that produced the influential reports on infrastructure: The India Infrastructure Report (1996), The Indian Railways Report (2001) and The India Transport Report (2014).

He has authored three books on urban economics and urban development; two on monetary policy: *'Monetary Policy in a Globalized Economy: A Practitioner's View'* (2009), and *"Growth with Financial Stability: Central Banking in an Emerging Market"*. His most recent book (edited) is *"India Transformed: 25 Years of Economic Reforms"*.

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