The Puzzle of Indian Urbanisation

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B.G.Kumar Lecture at a Glance

1 Health Inequality and Welfare Economics  
by Prof. Amartya Sen  
20 December 1995

2 Challenges in Human Development in India  
by Prof. Gita Sen  
25 January 2009

3 Awakening Giants, Feet of Clay: Assessing the Economic Rise of China and India  
by Prof. Pranab Bardhan  
15 July 2011

4 Government Accountability: An Overview of Recent Research Findings  
by Prof. Dilip Mookherjee  
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5 Women’s Economic Empowerment and Reproductive Health: What do we know? What can we know?  
by Prof. Alaka Malwade Basu  
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The Puzzle of Indian Urbanisation

Pronab Sen

Although the topic of this lecture does not directly relate to the areas of research in which Dr. B.G. Kumar, or “Gopu” as he was known as, made his reputation, there are certain dimensions that I will touch upon which I think may have piqued his interest. I am sure Gopu could have probably taken these thoughts to levels which are beyond my competence. I hope, however, that there are younger scholars who have inherited Gopu’s mantle and who can take forward my ideas, if they deem them worthy of further research.

The puzzle that I wish to bring to your notice is that the global experience has been that as countries develop, the pace of rural to urban migration accelerates, and deceleration happens only when the level of urbanisation is very high – usually well over 50 per cent. In India, on the other hand, migration started to decelerate at a time when the urban population was below 25 per cent of total population, and continued to decelerate over three Censuses – 1991, 2001 and 2011. This principal puzzle contains within it some other subsidiary puzzles, which I shall come to shortly.

One simple explanation of the primary puzzle is that India is actually far more urbanised than our official measures suggest, which means that we may not really be outliers from the global experience. In recent years, there have been a number of studies which have argued that the Indian definition of ‘urban’ is one of the most stringent in the world involving, as it does, three criteria – population size, population density and proportion of adult males employed in agricultural activities. Most other countries have two criteria, and some even have just one. It, therefore, follows that if one of the three Indian criteria is dropped and urbanisation is re-estimated using the other two criteria, the urban proportion must necessarily rise. Depending upon the combination of criteria used, these estimates of the urbanisation rate vary from 40 per cent to 70 per cent as compared to the official estimate of around 32 percent. Voila! Puzzle solved!

But is this indeed the correct solution? Remember, the deceleration of the migration rate began as far back as the 1980s, when the urbanisation rate was far, far lower measured by any yardstick. Moreover, the “smell” test also tends to support the view that the Indian definition is probably closer to the mark than the others. If this is indeed the case, the puzzle remains. Furthermore, I believe that unless we have a better understanding of the processes of urbanisation and migration than we have

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now, we shall simply be unable to devise a development strategy which is appropriate for our situation.

I am no expert on urbanisation, migration or demographics. My primary specialisation and research interests lie elsewhere. However, as the principal strategist in the Planning Commission for 4 five-year plans, I perforce had to deal with these issues in framing our development strategy over the perspective period. In this span of 15 years, my curiosity was roused by one compelling characteristic of policy-making in India: *most, if not all, government schemes for improving rural conditions are justified on the grounds that it will reduce migration to the cities*. Why should this be the case? Surely, improving the living conditions in our villages should be justification enough for obtaining political approval. Why is it necessary to tag on the effect it may have on migration?

As a development planner, this was completely inexplicable since the global experience is quite clear and virtually unambiguous: economic growth is closely and strongly linked to urbanisation. Cross-country studies clearly demonstrate that urban productivity can be as much as 7 to 8 times rural productivity. Therefore, a shift in the labour force from rural to urban activities has been a dominant source of growth across the world, and this has been documented in study after study. The Chinese clearly took this lesson to heart by declaring a state mandated transfer of 100 million people from rural to urban areas over a ten year period. In India, we seem to be doing the opposite despite the fact that our own experience suggests that inter-state variations in productivity and growth are reasonably strongly correlated with urbanisation.

Not only that, the international evidence also suggests that allowing existing urban agglomerations to grow may be a more efficient strategy rather than creating new urban areas. It appears from research that doubling the size of towns increases productivity by 5 to 7%. There is no corroborative study in India because of data limitations, but a cursory look at the movements of the wage rates in some urban locations appears to suggest that something similar may hold for India as well, provided of course that wage rates are a reasonable proxy for productivity. In this case too, the discourse on urbanisation in India centres around decongesting the cities, which in effect means *reducing* the size of existing urban agglomerates.

The empirical evidence apart, the theory in favour of urbanisation is also quite compelling. At the economic level, there are three reasons which are adduced to explain why urbanisation leads to higher productivity. The first is that it leads to a deepening of local product and labour markets, which leads to greater competition and therefore higher levels of efficiency. The second is that it permits greater specialisation and division of labour, which are directly related to productivity improvements. The third is that it leads to greater learning at all levels of workers, which allows for better technology adoption and innovation. In addition, urbanisation
lowers transaction and logistical costs, and also permits greater recourse to economies of scale and scope, all of which contribute substantially to higher growth.

Economic benefits apart, urbanisation is also strongly linked to rapid improvements in social indicators, such as health and education, primarily because economies of scale and scope are if anything more pronounced in the supply of these services than even in the case of industry. Our own experience and data brings out this fact very clearly, with both health and education indicators being persistently higher in urban areas as compared to the rural both across states and within each state.

This then brings us to the first subsidiary puzzle: if the evidence is so compelling, why is it that our political system, across parties and ideologies, is so averse to rural-urban migration?

Mahatma Gandhi once said: “The soul of India lives in her villages”. His economic vision for the country was consistent with this precept, and laid emphasis on the organic development of rural India as the centre-piece of our development strategy. Post-Independence, however, the development strategy articulated under Pandit Nehru diverged sharply from Mahatma Gandhi’s vision and firmly embraced industrialisation as its centre-piece in line with the experience and strategy of the developed West and the USSR. This strategy has continued to hold sway since then. Could it then possibly be the case that the Indian political class holds true to Gandhiji’s philosophy despite the economic ideology of its leadership and the passage of years?

Somehow I find this hard to believe. Many years of interaction with the political system has convinced me that the average Indian politician is least concerned about India’s “soul” and, more importantly, has no spiritual or romantic idealisation of rural India. Though I know even less of political science than of demography, I think the reason lies elsewhere – in the imperatives of gaining and retaining political power. In a country where political success is driven by managing the 3 Cs of Indian society – caste, community and class – no incumbent political leader would like to see any uncontrolled change in the social configuration of his/her constituency, and therefore of the winning coalition. Migration, unfortunately, does exactly that. It not only changes the social composition in the originating villages, but also in the destination towns. Initially these effects may be relatively small, but over time they can snowball since much of migration is driven by social networks that facilitate the movement of new migrants. Consequently, both rural and urban politicians would be united in supporting any move that retards migration.

Our experience seems to suggest that the political system has indeed succeeded. The empirical evidence is clear: 80% of urban growth in India is organic in the sense that it arises from three predominant sources: (a) natural growth of population; (b) absorption of neighbouring villages into urban agglomerates; and (c) designating existing villages as “census towns”. None of these involve any spatial movement of
people and therefore do not alter the social composition of constituencies in any significant manner. Of the remaining 20% which is accounted for by migration, the majority is for the purpose of marriage. This again is entirely understandable in view of the adverse and worsening gender balance in urban India, and may not upset the political calculus.

However, our understanding of migration behaviour is based on economic factors, and political factors have had little role to play. The fountainhead of this understanding is a celebrated paper by Sir W. Arthur Lewis on what is now called “dual economy” model, in which he argues that capital accumulation takes place primarily in urban areas, mostly in industry but also in a range of other non-agricultural activities, which rapidly increases the productivity of urban labour above the rural wage rate. The higher urban wage rate permitted by the higher productivity induces labour migration from rural areas. Since capital accumulation tends to accelerate as development proceeds, migration also accelerates. This process continues until such time as labour shortages start appearing in agriculture, thereby raising rural wages, at which point migration starts decelerating. As I have mentioned, most countries have conformed to this model, except India. In our case, every Five Year Plan from the Third Plan to the Eighth has estimated expected migration flows based on the Lewis model, and its later refinements, and in every case has been proven spectacularly wrong.

The Lewis framework only requires capital accumulation in non-agricultural activities to grow faster than in agriculture, and the rest is left to voluntary movement of people in response to the economic incentives thereby generated. There is no overt role of the government in all of this. In India, investment in agriculture as a percentage of the Gross Domestic Product (GDP) has declined steadily for the last 4 decades while the over-all investment rate has increased equally steadily from 19% to above 30%. Thus, the basic condition has certainly been met.

Which then raises the second subsidiary puzzle: why do more Indians not migrate voluntarily in response to the growing divergence in economic opportunities between rural and urban areas?

There can be many reasons why this puzzle persists. One reason could be that although agriculture may be falling behind, other non-agricultural opportunities are coming up in rural areas, which would reduce the incentive to migrate to urban areas. At one level, this certainly looks plausible. It is estimated that now more than 50% of rural incomes originate in non-agricultural activities. On the other hand, corroborative evidence from rural-urban wage differentials does not entirely lend credence to this proposition. Of course, there are both data and conceptual issues which bedevil this comparison. In the first instance, while there are reasonably good estimates of rural wage rates, the same is simply not true for urban wages.
Secondly, and more importantly, it is not obvious what urban wage rates should be used to assess the rural-urban wage differential. The Lewis model has only one urban wage rate, which essentially corresponds to the formal sector wage rate in India. However, in one of the most important extensions of the Lewis framework, John Harris and Michael Todaro argue that migration occurs when the expected urban wage rate exceeds the expected rural rate, where the expectations depend upon the percentage of unemployment in the two sectors. The Harris-Todaro model, therefore, predicts that, unlike in the Lewis model, more people will migrate than can be absorbed in the urban sector leading to urban unemployment and to the emergence of an urban informal sector. Nevertheless, the Harris-Todaro model continues to use the formal sector wage rate as the defining variable.

This is seriously problematical in the Indian context as has been demonstrated in a number of studies and in our five year plans. If we use the formal sector wage rate and estimates of open unemployment in urban areas (which is around 5%), the model predicts massive migration, which simply has not happened. However, once the existence of the urban informal sector is recognised, the appropriate measure of expected urban wage rate should be different. It is possible to think of at least three alternatives around which plausible theoretical constructs can be built. The first is to continue using the formal wage rate conditioned by the share of the unemployed plus the informal work force in total urban labour force. This is consistent with the Harris-Todaro approach. The second is to use the wage rate for informal casual workers under the assumption that no new migrant would expect to immediately get work in the formal sector. The third is to take the weighted average of the two. Each of these measures of the wage differential will probably give very different results, and are also likely to show very different behaviour over time. Perhaps one of these can explain the Indian experience better than the existing theories.

But why stop at wages? Rationality does not only mean economic rationality. If we accept Amartya Sen’s “Capabilities Approach”, then wages, or incomes at large, only have instrumental value for attaining what a person desires to be or to do. The literature that has been developed around this approach, especially multi-dimensional poverty measures, suggests that we may need to consider rural-urban differences using a wider measure of living conditions. This is where I believe Gopu would have become interested. Developing comparable measures of functionings and deprivations would have been right up his street.

At first glance, this may not change matters much since, as I have already said, almost all social indicators are significantly better in urban areas than in rural. However, comparing average levels completely misses the point. As in the case of urban jobs, new migrants generally do not have access to many of the urban facilities. It, therefore, becomes important to make such an assessment on the basis of the characteristics of the appropriate category of the urban population. This is not easy to do since the socio-economic surveys of the National Sample Survey Office (NSSO) do not normally contain migration-related questions as a classificatory
variable. The NSSO has carried out a migration survey, but this is a one-off exercise and does not lend itself to estimating trends. Using particular expenditure classes as a proxy also does not appear to be a satisfactory procedure because of the inherent arbitrariness in any such choice.

There is, however, one possible option that can be considered. If we assume that most, if not all, first time migrants have to live initially in slums, then it may be possible to use the socio-economic characteristics of the slum population as a fair representation of the living condition that migrants may expect in urban settings. This accords well with the international literature where slums are recognised as the locations where learning and earning happens for first time migrants. The data that exists clearly points to the vast difference between living standards of slum dwellers and the urban averages. Although there are no comparisons with village living standards, mainly because of the absence of an appropriate yard-stick, it is quite possible that this may be a better explanation of our low migration rates than wage differentials.

Even this comparison may understate the true extent of hardships that first time migrants have to face. Having worked in some detail on the characterisation and identification of slums in India, I am acutely aware of the fact that practically every village meets the formal characterisation of a slum. As a result, many villages that are absorbed into an urban agglomerate automatically become part of its slum component. As I have already mentioned, absorption of neighbouring villages is a major contributor of urbanisation in India. However, there is a great deal of difference between these ‘urban villages’ and slums populated by migrants.

The first, and possibly the most important, difference is that most residents of urban villages have some form of property rights, migrant slum dwellers have none. As brought out forcefully by Hernando De Soto, differences in security of tenure have fundamental implications in a number of dimensions such as incentive to invest in living conditions, ability to take risks and to cope with shocks. The second difference is that urban villages have established social networks which enable greater access to opportunities and benefits, and also provide informal insurance. Migrant slums, on the other hand, tend to have weaker social networks, although the evidence suggests that these may strengthen over time as more migrants join through their village networks. Third, residents of urban villages are far more attuned to the ways of urban life than migrants.

Given these differences, any analysis of the relative living conditions in rural and urban India for determining migration behaviour should be based on migrant slums only and not on all slums taken together. Unfortunately, information on even the location of slums is patchy at best, making it difficult to design any representative slum survey, let alone one specific to migrant slums. A few states and municipalities have a regular process of identifying slums, but most do not. There are even some states which have no officially recognised slums.
This brings us to the third subsidiary puzzle: *why is the Indian political and administrative system by and large averse to identifying slums?*

This is an important issue since slums are a natural outcome of rural-urban migration, and indeed form the mainstay of urban growth. This is true of every country and at all times. Slums start reducing only when average urban incomes reach fairly high levels. It may be true that slums are the epicentre of urban *angst*, crime, violence, etc.; but shutting one’s eyes to the reality of slums certainly does not make these problems go away, and may indeed make them worse since corrective measures cannot be designed and implemented.

The political resistance to migration does not entirely explain this deliberate blindness. After all, slums are an *ex-post* consequence of migration that has already happened, and attracting the votes of this new addition to the electorate should surely be high on any politician’s agenda. An interesting twist to this issue is that in India we classify slums into 3 categories: notified slums, recognised slums and unrecognised slums. Most states have some version of a Slum Act, which enjoins certain responsibilities on the municipalities, which range from granting property rights in notified slums to providing some minimum amenities and resettlement in the recognised to utter neglect of the unrecognised. It would be interesting to find out the composition of each of these categories of slums in towns across the country. I suspect that most notified slums are urban villages, where property rights already exist, and true migrant slums are unrecognised.

Despite the compelling case made by Hernando De Soto and others on the benefits arising from granting *in situ* property rights to migrant slum-dwellers by way of reduced insecurity and an enhanced sense of belonging, there appears to be a distinct unwillingness of the political system to do so. In all fairness, are they entirely wrong? If we accept the fact that urbanisation levels are too low in India and migration will be a continuing phenomenon for a long while yet, surely we need to ask the question as to where the future stream of migrants will settle if all prime public land is already occupied. I am not sure we know the answer, but it is a question we need to ask.

In conclusion, I would like to leave you with one thought. Much of what I have said assumes that there are no policy barriers to migration in India. It is true that we do not have a *houkou* system, and by constitution all citizens are free to move to wherever they choose. But are they really free? The ubiquitous ration card that is both a source of subsidy and means of identification, and which is location specific and not easily portable, could be one barrier. The introduction of Aadhaar was meant to overcome this barrier, but its progressive linkage with practically all public services and social benefits and the procedural complexity of getting any change, especially change of location, done may end up making it the biggest barrier of all.

Thank you.
B.G. Kumar (1958-1993)

Bhaskar Gopalakrishna Kumar was an Associate Fellow at the CDS during 1990-93. His untimely death robbed the profession of a promising independent-minded economist. Educated at The International School, Geneva, Calcutta Boys’ School and St. Stephen’s College, Delhi, graduate work took ‘Gopu’ to Leeds, Cambridge and Oxford, where he was a student of Amartya Sen. His work spanned the Kerala development experience, agricultural price-setting in India and population studies. He had published internationally very early on. Among the distinctions he earned was the Stevenson Prize at Cambridge.

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Dr. Pronab Sen

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Most recently, he was Chairman of the National Statistical Commission. Prior to superannuation from the Government in 2012, he was the first Principal Economic Adviser at the Government of India’s Planning Commission. He has also held positions as the first Chief Statistician of India, acting as the functional and technical Head of the national statistical system in India, as well as Secretary, Ministry of Statistics & Programme Implementation, Government of India (2007-2010).


He joined the Government of India as Economic Adviser, Department of Electronics (1990-1994), where he was one of the architects of the National Software Policy 1990 and the Software Technology Park Policy 1991. Moved to the Planning Commission, Government of India in 1994. As Principal Adviser, Perspective Planning Division of the Planning Commission, he was the author of the Approach Paper to four Five Year Plans and the principal author and coordinator of three Five Year Plans and Mid-term Appraisals.

He has chaired a number of government Committees, most notably on Ecological Fragility, Control of Prices of Essential Drugs, and Slums.