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INDIAN INSTITUTE FOR
HUMAN SETTLEMENTS

Cities as Engines of

INCLUSIVE DEVELOPMENT

IIHS-RF paper on Indian Urban Economy

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Abstract:

This paper argues that the recent policy rhetoric towards cities in India has been shaped by their increasing economic importance in national output generation, as well as a series of prominent global reports on the role of cities in driving growth. Policymakers have responded to this, designing urban programmes that focus on removing productivity bottlenecks, and simultaneously relegating concerns of redistribution to the rural sector. This paper argues for a shift in the policy rhetoric from viewing **cities as ‘engines of growth’ to ‘engines of inclusive development’**. Policymakers need to focus on the role of employment generation in order to achieve growth as well as poverty reduction in urban areas, and there needs to be greater emphasis on linking macro dynamics like urbanisation, employment generation and economic and human development. The paper uses an existing analytical tool, the urban rural growth differential, in a new way to measure the difference between employment generation in urban and rural areas. It highlights that female workforce participation is potentially a key future driver of changing urban employment trends. Finally, it offers a set of directions for governance and industrial policy in order to enable this transition to occur, and provides a set of questions for further research.

Table of Contents

Executive Summary:	1
Section 1: Introduction	3
Section 2: Context: Urbanisation and the Economy	8
2.1 Context: Urbanisation	8
2.2 Context: Economy	13
2.3 Urbanisation and Economic Development	19
Section 3: Trends and Arguments	24
3.1 Employment	24
3.2 URGD in Employment	45
Section 4: Approaches for Policy	49
4.1 Governance	49
4.2 Measurement	50
4.3 Sectoral Focus	51
4.4 Women and Work	55
Section 5: Conclusion	56

List of Figures

Figure 2.1: Urban and Rural Population	8
Figure 2.2: Growth in Urban and Rural Population	9
Figure 2.3: Compounded Annual Growth Rates of Urban and Rural Population	9
Figure 2.4: Urban Population by States - 2011	10
Figure 2.5: Distribution of Population by Settlement Size (1951-2011)	11
Figure 2.6: Components of Urban Growth	12
Figure 2.7: Urban Rural Growth Differentials in Population (1951-2011)	13
Figure 2.8 (a): Sectoral GDP Breakdown	15
Figure 2.8 (b): Sectoral Share in GDP	15
Figure 2.9: Components of GDP Growth Rate	16
Figure 2.10 (a): Rural and Urban Components of GDP (1970-2012)	17
Figure 2.10 (b): Rural and Urban Share of GDP (1970-2012)	17
Figure 2.11 (a): Sectoral Components of Urban GDP	18
Figure 2.11 (b): Sectoral Share in Urban GDP	18
Figure 2.12: Urban Rural Growth Differentials in Output	19
Figure 2.13: Per Capita Output vs Level of Urbanisation for the Major Indian States	20
Figure 2.14 (a): Poverty Headcount Ratio and Numbers of Poor	21

Figure 2.14 (b): Reduction in Poverty HCRs and Per Capita NSDP (2004–12)	22
Figure 2.14 (c): Poverty Headcount Ratio vs Level of Urbanisation for Major Indian States.....	23
Figure 3.1: Employment Composition: Rural and Urban.....	25
Figure 3.2: Workforce and Labour Force Participation by Reference Period	26
Figure 3.3: Workforce and Labour Force (UPSS) for Urban and Rural Areas.....	27
Figure 3.4: Workforce Participation by Place of Residence (UPSS).....	27
Figure 3.5: Workforce Participation (UPSS) by Gender and Place of Residence.....	28
Figure 3.6: Workforce in millions by Gender and Place of Residence	28
Figure 3.7: Female Labour Force Participation: International Comparisons	30
Figure 3.8 (a): Workforce by Gender and Level of Education (UPSS), 1993	32
Figure 3.9 (a): Sectoral Breakdown of Workforce (All India)	34
Figure 3.9 (b): Sectoral Share of Workforce (All India)	34
Figure 3.10 (a): Usually Employed in Millions (UPSS) by Year, Sector, Gender and Place of Residence	35
Figure 3.10 (b): Percent of Usually Employed (UPSS) by Year, Sector, Gender and Place of Residence	36
Figure 3.11: Growth in Sectoral Output and Employment from 1993 to 2012.....	38
Figure 3.12: Employment Share and Labour Productivity by Sector, 2009-10	39
Figure 3.13 (a): Workforce Participation—Rural, 2011	40
Figure 3.13 (b): Workforce Participation—Urban, 2011	41
Figure 3.14 (a): Workforce Participation by Place of Residence—Male+Female, 1993 and 2011	42
Figure 3.14 (b): Workforce Participation by Place of Residence—Male, 1993 and 2011.....	43
Figure 3.14 (c): Workforce Participation by Place of Residence—Female, 1993 and 2011	44
Figure 3.15: Growth Rates of Workforce and Population in Rural and Urban areas (UPS) ...	45
Figure 3.16 (a): National Urban Rural Growth Differentials for Workforce (UPS)	46
Figure 3.16 (b): National Urban Rural Growth Differentials for Workforce (UPS) by Gender.....	46
Figure 3.17: Urban Rural Growth Differentials of Workforce by States from 1993 to 2012 ...	48

Executive Summary:

India's urban centres are starting to command more attention in the developmental discourse in India as well as in policy and priority setting. This is driven by two related trends: an increasing concentration of population as well as economic activity in urban areas, particularly since liberalisation. As of 2011, 32 per cent of the population lives in urban areas. In addition, the contribution of the urban has been rising significantly over the years; as of 2004 the Central Statistical Organisation (CSO) estimated that approximately 52 per cent of the national output came from urban areas. The Commission on Growth and Development point to the necessity of urbanisation for growth, and McKinsey and PwC comment on the scale of city economies in the developing world and their importance for global economic growth.

The policy response to urbanisation also reflects this focus on cities as drivers of growth. Hence, there is a push towards more and better infrastructure delivered through programmes like the Jawaharlal Nehru National Urban Renewal Mission (JNNURM), justified by the importance of cities as growth engines. On the other hand, this growth has brought about tension over resource allocation decisions not only between rural and urban areas but within urban areas themselves. However, urban areas are also witnessing an increase in inequality, informalisation of employment and deterioration in the quality of work and life.

We argue in this paper for a move away from looking at cities as engines of growth, and rural areas as places needing developmental intervention and assites for inclusion, and instead propose that the policy frame starts looking at cities as engines of inclusive development that transform themselves as well as rural areas. There needs to be a focus on linking macro dynamics like urbanisation, employment generation and economic and human development. Employment generation plays a strong role in trying to achieve economic growth along with poverty reduction; it has the potential to provide more equitable outcomes in our developmental trajectory.

The paper analyses trends in population, output, poverty, employment and productivity. Our first set of findings cohere with widely accepted trends: we find that workforce participation rates are declining despite rapid economic growth, but that the number of people working is increasing. This is driven by an increase in the workforce in urban areas, while rural areas are seeing a slowdown. These aggregate changes are largely driven by variations in the female workforce, which is declining in rural areas and increasing in urban areas. Looking at sectoral variation, the increases in the workforce since the early 1990s have been in the manufacturing and services sectors, but employment elasticities in these sectors are low, with the exception of the construction sector. There has been an increase in informal and casual work.

For our second set of findings, we use Urban Rural Growth Differentials (URGDs) as an analytical tool to gauge the various trends that emerge. We find that the URGD in employment is growing steadily since the early 1990s, and is consistently higher than the URGD in population. This means that urban areas are generating employment in excess of rural areas, which is greater than what the urbanisation rate would imply. This is driven by increasing URGD in female employment, especially after 2000. When we decompose this by education level, we find that the largest increase is that of urban educated women entering

the workforce, which is a relatively recent trend that has not received much scholarly attention.

Keeping these trends in mind, the aim of this paper then, is to analyse how cities can continue to generate growth as well as enable the urban poor to work their way out of poverty. The paper goes on to suggest approaches to policy under four broad themes—governance, measurement, sectoral focus and women's work. State governments will continue to play an important role in determining the mix of policies for urban economic development, although over time some of these responsibilities should be devolved to city and regional governments. Horizontal integration among different governing bodies will assist a coordinated response to the challenge of employment generation as a strategy for inclusive urban development. It is important to take cognizance of the large number of settlements that are acquiring urban characteristics but which currently come under the fold of the rural. However, shifts in planning and governance become difficult to rationalise in the absence of good measurement. It is difficult to assess the actual contribution of cities to national output and employment, or understand migration to and from settlements, emerging urban forms and structures, due to unavailability of granular data. Policy should focus on sectors and industries which are labour intensive in order to generate higher employment. Finally the paper suggests that the labour market needs to be more sensitised to the needs of women and should be able to provide more opportunities for women to enter the workforce, and of better quality.

Section 1: Introduction

Urban areas are starting to command more attention in the developmental discourse in India as well as in policy and priority setting. As a backdrop, the state machinery established after Independence was done with a largely rural imagination (Stuart and Harriss 2000).

Following liberalisation, as Indian cities have gained economic and political importance, there is now a visible contestation over resource allocation between the rural and the urban, which is mediated through an institutional architecture that still largely focuses on the rural as the primary site for developmental intervention.

The increase in attention to urban areas has been driven by two related trends: the increasing concentration of people in cities, and the increasing concentration of economic activity in urban areas. According to the UN, we are living in an urban age, with more than **half of the world's population living in urban areas since 2008** (UNPF 2007, UNDESA 2008). **Relative to this, some observers claim that India's urbanisation is relatively slow** (Kundu (2011), Planning Commission (2008)).

According to the 2011 Census, 32 per cent **of India's population lives in cities**. However, Denis et al. argue that this might be an artefact of the way India defines urban areas, and that India would be far more urban if other definitions were used (Denis, Mukhopadhyay et al. 2012).¹ Even with the existing definition, there is now evidence that the urban population might be higher than the Census currently counts (Pradhan 2013). For the first time since Independence, more people were added to urban areas than rural areas between 2001 and 2011. A closer look at the data shows that this is due to the large addition of Census Towns during this last censal period. Unlike previous decades, a significant proportion of the urban population has been added during this decade due to reclassification of existing settlements and not due to migration between settlements, therefore being termed as 'a form of in situ urbanisation' (ibid.).

The second trend is that of increasing economic concentration in cities. One strand of literature attempts to interrogate the relationship between urbanisation and growth, and the dominant view is one put forward by the Commission on Growth and Development (Spence, Annez et al. 2009):

We know of no countries that either achieved high incomes or rapid growth without substantial urbanization, often quite rapid. There is a robust relationship between urbanization and per capita income: nearly all countries become at least 50 percent urbanized before reaching middle-income status, and all high income countries are 70-80 per cent urbanized.

Another strand is focused on the analysing the proportion of output being produced in cities. Internationally, more attention is being focused on the scale of cities in developing countries and their role and importance in the global economy. McKinsey reports point to the fact that 600 cities will generate more than 65 per cent of world GDP by 2025, of which 440 cities from the emerging world including India, Brazil, China, will contribute to 47 per cent of the expected GDP growth between 2010 and 2025 (Dobbs, Remes et al. (2012), Dobbs, Smit et al. (2011)). Similarly, PricewaterhouseCoopers finds three **of India's cities** among the top 40 in terms of 2025 estimated GDP (Mumbai, Delhi, Kolkata), and predicts that cities in

¹ An area is defined as urban if it has an Urban Local Body or if it satisfies three conditions: (i) More than 5,000 people, (ii) More than 400 people per square kilometer, and (iii) More than 75% of the male workforce is in non-agricultural occupations.

emerging economies will grow faster relative to developed countries (Hawksworth, Hoehn et al. (2009)). Much of this attention is driven by the importance of cities as drivers of growth, for instance, McKinsey estimates that as much as 58 per cent **of India's GDP in 2008 was urban** (Sankhe 2010). Estimation of urban output as a proportion of GDP has also been attempted by academics in India, with Mitra and Mehta (2011) finding that between 59 per cent to 70 per cent of GDP is generated by cities.² The Central Statistical Organisation (CSO) of India also puts out a set of estimates for urban GDP; it estimates that 52 per cent of GDP in 2004–5 was produced by cities (therefore current estimates would be slightly higher)³.

The national policy response to this increasing economic, demographic, and hence political importance of cities has also mirrored this focus on cities as drivers of growth. The Jawaharlal Nehru National Urban Renewal Mission (JNNURM) was launched in 2005, the single largest initiative since Independence to fund infrastructure and service provision in Indian cities while simultaneously bringing about a suite of governance reforms. Its motivation is very particular – it states the importance of cities for economic growth as a rationale for investing in infrastructure, to illustrate, the JNNURM overview document (Government of India 2005) states that:

It is estimated that by the year 2011, urban areas would contribute about 65 per cent of GDP. However, this higher productivity is contingent upon the availability and quality of infrastructure services. Urban economic activities are dependent on infrastructure, such as power, telecom, roads, water supply and mass transportation, **coupled with civic infrastructure, such as sanitation and solid waste management. ...** Since cities and towns constitute the second largest urban system in the world, and contribute over 50 per cent of the **country's GDP, they are central to economic growth.** For the cities to realize their full potential and become effective engines of growth, it is necessary that focused attention be given to the improvement of infrastructure.

The report of the High Powered Expert Committee on Urban Infrastructure and Services moves away slightly from arguing that urban growth potential alone provides the argument for investment in infrastructure, and points to the additional importance of cities for national development (High Powered Expert Committee (HPEC) 2011):

In the coming decades, the urban sector will play a critical role in the structural transformation of the Indian economy and in sustaining the high rates of economic growth. Ensuring high quality public services is an end in itself, but it will also **facilitate the full realisation of India's economic potential.** This Report comes to the conclusion that **India's economic growth momentum cannot be sustained if** urbanisation is not actively facilitated. Nor can poverty be addressed if the needs of the urban poor are isolated from the broader challenge of managing urbanisation. Cities will have to become the engines of national development.

² They arrive at different estimates using different methodologies. One methodology uses the difference in wages between urban and rural areas to reflect productivity differences, the second one uses consumption differences in rural and urban areas. The lower estimate of 59% arises from the consumption measure, and the higher measure of 70% arises from using the wages differential.

³ While these are lower than the international estimates that are commonly in circulation, the CSO publishes a detailed methodology on how output is apportioned to urban and rural areas in each sector, and this is based on a set of transparent assumptions and data about value added across rural and urban sectors, land holdings, labour inputs, assets, credit, deposits, and employment.

Simultaneously, attention to the nature of deprivations induced by urbanisation has also increased: commentators have been writing about urban poverty, vulnerability, and inequality. The National Urban Poverty Reduction Strategy refers to the worsening of urban poverty despite an impressive growth performance over the past few decades, and the high levels of urban deprivation faced by the poor as ‘cities and towns are unable to provide basic shelter and associated infrastructural services’ (Mathur 2009). Vakulabharanam and Motiram (2012) point to sharply rising urban inequality since the 1980s and 1990s, with ‘divergence between urban elites from urban workers as well as the rural population’. They show that interpersonal inequality in urban areas has been steadily increasing in most of the states, and inequality between classes and caste groups has also increased. The responses proposed by government agencies, multilaterals, and scholars range from attaining the goal of slum-free cities (Mathur 2009), improved access to basic services (Kundu 2009), rights to land, shelter, and low income housing (Mahadevia 2006), self-help group formation and financial inclusion efforts (Ministry of Housing and Urban Poverty Alleviation (MoHUPA) 2013), improving the tax regime to allow greater support for public expenditure programmes targeting the poor, particularly social safety nets (Jha 2000).

Therefore, two strands emerge: one that argues for a greater focus on cities (largely through improved infrastructure provision) because they are engines of growth, and the other argues for improvements in access to basic services, low income housing, land rights, social security, and financial inclusion, with the aim of addressing urban poverty and vulnerability. The difference between the two sets of policy responses outlined above also reflects the divided responsibility of urban management at the central government level—the Ministry of Urban Development (MoUD) and the Ministry of Housing and Urban Poverty Alleviation (MoHUPA) have been separate since 2004.

These two strands tend to miss the role of employment generation in economic development as well as poverty reduction. By focusing on micro or programme based responses to the simultaneous problems of low productivity and high deprivation in Indian cities, policy makers tend to miss the macro dynamics linking urbanisation, employment generation, and economic development. Coelho and Maringanti (2012) also comment on how recent work on urban poverty has tended to focus on ‘housing and the politics of shelter, tenure and land rights’, partly in response to state policies that are focusing on these aspects at the expense of focusing on employment and livelihoods. The seminal report of the National Commission for Enterprises in the Unorganised Sector (NCEUS) (2009) addressed the issue of employment and conditions of work and social security for workers in the unorganised sector, however, its recommendations have only been partially implemented. In addition, its work does not explicitly focus on the urban as a potential site of intervention, and thus differs from this paper in its focus.

This paper puts forward a set of arguments that allow a more integrated response to the two trends highlighted above—those of increased economic growth arising in cities, and that of increasing urban poverty and vulnerability. These arguments move us away from the dominant rhetoric of looking at cities as engines of growth, and rural areas as places needing developmental intervention and the sites for inclusion, and instead propose that the policy frame starts looking at cities as engines of inclusive development that transform themselves as well as rural areas.

Cities as Engines of Inclusive Development

During the last decade, the concept of inclusive growth has gained prominence in international debates on development (Thorat 2013). While concerns about inequality and inclusiveness are not new, the rapid growth experience in some developing countries during the 1980s and 1990s was accompanied by rising inequality, which then led to concerns about redistribution and inclusiveness re-entering the political and policy discourse in the 2000s. In India, it emerged during the elections of 2004 following criticism of the growth model **that had emerged as part of the ‘India Shining’ campaign, amid perceptions that the benefits** from growth in the late 1990s and early 2000s were not shared by various sections of the population, particularly the lower middle classes and the poor (EPW 2007).

As a result, Indian policy makers over the past decade have repeatedly referred to inclusive growth as an important goal—both the XIth and the XIIth Five Year Plans are centred around inclusive growth and strategies to achieve it (Planning Commission (2006), Planning Commission (2011), Ahluwalia (2013))⁴. However, there is little clarity on how inclusive growth is defined, with government documents, international institutions, and researchers offering alternative notions of what constitutes inclusive growth (Suryanarayana 2008). Similarly, scholars have pointed to the fact that the language used in policy documents regarding inclusion has been vague and lacking specific targets or commitments, therefore making it difficult for the government to assess its own performance on achieving inclusion (Motiram and Naraparaju (2013), Jayaraj and Subramanian (2012)).

In its weakest possible version, inclusive growth should be growth that is poverty reducing, or in other words, the poor benefit from growth. However, scholars have argued that this version of inclusion is too weak, and that at the very least inclusion should be thought of as a relative, rather than absolute concept (Jayaraj and Subramanian 2012). In other words, this would mean ensuring that ‘no person is included any less than any other only because the first individual is poorer than the second’ (ibid.). We go even further, and adopt a definition of inclusive growth offered by Suryanarayana (2008): that ‘the set of deprived cannot and hence, does not: (i) participate effectively in the production process; (ii) benefit from it in terms of income generation; and (iii) experience welfare improvements as measured by consumption.’ Most assessments of inclusive growth have focused only on the consumption aspect, and not on the participation and income generation aspect of inclusion. Whereas the former can be achieved through an emphasis on redistributive schemes such as cash transfers and social protection schemes, the latter would require greater emphasis on employment generation and the overall macroeconomic framework, including policies governing tax regimes, investment, and business.

There have been several critiques of whether inclusive growth has been realised since 2004 (Motiram and Naraparaju (2013), Jayaraj and Subramanian (2012)). There is also criticism about the language of inclusion adopted by the government, for instance Coelho and Maringanti (2012) refer to how ‘the language of inclusion has replaced earlier concerns with (and terms like) “distributive justice” and “equity”, clearly signalling the shift from dirigiste to market-enabling modes of policy intervention’. However, there can be relative agreement about inclusive growth as an objective, even if there are differences over what constitutes, or what should constitute, inclusive growth, or about whether inclusive growth is operationalised as redistribution or participation. Even Coelho and Maringanti (ibid.) agree

⁴ The XIIth Plan also includes faster and more sustainable growth along with inclusiveness. This reflects the growth environment when the XIIth Plan was written, amid fears of slowing growth in the Indian economy, relative to a fast growth environment when the XIth Plan was written.

that ‘the notion of inclusion is not in itself antithetical to egalitarianism and distributive justice, particularly when it explicitly adopts a “pro-poor” bias.’

The remainder of this paper deals with the participation aspect of how cities might become engines of inclusive development, or in other words how the poor and marginalised can become agents in the growth process. The next two sections are centred around the question: how can cities generate more employment opportunities across skill and income levels, and how can these jobs be of better quality and allow workers to move out of poverty? Greater employment generation will in turn lead to economic growth, but this pathway will lead to a more equitable type of growth than that achieved by the Indian economy in the past two decades.

Section 2: Context: Urbanisation and the Economy

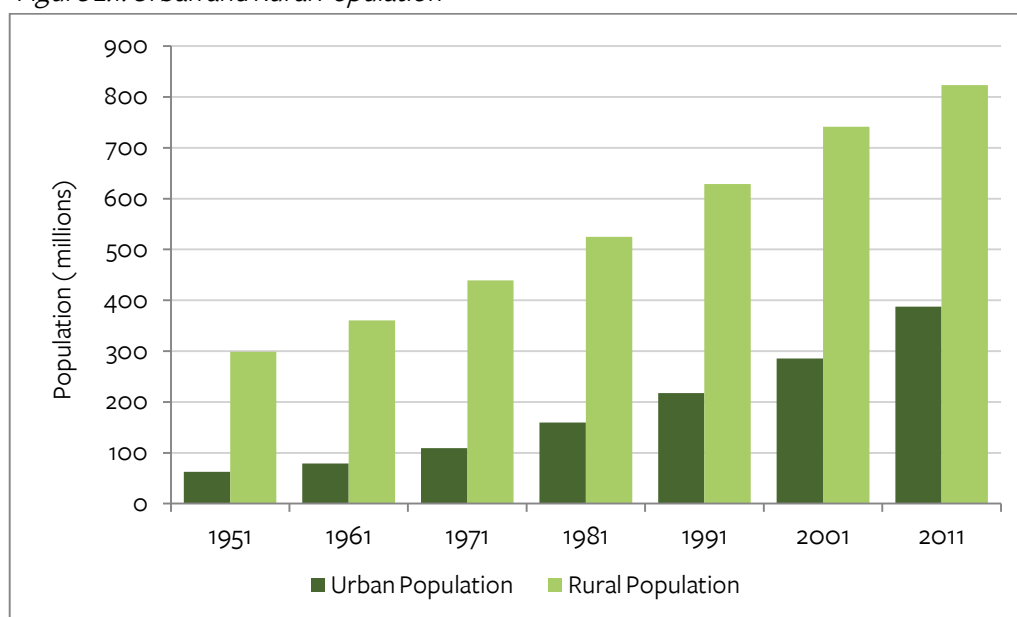
This section sets the context for the analysis to follow, by laying out key trends in the Indian urbanisation trajectory, as well as structural changes in the national and urban economy. It also looks at the links between urbanisation and economic growth as well as poverty reduction.

2.1 Context: Urbanisation

2.1.1 Population growth

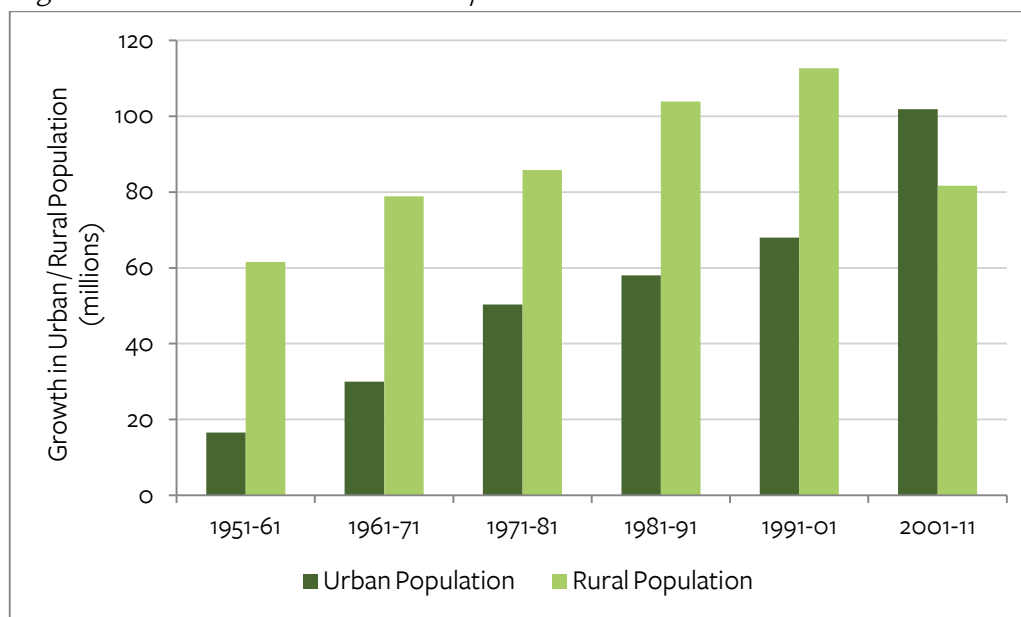
Of India's 1.2 billion people in 2011, 387 million or 32 per cent live in urban areas (Census of India 2011). As the charts below demonstrate, **India's** urban population has been increasing more rapidly than rural population, and this past decade was the first one since Independence when more people were added to urban areas than rural areas, a fact that has not yet fully registered with both policy planners and the political class. The growth rate of rural population has been steadily declining since 1951, and has reached a low of 1 per cent over the past decade when compared with about 2 per cent between 1951 and 1961. Urban population growth rates have shown more variation, with a peak in 1971–81 and dipping to 2.7 per cent between 1991 and 2001 and then increasing again to 3.1 per cent during the past decade.

Figure 2.1: Urban and Rural Population



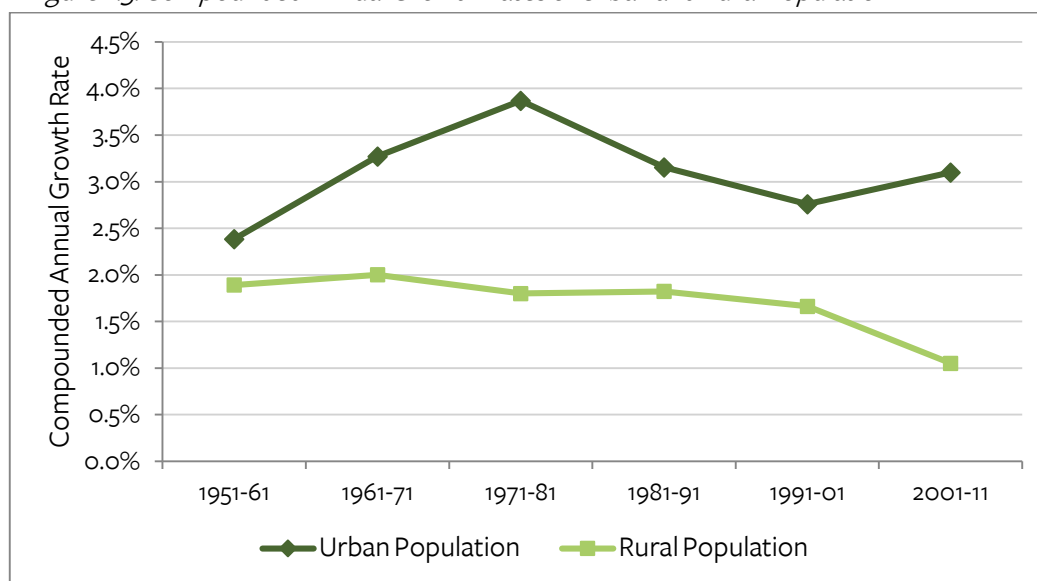
Source: Census of India (1951–2011)

Figure 2.2: Growth in Urban and Rural Population



Source: Census of India (1951--2011)

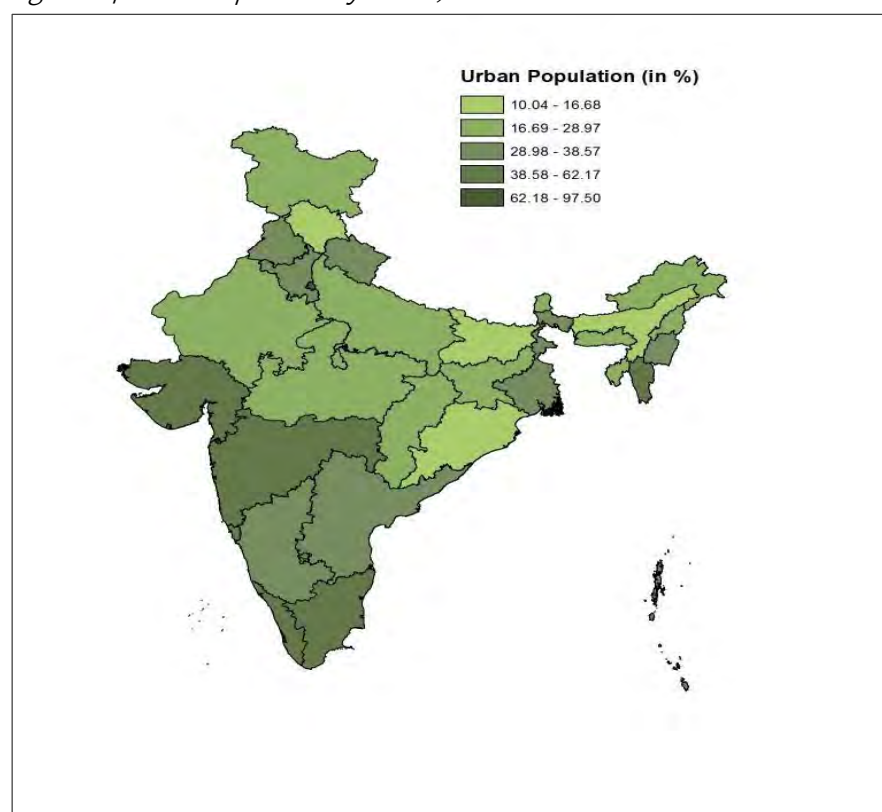
Figure 2.3: Compounded Annual Growth Rates of Urban and Rural Population



Source: Census of India (1951--2011)

The process of urbanisation is unevenly spread across the country, with the states in the west and the south being far more urbanised than those in the north and the east. This has various implications for **these states' abilities to grow further, capture a greater amount of** funding from the central government, and thereby lead to a greater divergence in the future. Deaton and Dreze, for example, argue that there is a marked increase in consumption inequality in the late 1990s. This increase is 'between states, with the already better-off states in the south and west growing more rapidly than the poorer states in the north and east, between rural and urban households, with growth a good deal more rapid for the latter, and within the urban sectors of many states, where consumption has been growing more rapidly among the best off' (Deaton and Dreze 2002).

Figure 2.4: Urban Population by States, 2011



Source: Census of India, 2011

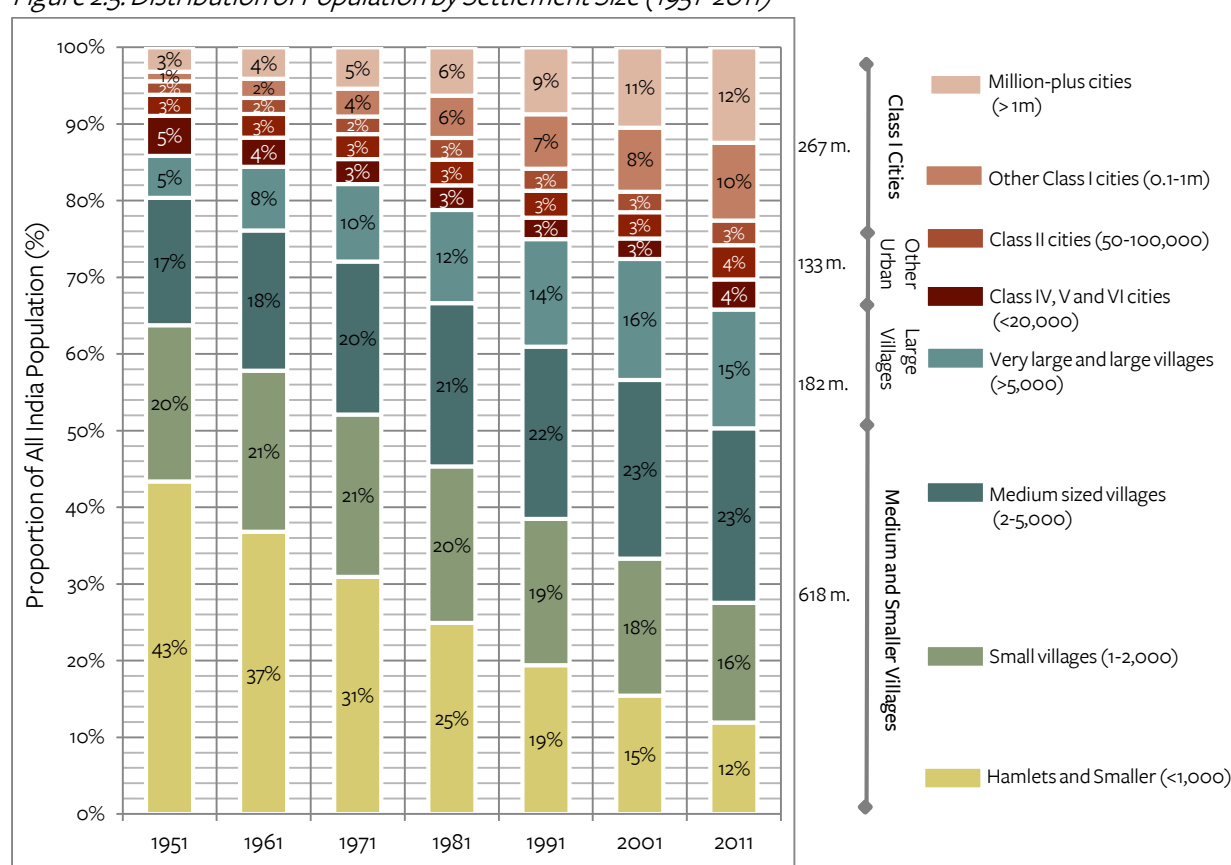
2.1.2 Size Class Structure

The distribution of urban population across size classes of cities reveals that the proportion of population living in Class I cities, and large and medium size villages has been increasing since Independence. Commentators have pointed to the ‘top heavy’ **nature of India’s** urbanisation, or the trend of increasing concentration in million-plus cities relative to previous time periods, and relative to other countries in the region (Kundu 2011). There are differences among scholars on whether large megacities are desirable or not—on one hand, cities gain from agglomeration and scale economies as they grow in size, and on the other hand, larger cities are subject to congestion costs and lead to increases in inequality between megacity regions and the rest of the country. The settlement structure is important not only from the point of view of planning for infrastructure, dealing with congestion, and the potential for growing inequality, but it also has implications for welfare distribution and growth potential. For instance, Rossi-Hansberg, Ghani et al. (2012) carry out a comparison of city size distribution across the US, China, and Mexico, and find that China would have huge welfare gains if it reduced its spatial dispersion to the same level as the US, whereas Mexico would have a smaller welfare gain. Similarly, Duranton (2009) points to the results that increasing primacy leads to large decreases in economic growth based on an empirical analysis of a cross-section of countries to study the relationship between urbanisation and growth.

The large concentration of people and economic output in metropolitan areas also has implications for regional inequality—the economic development policy in the 1970s and 1980s had an explicit focus on backward regions, but this has reduced following liberalisation. This has implications for increasing divergence between leading and lagging

regions, particularly driven by the uneven experience of urbanisation and industrialisation across the country (refer to Figure 2.5). This variation has the potential to become a political issue, as the economic geography leads to spatially differentiated development patterns, for instance, large metro cities are seen as locations for services and export-led growth, whereas small cities and urban peripheries are increasingly the sites of manufacturing, particularly polluting manufacturing as it is pushed out of larger cities due to judicial activism (Chen and Raveendran (2012), Rajamani (2007)) and more visible concerns about the negative externalities of polluted air and water. Rural areas are imagined as the providers of food security. The uneven structure of urbanisation has implications for how these types of economic structure and processes get distributed across places. Therefore, in multiple ways, settlement structure has potential implications for the urban and the national economy, and therefore is an important variable to track.

Figure 2.5: Distribution of Population by Settlement Size (1951–2011)



Source: Census of India (1951–2011); Jana (2013)

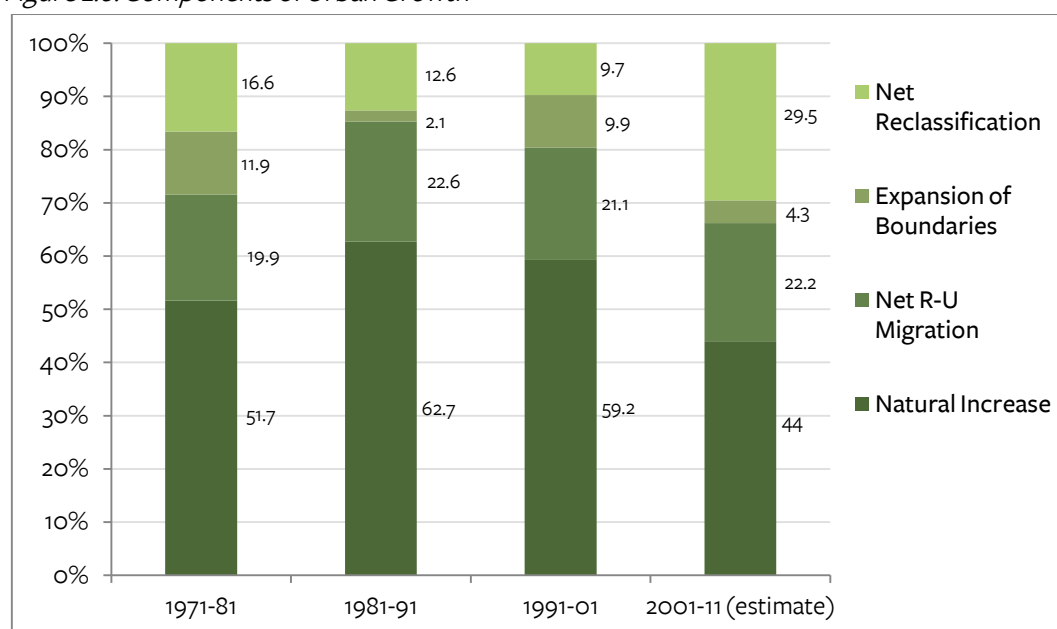
2.1.3 Migration

Migration between rural and urban areas is an important strategy for rural poverty reduction, particularly if productivity differentials between rural and urban areas are high, as is the case in India (HPEC 2011). In addition to direct linkages between rural and urban areas such as remittance flows, there are other indirect linkages between the urban and rural economy such as increased demand for agricultural products, and rural non-farm employment, which also have significant impacts for rural poverty reduction in India (Cali and Menon 2009). In order for migration to be an attractive alternative, cities will need to

have adequate employment generation along with other necessary supports of public services, housing, land, as well as social security and other entitlements.

The contribution of net rural to urban migration to overall urban population growth is relatively low. The chart below is based on estimates from HPEC (2011) and Pradhan (2013) that decompose the increase in urban population to that stemming from natural population increase, population of newly classified towns, increase due to expansion of existing urban areas, and net urban to rural migration. It shows that urbanisation due to natural increase has been decreasing, and that the share of urbanisation due to reclassification and expansion of urban areas has been increasing, particularly during the last Census. The share of migration stays roughly stable over the time period analysed here, remaining in the 18 to 24 per cent range. In fact, this past decade shows a departure from previous time periods in the fact that the increase in urbanisation due to reclassification is higher than that due to migration from rural to urban areas (ibid.).

Figure 2.6: Components of Urban Growth



Source: Figures for 1971–81 to 1991–2001 are from HPEC (2011), figures for 2001–11 are from Pradhan (2013)

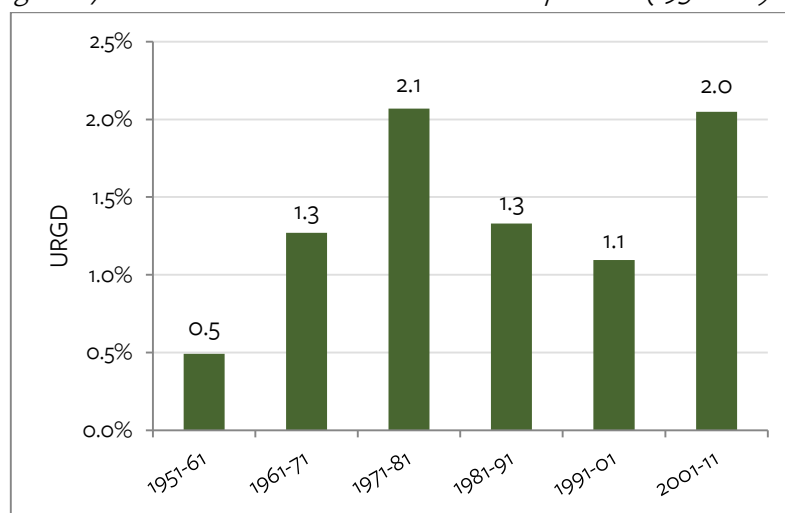
2.1.4 Urban Rural Growth Differential

In order to examine the trends of urban and rural population growth, we use the concept of the Urban Rural Growth Differential (URGD). This concept has been used in policy documents to study urbanisation trends since as early as the 1980s based on the pioneering work of Rakesh Mohan and the Planning Commission Task Forces on Housing and Urban Development as well as more recently (Planning Commission (1983), Kundu (2011)), however, thus far it has largely been used only to study differences in population trends across urban and rural areas. In this paper, we extend this methodology and will also look at URGD for economic variables, particularly employment, to understand whether, and how much, urban areas are generating employment in excess of rural areas in the subsequent sections of the paper.

URGD for a variable (such as population, output, or employment) is calculated by taking the difference between annualised growth rates of the urban and rural values of that particular

variable. URGDs for population in the decades since Independence are shown in Figure 2.7 below. The last decade, 2001 to 2011, has witnessed a reversal in the trend of declining URGDs between 1971 and 2001 as noted by Kundu (2011). This has been driven largely by reclassification. (Refer to Appendix for an international comparison of urban population growth rates). Recent work by Jana (2013) demonstrates that the workforce criterion is the dominant one determining whether a settlement is reclassified as urban, and we see from Figure 3.4 that a greater proportion of the rural male workforce is now occupied in non-agricultural work. If this trend continues, we might experience large-scale reclassification continuing in the coming decade⁵, which in turn implies that the URGD in population is likely to continue to remain high.

Figure 2.7: Urban Rural Growth Differentials in Population (1951–2011)



Source: Census of India (1951–2011)

2.2 Context: Economy

India, post-independence was a largely agrarian nation with agriculture being the main contributor to national output and employment generation. There was a shift towards industrialisation for self-sufficiency **in the 1950s under Nehru’s vision of a modern India**. However, the share of the urban remained insignificant until the 1980s when the first wave of economic reforms was initiated under Prime Ministers Indira Gandhi and Rajiv Gandhi. There was a push towards setting up high value generating industries, liberalisation of imports, setting up of export promotion zones, setting up telecommunication infrastructure and so on. The period saw an average growth of around 6 per cent which was a deviation from the ‘Hindu Rate of Growth’ (Rodrik and Subramanian 2004). It must be noted that economic planning focused on employment generating industrialisation. The shift towards high technology and capital and services intensive growth became evident post-1991 when the next round of economic reforms was initiated at a much larger scale after the balance of payments crisis India faced in the late 1980s. This period saw a surge in the output produced in urban areas (see figures 2.10 a,b). Major reforms in trade, financial, tax and industrial

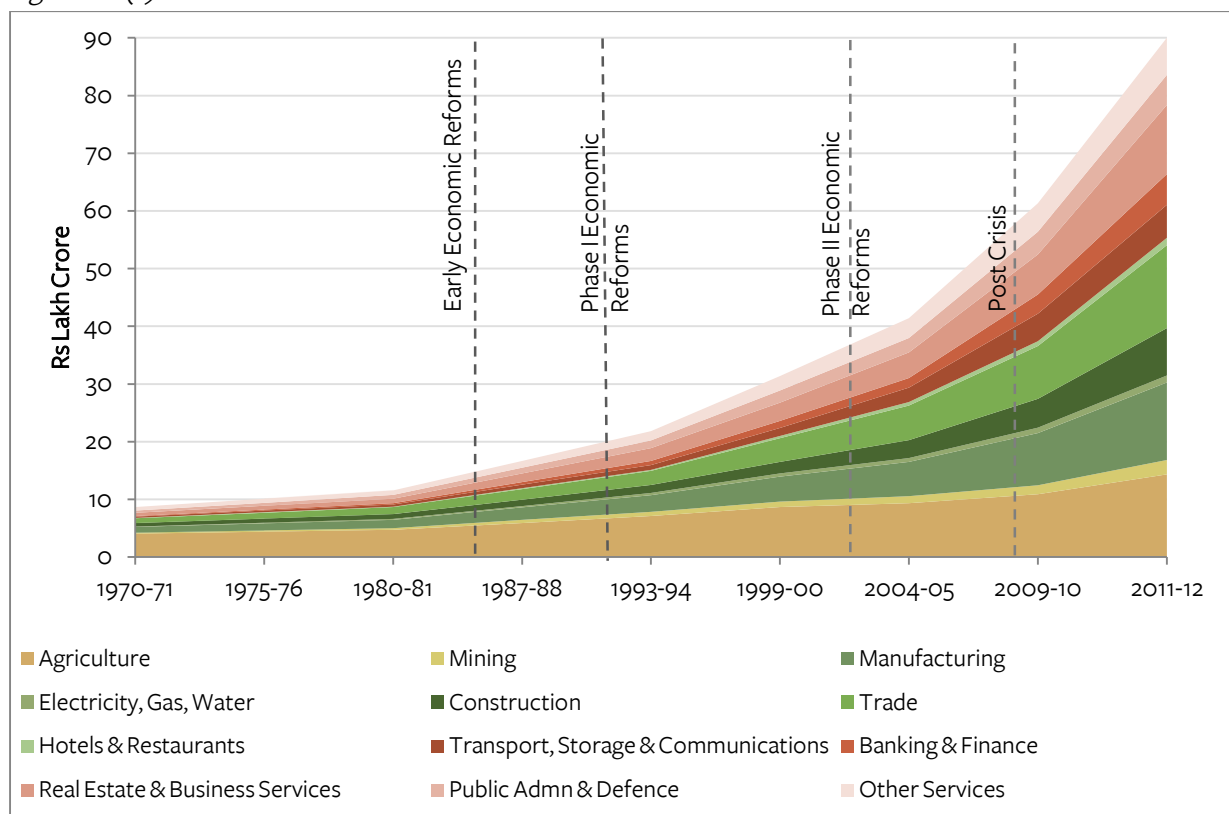
⁵This assumes that the size and density criteria are already fulfilled by a large number of rural settlements, and that workforce is the binding constraint in reclassification. Recall that there are three criteria provided by the Census of India for declaring a settlement urban: A minimum population of 5,000; at least 75 per cent of the male main working population engaged in non-agricultural pursuits; and a density of population of at least 400 persons per sq. km.

policy were ushered in. The next round of reforms was kicked off in 2001 with liberalisation and privatisation of a number of sectors. This period however, also saw an increase in inequality and unorganised employment. India post-liberalisation has witnessed slow growth in employment and deterioration in job quality. But it also witnessed a huge increase in education and skill levels and overall incomes. Urban areas and metropolitan areas have gained immense prominence as a result of this growth strategy. We estimate that urban areas generated 55 per cent of the total output in 2012 (see Section 2.2.3)

2.2.1 Growth and Structure

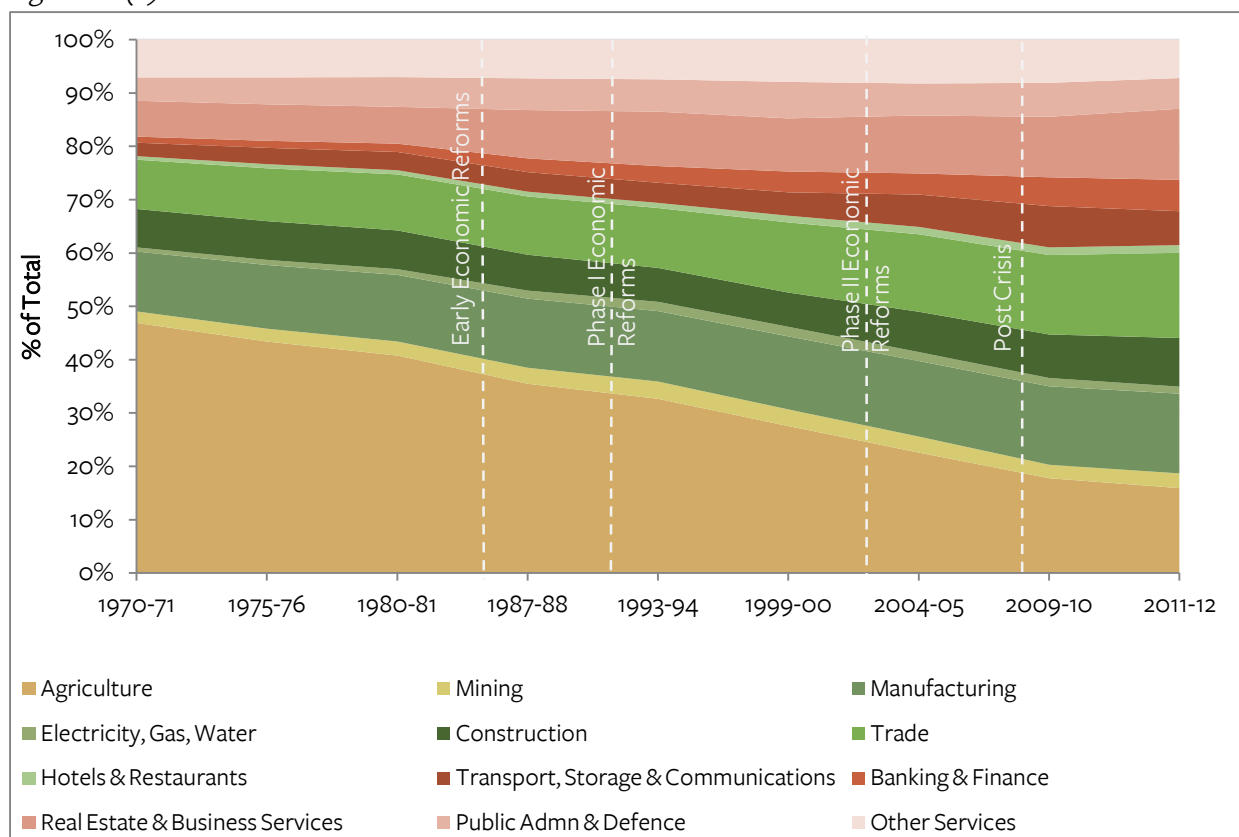
Figure 2.8 shows the overall growth in the Indian economy, as well as changes in the structure of the economy since 1970-71, based on data from national accounts statistics (Central Statistical Office 2012). The spurt in output growth following economic reforms in 1991 was largely driven by growth in the manufacturing, construction, trade and real estate and business services sectors, largely situated in cities. The figure also shows the structural transformation of the economy since 1970, with a sharply declining share of agricultural output in the total from almost half of total GDP to less than 20 per cent in 2011-12. This was accompanied by the share of manufacturing remaining relatively stable, and rapid growth in shares of most of the services sectors, particularly trade, real estate and business services, banking and finance, and transport, storage and communications. While the manufacturing sector itself has been growing in output terms, its share in the overall economy has been stagnant at around 15-16 per cent of GDP (Ministry of Commerce and Industry Department of Industrial Policy and Promotion 2011) because of the more rapid growth in the services sector.

Figure 2.8 (a): Sectoral GDP breakdown



Source: National Accounts Statistics (1970–2012)

Figure 2.8 (b): Sectoral Share in GDP

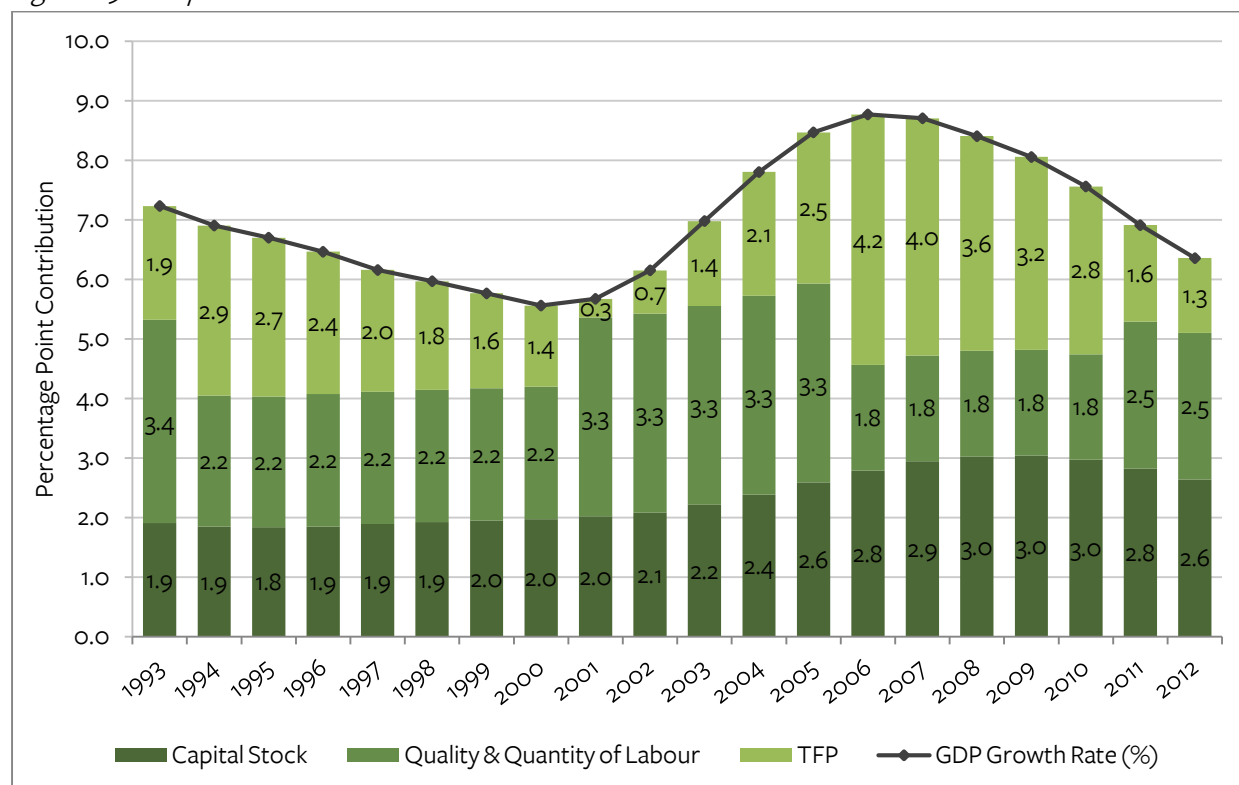


Source: National Accounts Statistics (1970–2012)

2.2.2 Components of Growth: Labour, Capital, and TFP

The chart below based on **Bhandari's study** (Bhandari 2013) decomposes output growth in the economy between 1993 and 2012 into the constituents of labour, capital, and total factor productivity (TFP). The chart shows that the labour component of growth has declined since 1993, and growth has increasingly been driven by an increase in capital formation and enhancement in productivity.⁶

Figure 2.9: Components of GDP Growth Rate



Source: DBIE-RBI, NSSO, CSO, Barro & Lee Database

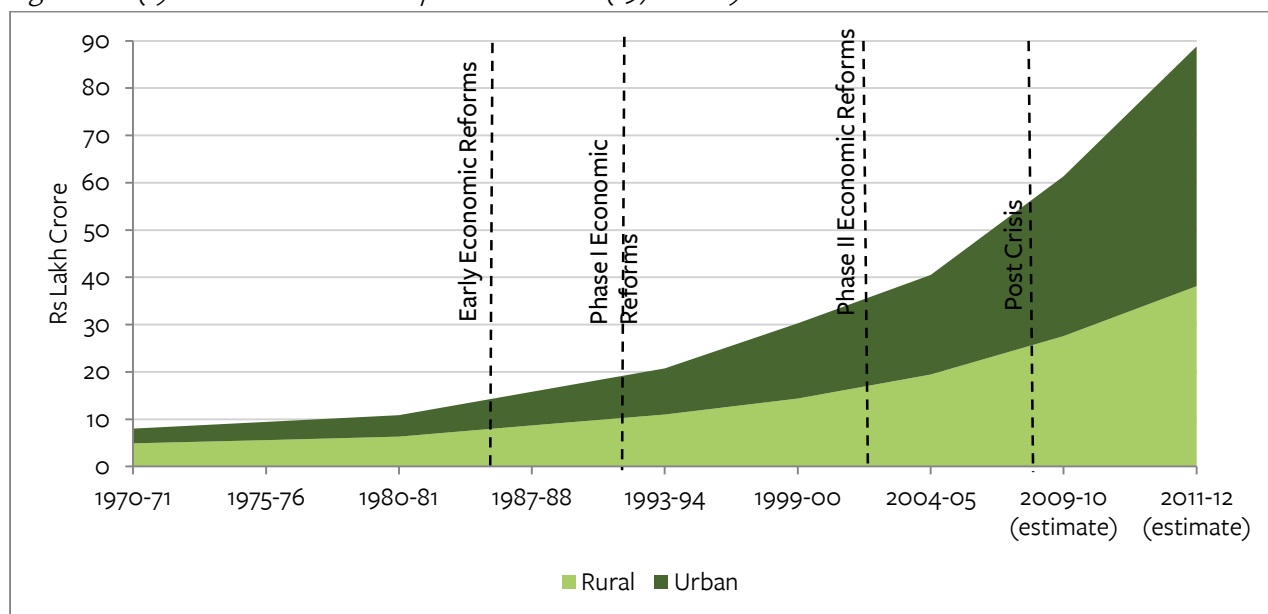
2.2.3 Rural-Urban Split

The urban share of output in the Indian economy has increased from an estimated 40 per cent in 1970-71 to 55 per cent in 2011-12. This is based on a set of estimates prepared by the CSO which uses a set of assumptions about how value added is divided across urban and rural areas in proportion to employment, wages, productivity, and asset differences between the two. Particularly during the past decade, urban output is growing more rapidly than rural, and the share of urban in the overall economy has been growing steadily. This is driven by a more rapid growth of the manufacturing and services sectors, which largely tend to be

⁶ We use the methodology given by Bhandari (2013) to calculate values of Total Factor Productivity (TFP) and study the decomposition of GDP growth. Using the Cobb Douglas production function, $Y = AK\alpha (HL)(1-\alpha)$, where Y is the GDP at Factor Cost at 2004-05 prices, K is the Net Fixed Capital Stock of the economy, L is the Labour employed in the economy (Current Daily Status), H is the Quality of the Labour, we use the average years of education of population 15 years and above as a proxy for this. The Total Factor Productivity, A, is calculated as a residual which accounts for growth in the total output not caused by inputs. In order to study the trend we run the GDP and capital stock series through a Hodrick-Prescott time series filter of power 4 (using a smoothing parameter of 6.25) to separate the cyclical and trend components. Labour quantity data is available only for NSS years and average years of education data is available every five years. We extrapolate using constant growth rates to fill in the gaps.

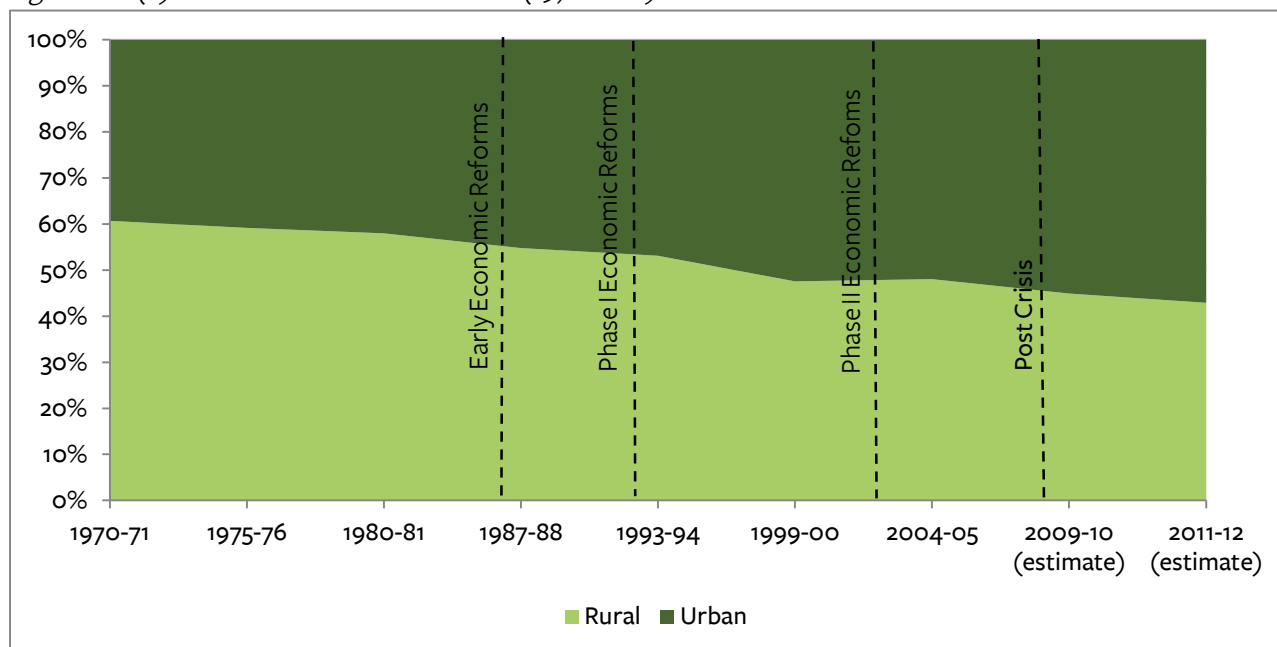
located in cities. However, the rural share in the workforce has not declined as fast as rural share in output, with employment in urban areas still accounting for less than one-third (136 million workers) of total employment (472 million workers). Therefore, urban areas account for about 28 per cent of employment, but produce 55 per cent of output. This is discussed in greater detail in Section 3.

Figure 2.10 (a): Rural and Urban Components of GDP (1970–2012)



Source: National Accounts Statistics (1970–2012)

Figure 2.10 (b): Rural and Urban Share of GDP (1970–2012)

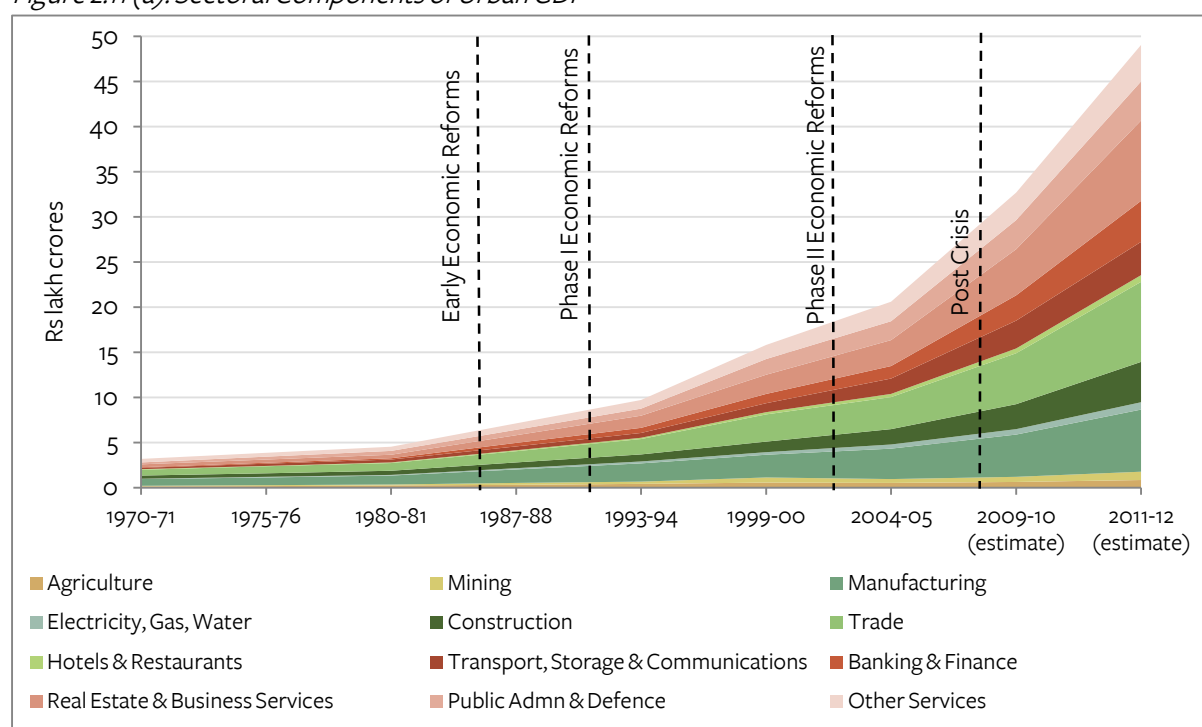


Source: National Accounts Statistics (1970–2012)

The CSO reports urban Net Domestic Product (NDP) as well as total NDP by sector. We apply the ratios of urban NDP to total NDP for each sector to total GDP numbers to arrive at estimates of the sectoral split of urban GDP from 1970-71 to 2011-12. We see that output has been growing in the manufacturing, trade, and real estate and business services sectors; however, the share of manufacturing in overall urban output has been decreasing. The share

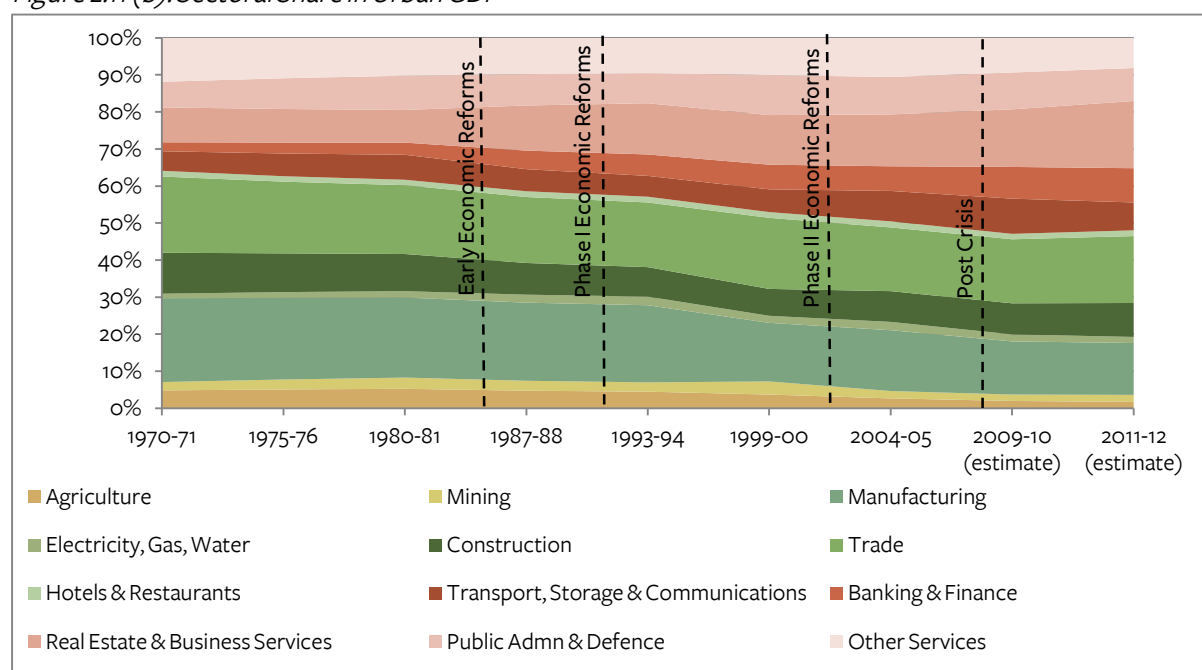
of construction and trade has stayed relatively stable, and the share of the banking and finance and real estate and business services sectors have increased. Largely, the growth of the urban economy is driven by the growth of the services sector, and its share has increased from 60 per cent of urban output to 70 per cent in 2011–12. These changes have been driven by a combination of factors such as deregulation in particular sectors, changes in the tax regime, and technological improvements particularly for the manufacturing sector (Ahluwalia 1991).

Figure 2.11 (a): Sectoral Components of Urban GDP



Source: National Accounts Statistics (1971--2012)

Figure 2.11 (b): Sectoral Share in Urban GDP

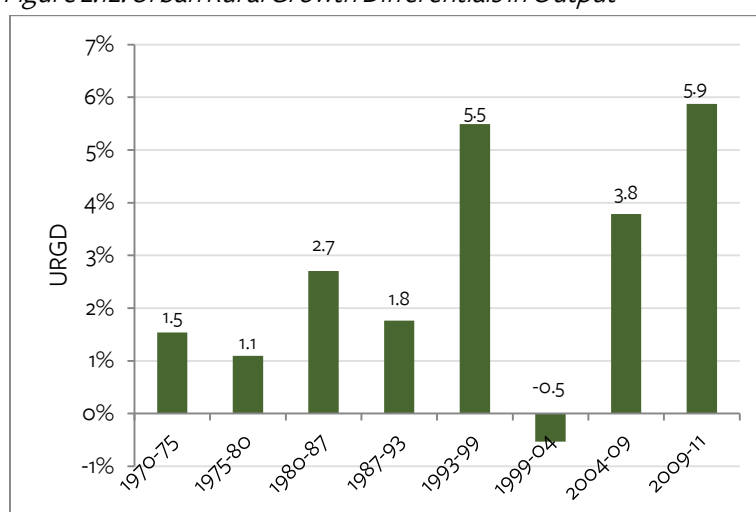


Source: National Accounts Statistics (1970–2012); IIHS Analysis

2.2.4 URGD in Output

In the current discourse, there is a tacit understanding of the URGD in output terms, even though it is not framed in this way. As argued in the introductory section, urban areas are **viewed as drivers of growth, producing a large share of the country's GDP and providing a** rationale for policymakers to focus their attention on cities. Figures 2.10a and 2.10b show the increasing share of output from urban areas over the years from 1970-71 to 2011-12. Figure 2.12 below shows that URGD in output is high and generally increasing since the early 1990s, with the exception of between 1999 and 2004. As before, URGD is computed by taking the difference between the annualised growth rate for urban and rural output between the years in which the NSS surveys were carried out, in order to compare these with employment URGDs.

Figure 2.12: Urban Rural Growth Differentials in Output



Source: National Accounts Statistics (1970–2011); IIHS Analysis

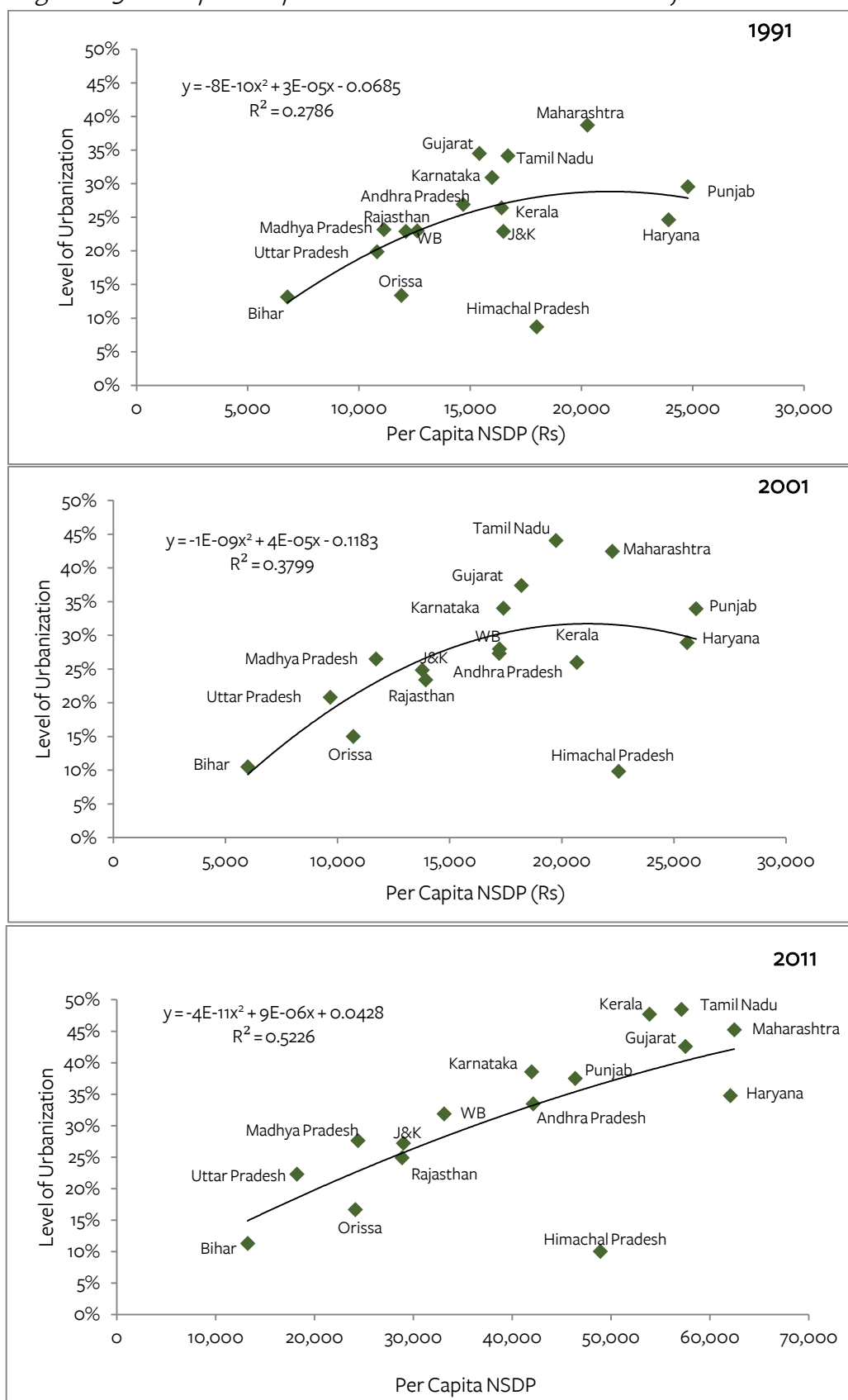
2.3 Urbanisation and Economic Development

2.3.1 Urbanisation and Output Growth

One of the traditional ways of understanding urban economies is in understanding the relationship between the process of urbanisation and economic growth. Several cross-country comparisons have been carried out, and one dominant view is that urbanisation is necessary for sustained growth (Spence, Annez et al. 2009). How does this relationship hold between the states of India? The figures below show that there was no clear relationship between urbanisation and per capita GDP in 1991. This was largely because Punjab and Haryana were among the richest states in 1991, and were also less urbanised.⁷ However, in 2011, there is a clear positive relationship between urbanisation and growth, with the more urbanised states like Maharashtra, Tamil Nadu, Gujarat, and Kerala also having very high levels of per capita income. In addition, the increasing value of R^2 across the decades implies that urbanisation has more explanatory power for output growth in 2011 when compared with 1991. This has implications for potential divergence between states, if the more urbanised states continue to grow faster than others.

⁷ These are restricted to the large states: Union Territories, Goa, Delhi, and the North-East states are excluded from this analysis.

Figure 2.13: Per Capita Output vs Level of Urbanization for the major Indian states



Source: Census (1991–2011), National Accounts Statistics (1980–2011)

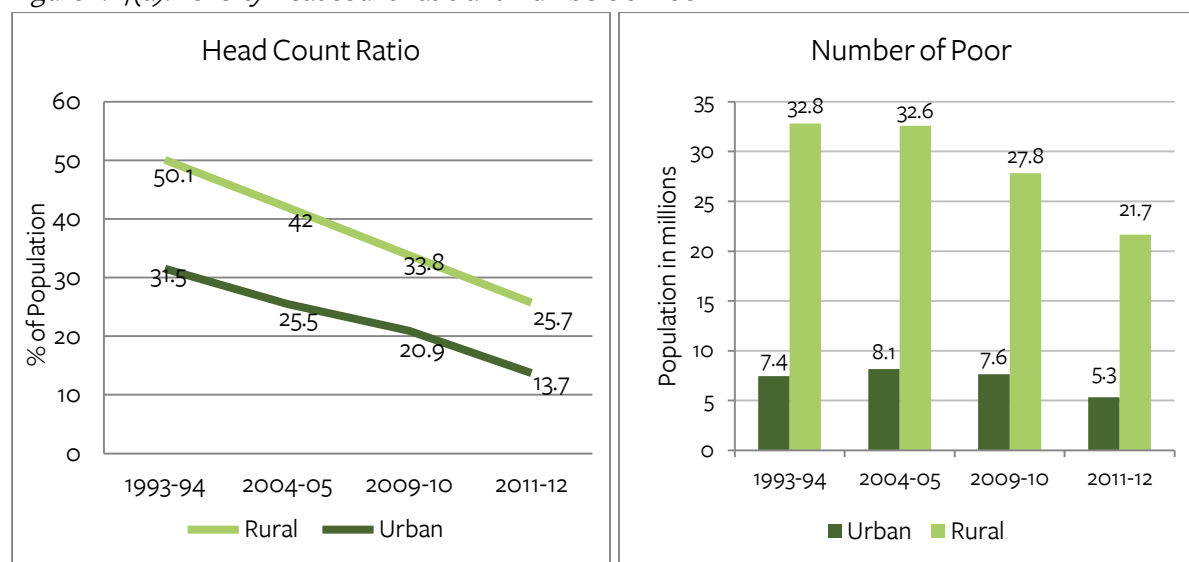
(The analysis is done using only the major Indian states. Newly formed states like Chhattisgarh, Jharkhand and Uttarakhand have not been included here for the sake of consistency over the three time periods)

2.3.2 Urbanisation and Poverty Reduction

As argued in the introductory section, there appear to be two dominant approaches to urban poverty reduction in policy documents and among domestic urban research scholars: one argues that poverty reduction is taking place because of rapid economic growth, and the other one points to the inadequate redistribution of the benefits of growth and simultaneous increases in inequality, while arguing for stronger and more active intervention in providing entitlements and rights. The IIHS-RF paper on Urban Poverty addresses this debate in more detail (Idicheria, Bhan and Anand 2014). This sub-section focuses on overall poverty trends, as well as the relationship between urbanisation and poverty reduction.

Figure 2.14(a) shows that both poverty head count ratios (HCRs) and the numbers of people living below the poverty line have been decreasing since 1993. This trend appears in both rural and urban areas. However, this is a very narrow understanding of poverty, using only calorie-based norms. A far more detailed understanding of urban poverty, including the multiple determinants of poverty and vulnerability in urban areas, is offered in the IIHS-RF paper on Urban Poverty (ibid.).

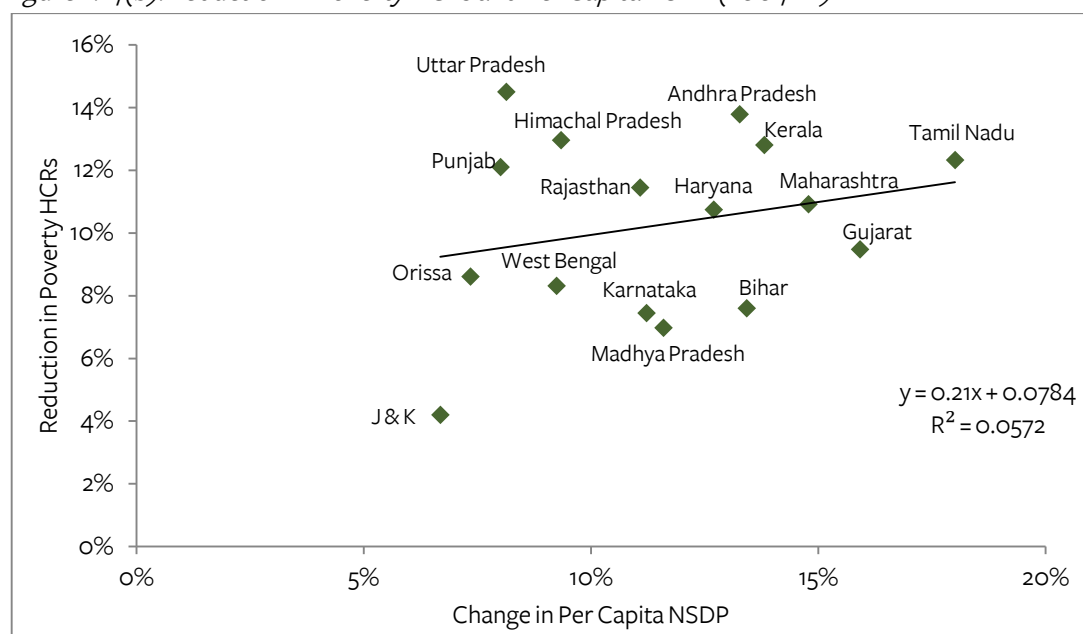
Figure 2.14(a): Poverty Headcount Ratio and Numbers of Poor



Source: National Sample Survey (various rounds)

We also look at growth rates of per capita Net State Domestic Product and poverty HCRs for the major states of India from 2004 to 2012. There seems to be a very weak relation between growth and poverty reduction as seen in Figure 2.14(b). Increase in per capita incomes does not seem to necessarily lead to a decrease in overall poverty levels even though there is a reduction in urban poverty as seen in Figure 2.14 (c).

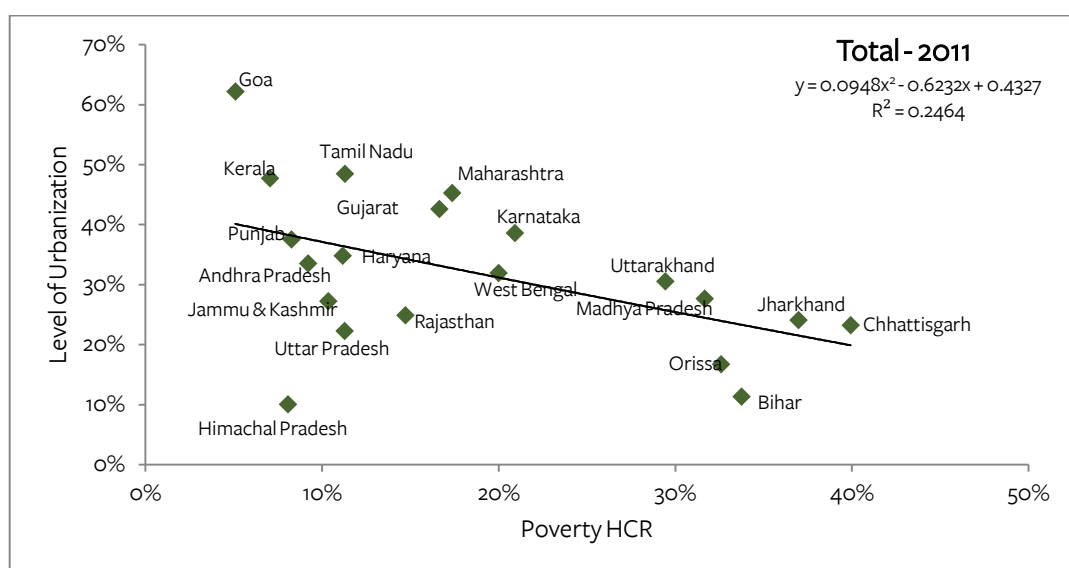
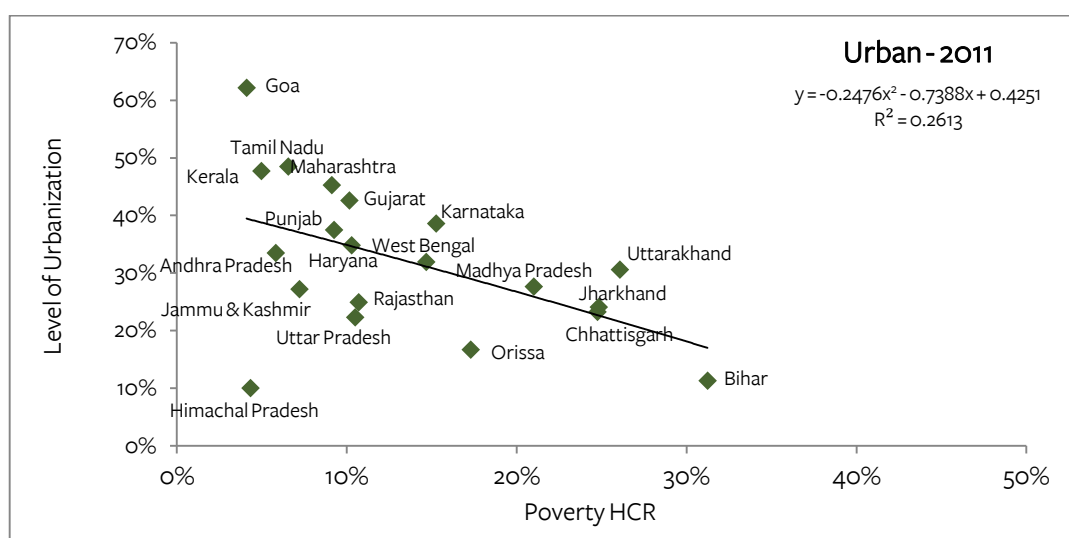
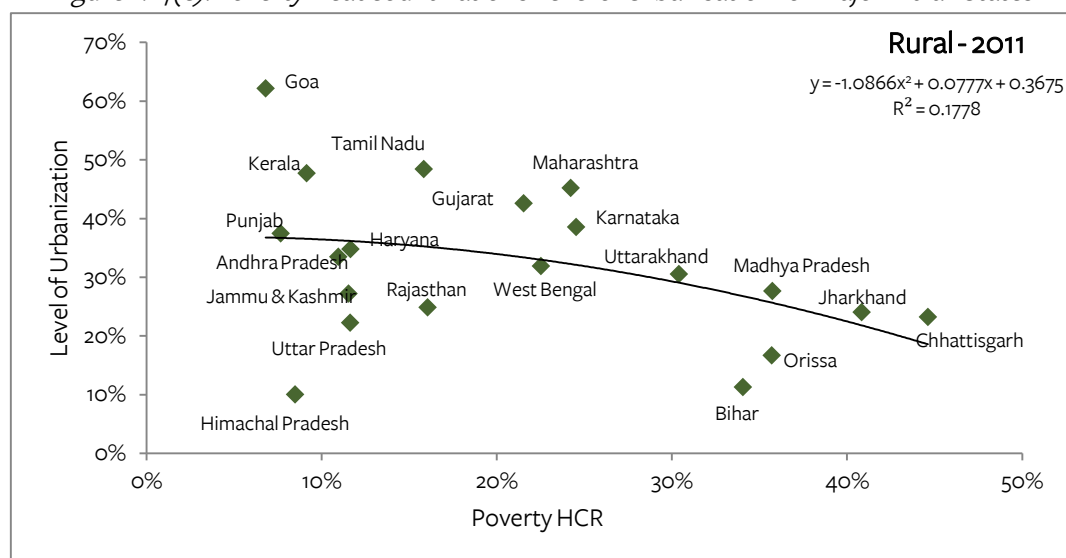
Figure 2.14(b): Reduction in Poverty HCRs and Per Capita NSDP (2004-12)



Source: CSO; Planning Commission

Figure 2.14 (c) depicts the relationship between urbanisation and HCRs across states. It is clear that overall HCRs are lower in urban areas when compared to rural areas. Also, there is a clear negative relationship between urbanisation and urban poverty, which indicates that more urbanised states have lower levels of urban poverty. The same relationship holds between the level of urbanisation and total poverty, which indicates that more urbanised states have lower levels of aggregate poverty. Read together with the output and urbanisation relationship, this indicates that more urbanised states have higher average per capita incomes, but also have a better record of poverty reduction.

Figure 2.14(c): Poverty Headcount Ratio vs Level of Urbanisation for Major Indian States



Source: Census (1991-2011); Planning Commission

Section 3: Trends and Arguments

As argued in the introductory section, a focus on employment in urban areas is key to unlocking the potential of cities to become engines of inclusive development. Therefore, this section analyses employment trends in detail and focuses on various aspects of employment generation in urban areas such as rural-urban splits, gender profile of employment, sectoral distribution, spatial trends, informality, and links with education. After presenting these trends, it then applies the urban-rural growth differential as a tool to synthesise our learnings from the aggregate trends.

3.1 Employment

This sub-section highlights key trends in employment (with a focus on urban employment) during the past two decades, with a particular focus on implications for both economic development and poverty reduction.

3.1.1 Aggregate Employment Trends

Much has been written about macroeconomic trends of employment creation in the Indian economy, particularly comparing employment trends before and after liberalisation. Observers have commented on how despite an impressive record of growth following liberalisation, employment generation has actually slowed down in the 1990s when compared to the 1980s and earlier (Ghosh and Chandrasekhar 2007). However, Himanshu (2011) shows that because of methodological changes in the 50th Round (1993-94), employment data from the 1980s is not comparable with that following 1993-94, putting many of these results in doubt. Therefore, this paper restricts its attention to using strictly comparable employment data from the employment rounds of the National Sample Survey Organisation (NSSO) from 1993-94 onwards. The chart below shows the overall record of employment generation across urban and rural areas since 1993-94.⁸ The following key trends emerge.

⁸ The rate of unemployment appears extremely low in this figure. This is because of the use of Usual Principal and Subsidiary Status (UPSS). Unemployment using the UPSS measure tends to be low (around 1-2%). The Current Daily Status (CDS) is usually used to report unemployment in the economy, which is in the 6-8% range.

Figure 3.1: Employment Composition: Rural and Urban



Source: National Sample Survey (various rounds)

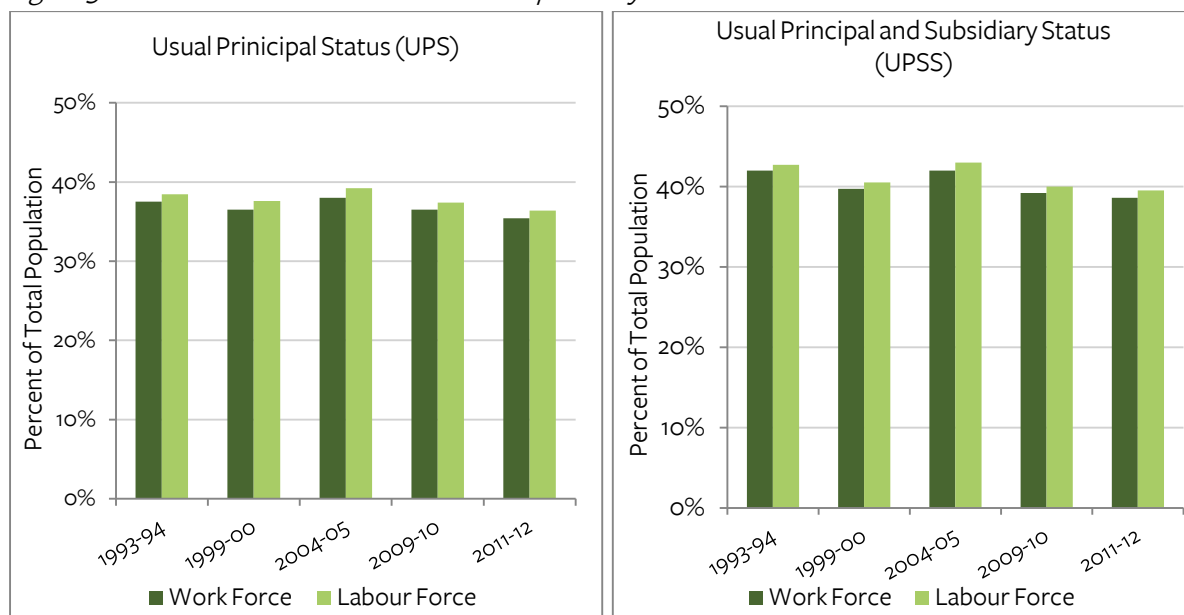
3.1.1.1 Overall workforce participation rates in the economy have been declining since 1993-94

Since 1993-94, the proportion of workers has been steadily declining, except for the year 2004-5 where there was an increase in the workforce participation rate (WPR). WPR is defined as the ratio of workers to total population, and the labour force participation rate (LFPR) is the ratio of the labour force to total population, where the labour force includes workers as well as those seeking or available for work. The chart below shows the proportion of workers by both the Usual Principal Status (UPS) and the Usual Principal and Subsidiary Status (UPSS).⁹ Both measures are included here to demonstrate that the trend does not change depending on the measure used.¹⁰ The LFPR shows a similar trend, therefore this decrease in workforce is not driven by an increase in unemployment, but is accompanied by a decrease in the number of people supplying labour. Other than economic reasons (such as increased well-being or changes in wages), LFPR can change because of either demographic changes (which would lead to a change in the overall LFPR even if age-specific LFPRs stayed constant), or changes in enrolment in education (Himanshu 2011).

⁹ Both these definitions are based on a time criteria—therefore, a worker is considered as working according to the principal status definition if she has spent the majority of her time over the year preceding the survey (more than six months) working. She is considered as working according to the subsidiary status definition if she has spent more than one month of the preceding year working. UPSS is a count of all principal as well as subsidiary status workers, in other words, people who have worked for more than one month in the year preceding the survey.

¹⁰ Henceforth, unless specified otherwise, only the UPSS measure will be used.

Figure 3.2: Workforce and Labour Force Participation by Reference Period



Source: National Sample Survey (various rounds)

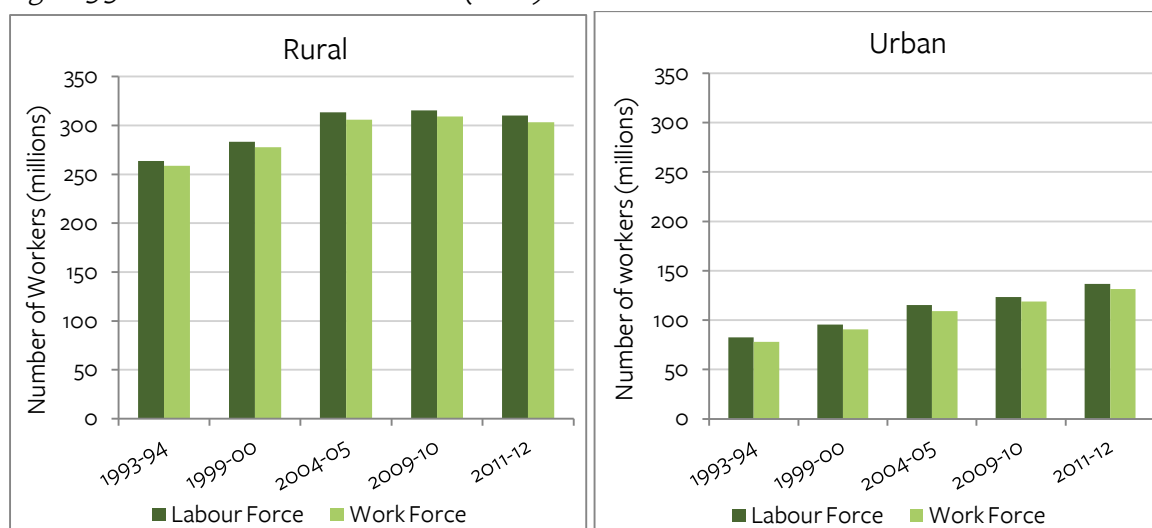
The increase in employment in 2004-5 from the previous round, and the subsequent decrease in 2009-10 has been the subject of intense debate (Planning Commission (2011), Kannan and Raveendran (2012), Papola and Sahu (2012), Himanshu (2011)). The Planning Commission (2011) attributed the decline in labour force between 2004-05 and 2009-10 to an increase in enrolment in education. However, Papola and Sahu (2012) and Kannan and Raveendran (2012) convincingly argue that the surge in employment in 2004-5 was due to bad agricultural performance, and that the increase in LFPR in 2004-5 was largely driven by **the entry of women, young and old workers into the labour force and was due to ‘rural distress’**. As the situation improved, these additional workers left the labour force and returned to home-based work or education, which led to a decline in work participation rates in 2009-10.

However, even if we exclude the year 2004-5 from our analysis, we see that the overall trend of both LFPR and WPR from 1993--99 to 2011-12 has been decreasing, during a period of rapid growth in the economy. This puts into question the nature of the employment growth relationship, and points to the fact that more active policy efforts will have to be undertaken to address the employment challenge, and that growth by itself might not be enough.

3.1.1.2 However, the number of people employed has been increasing, and this increase is faster in urban areas

The picture changes slightly when we look at actual numbers of people employed. Because of changes in the rural-urban and gender composition in the population, aggregate employment numbers show slightly different trends. The numbers of people in the labour force (employed and unemployed) decomposed by rural and urban are shown in Figure 3.3. In rural areas, the number of people in the labour force and workforce increased between 1993-94 and 2004-05, but since then has decreased slightly. In urban areas, however, these numbers have been steadily rising since 1993-94.

Figure 3.3: Workforce and Labour Force (UPSS) for Urban and Rural Areas

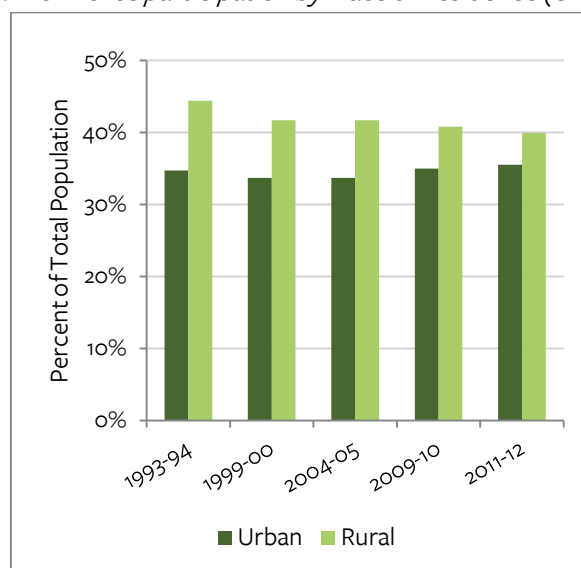


Source: National Sample Survey (various rounds)

3.1.1.3 Declining WPRs are driven by a decrease in WPR in rural areas, particularly for females

What has driven the overall decrease in the WPR? Figure 3.4 shows that this has been driven by a decrease in WPRs in rural areas, while the WPRs in urban areas have shown an increasing trend over the same period.

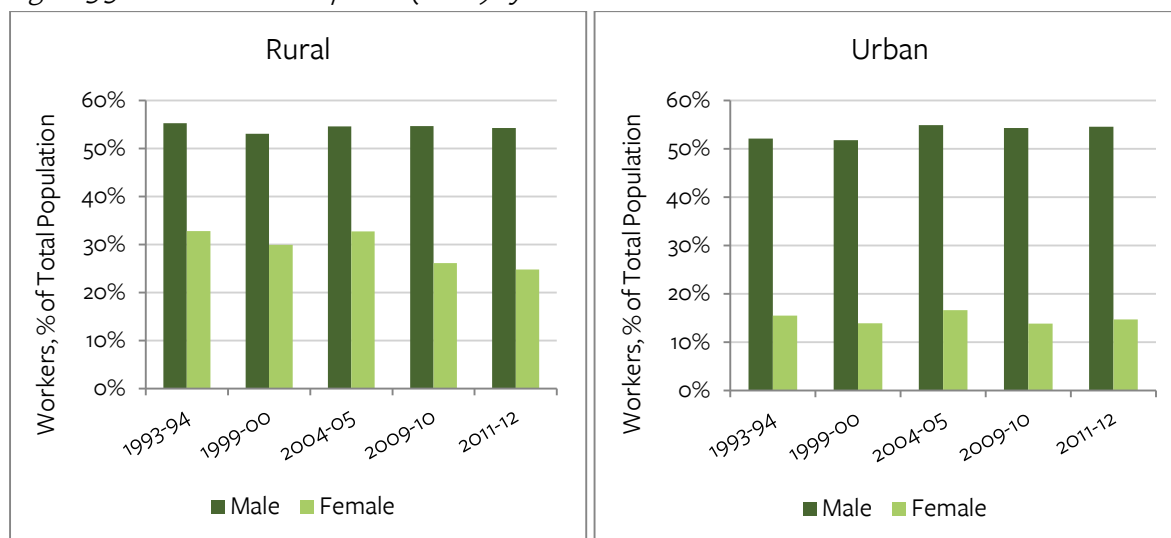
Figure 3.4: Workforce participation by Place of Residence (UPSS)



Source: National Sample Survey (various rounds)

Disaggregating further by gender, we see that the variation across years is largely driven by a decrease in the female WPRs in rural areas. In urban areas, the male WPR increases slightly while the female WPR remains stable.

Figure 3.5: Workforce Participation (UPSS) by Gender and Place of Residence

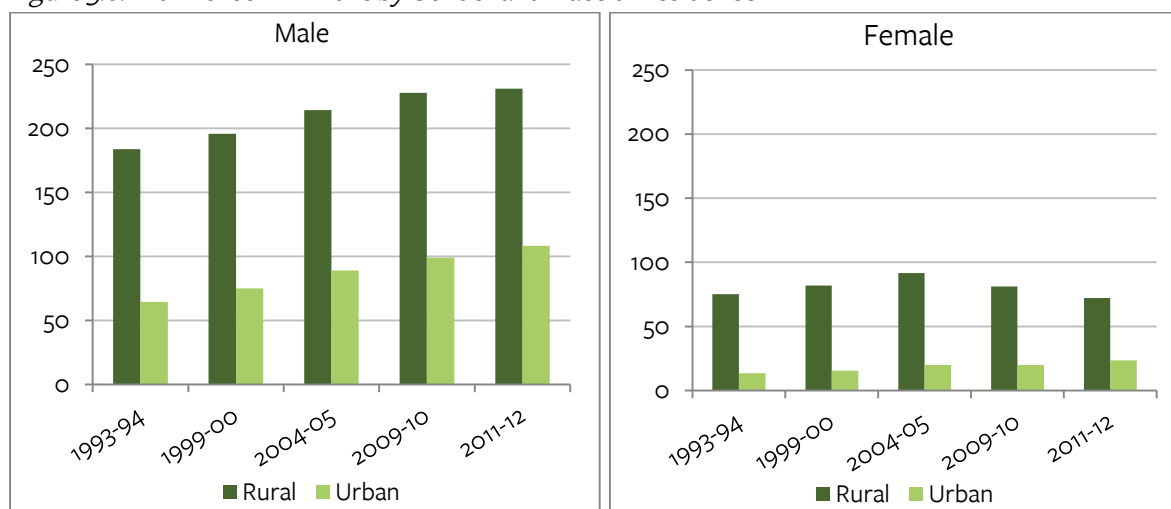


Source: National Sample Survey (various rounds)

3.1.1.4 Female workforce participation rate is very low in India compared to other developing economies

The numbers of people in rural and urban areas employed are shown in Figure 3.6. We see a steady increase in the number of men employed in both rural and urban areas since 1993-94, and a similar increase in the number of urban women employed. The overall decrease in the rural workforce, therefore, seems to be driven by a decrease in the number of rural women working. A caveat is in order here: these numbers do not take into account home-based work or unaccounted for work done by women, and measure only market-based work carried out for pay. While this seriously under-reports women's actual work, it is difficult to get accurate estimates of this because nationally available statistics do not include time use surveys. Therefore, we use this measure because it is an indicator of female participation in the market economy.

Figure 3.6: Workforce in Millions by Gender and Place of Residence

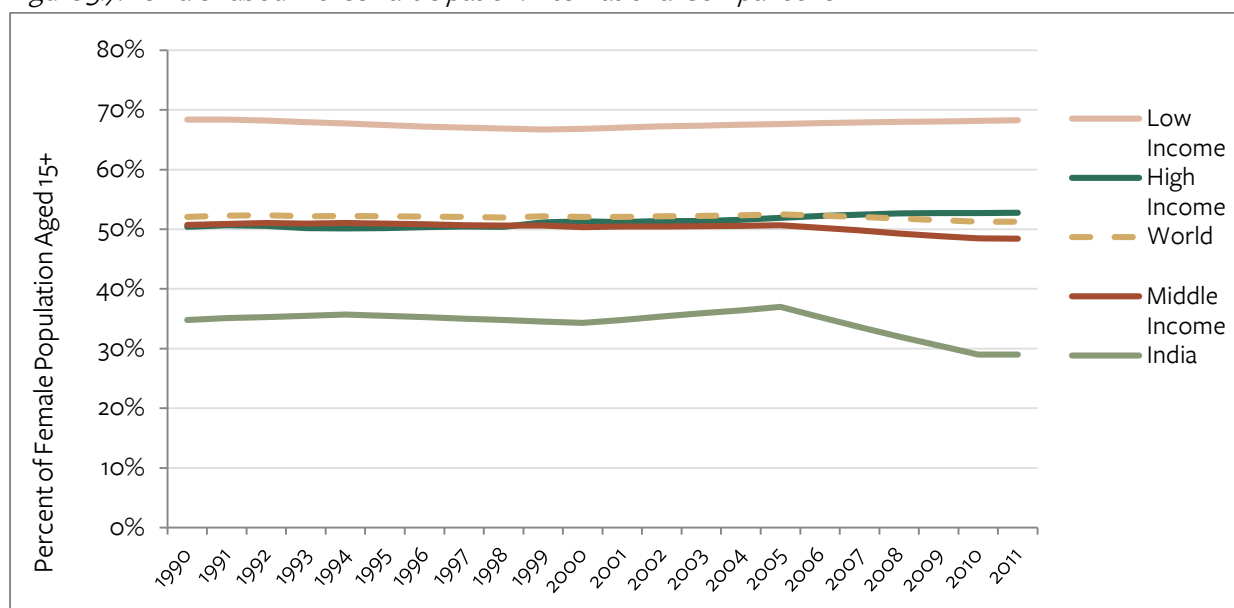


Source: National Sample Survey (various rounds)

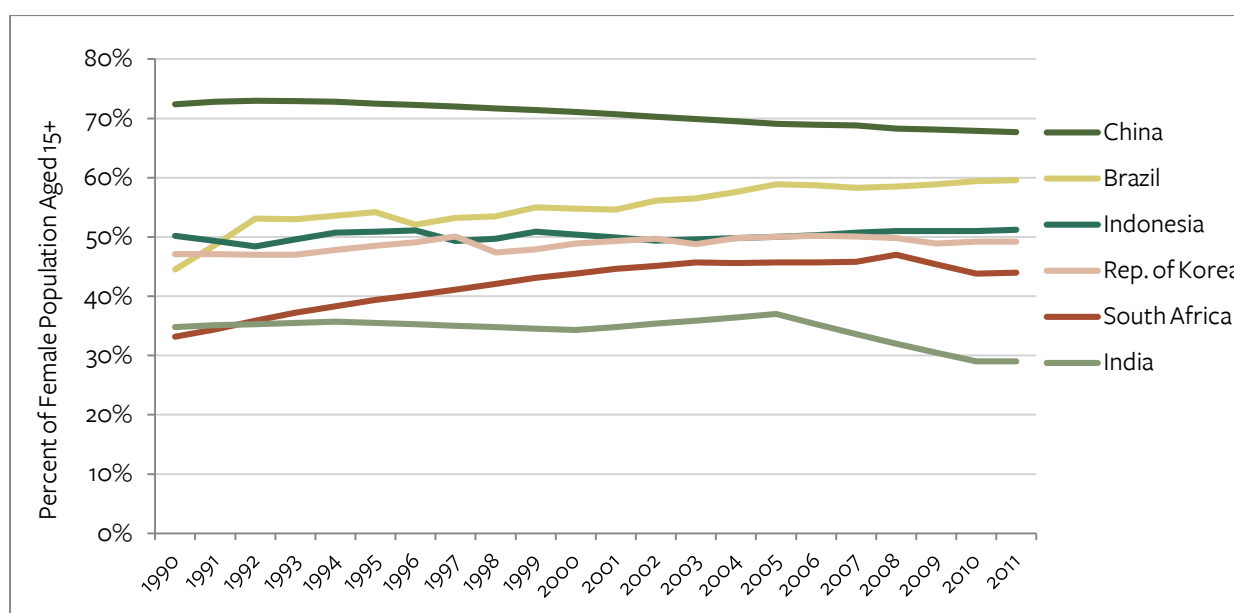
Putting this into context, India has a very low female participation rate when compared to the world average, and even when compared to other middle income countries. Of the sample of middle income countries highlighted below, India has the lowest participation rate for females, significantly lower than the average for middle income countries and significantly lower than Brazil and China. Studying female participation rates is important not only from the point of view of inclusion, but also from the point of view of growth. The **East Asian growth ‘miracle’ was largely driven by an increase in female** workforce participation rate as well as improvements in education, which led to an overall increase in the quality and quantity of the workforce (Young 1995). In India, women have been less mobile relative to men but are becoming increasingly so. Increasingly, education provides more opportunities but social and employment constraints limit the realisation of this potential. Working conditions and workplace safety in urban areas also constrain female participation.

However, recent work by Motiram and Naraparaju (2014), which offers a rigorous alternative measure of unemployment, finds that unemployment among females is considerably higher than that among males in urban areas, a pattern that has been stable over the past two decades. When decomposing this by education groups, they find a sharp increase in unemployment among urban highly educated women. This indicates a mismatch between labour supply and labour demand for urban women, especially highly educated women.

Figure 3.7: Female Labour Force Participation: International Comparisons



Source: World Bank, World Development Indicators



Source: World Bank, World Development Indicators¹¹

3.1.1.5 Quality of employment is very poor, as witnessed by an increase in informal and casual work

Much of the additional employment generation that has taken place in urban areas has been in the informal sector, where workers have little or no social protection and low levels of wages. Chen and Raveendran (2012) point out that roughly 80 per cent of urban employment is informal, thus making it imperative to focus on the quality of employment in addition to the quantity. The National Commission for Enterprises in the Unorganised Sector (NCEUS) (2009) comments on how the benefits from the growth process have bypassed the majority of the population, and how:

¹¹ Accessed October 2013 at: <http://data.worldbank.org/indicator/SL.TLF.CACT.FE.ZS>

“though the population suffering from extreme poverty came down significantly, they seem to have moved only marginally above the poverty line. ... These groups emerge as a sort of coalition of socially discriminated, educationally deprived and economic destitutes, whereas less than one fourth of our population only was enjoying a high rate of growth or their purchasing power. ... One very important characteristic of this group of the Poor and Vulnerable section of the people is that, they had very little expansion of their employment and enhancement in their earning capacity.” (p. ii-iii)

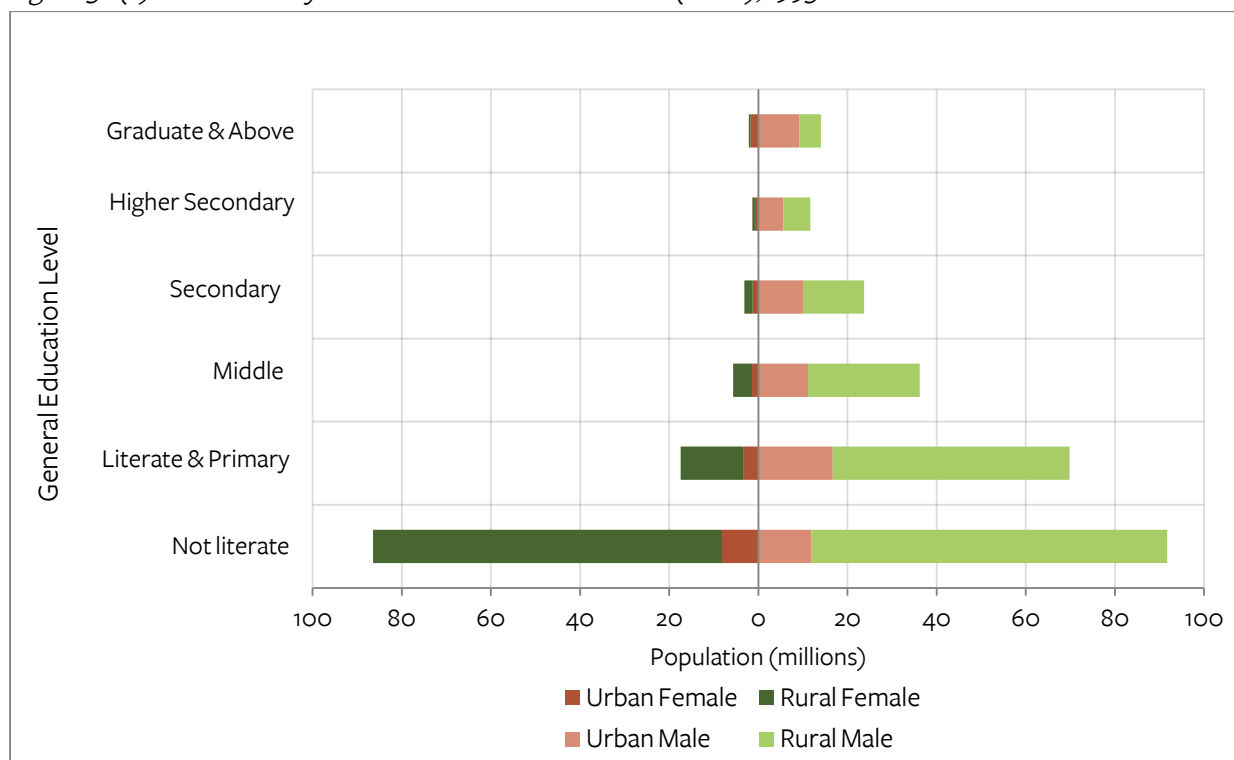
There is a gender aspect to this: Khosla (2012) finds evidence that women in developing countries most commonly find employment in urban industries that have low wages, require semi-skilled workers, and for casual or contracted activities. This has been referred to as the ‘process of “feminization of flexible labour”, where women tend to be segregated into the most exploitative and casual form of labour within increasingly informalising economies’ (ibid.).

3.1.1.6 Education profile of the workforce has been changing, with an increase in the average education levels of the workforce

In 1993, the largest proportion of the workforce, both male and female was illiterate. Figure 3.8 shows the change in education levels of urban and rural workers since 1993. This has changed during the past two decades as educational attainment has increased. The number of illiterate workers has declined, and the number of workers with school and graduate education has increased. We see a sharp increase in the number of urban male workers with secondary and higher secondary school as well as graduate education. However, there is still a great deal of progress to be made, given that the largest category of male workers still has only primary education, and the second highest category is illiterate. For female workers, there is an increase in the number of workers with all levels of school and graduate education, however, this increase is far lower than that experienced by male workers. The number of illiterate women workers has declined by about 20 million, however they still constitute the largest category of workers.

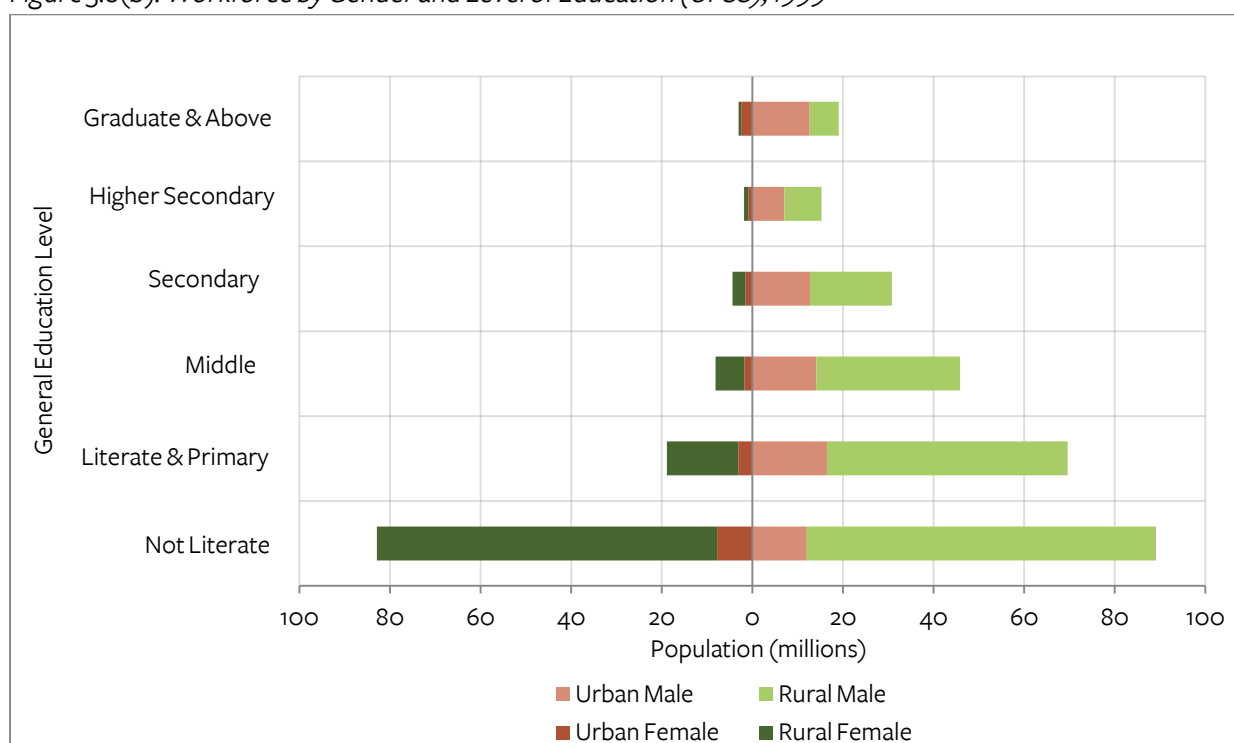
Another trend worth paying close attention to is that of urban female workforce participation, particularly in the most highly educated category. We see from Figures 3.8a–d below that the number of urban women with graduate degrees and above in the workforce was extremely low in 1993, and has increased steadily until 2009. In fact, the increase between 1993 and 2009 for women workers across the different educational categories has been the greatest for highly educated women. When read along with the finding that unemployment among urban educated women has increased (Motiram and Naraparaju 2014), this points to a trend of increasing numbers of educated women entering the urban workforce, and the challenge becomes one of providing enough opportunities for them.

Figure 3.2(a): Workforce by Gender and Level of Education (UPSS), 1993



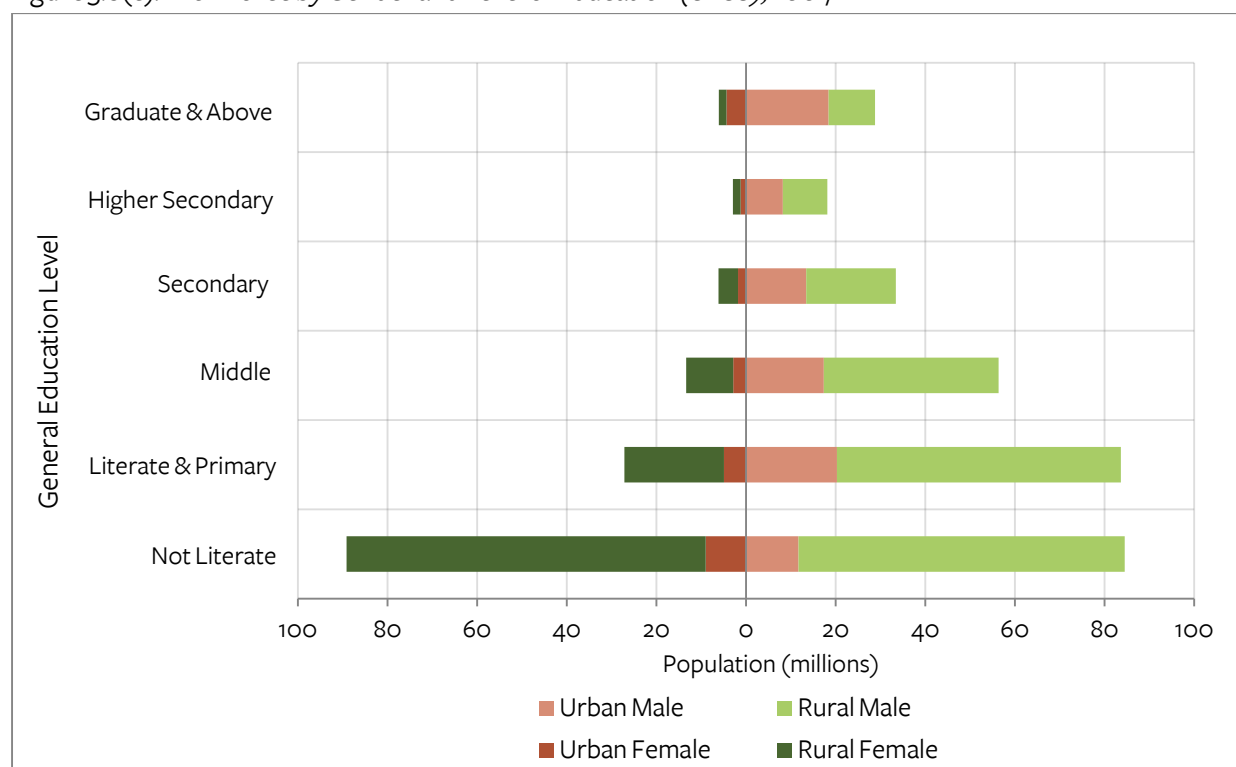
Source: National Sample Survey, Census of India (various rounds)

Figure 3.8(b): Workforce by Gender and Level of Education (UPSS), 1999



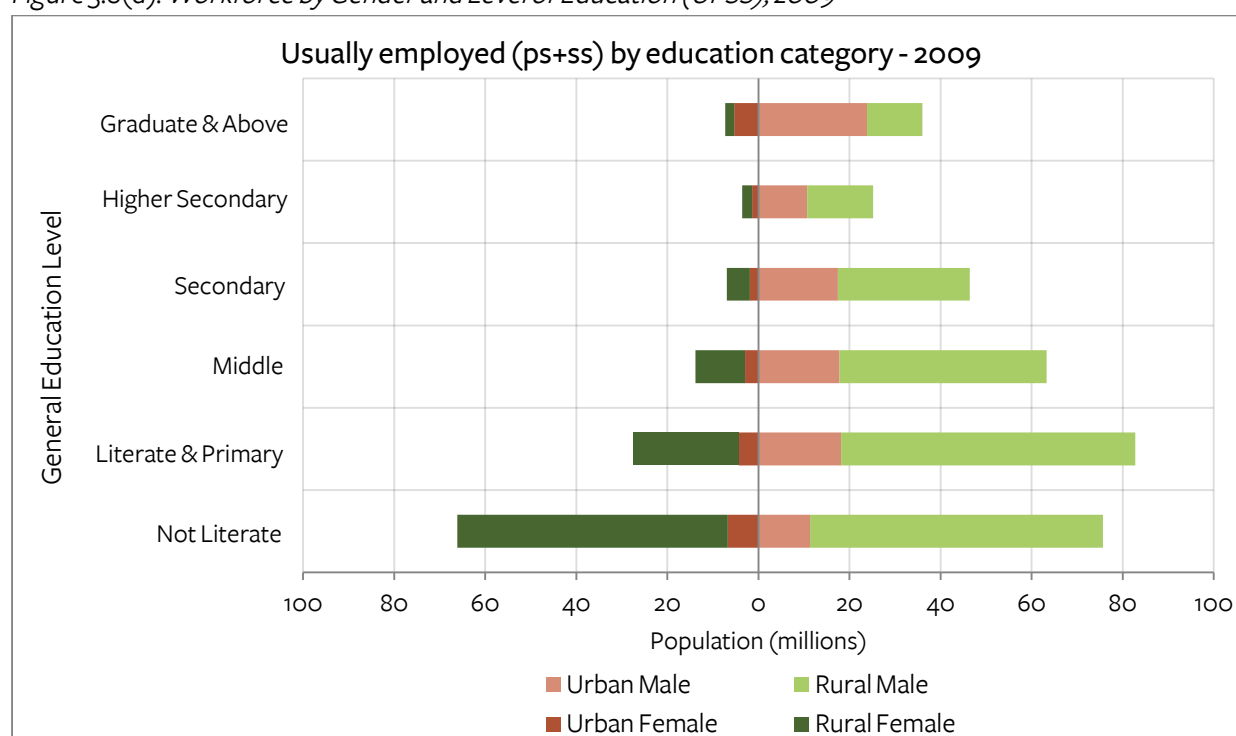
Source: National Sample Survey, Census of India (various rounds)

Figure 3.8(c): Workforce by Gender and Level of Education (UPSS), 2004



Source: National Sample Survey, Census of India (various rounds)

Figure 3.8(d): Workforce by Gender and Level of Education (UPSS), 2009

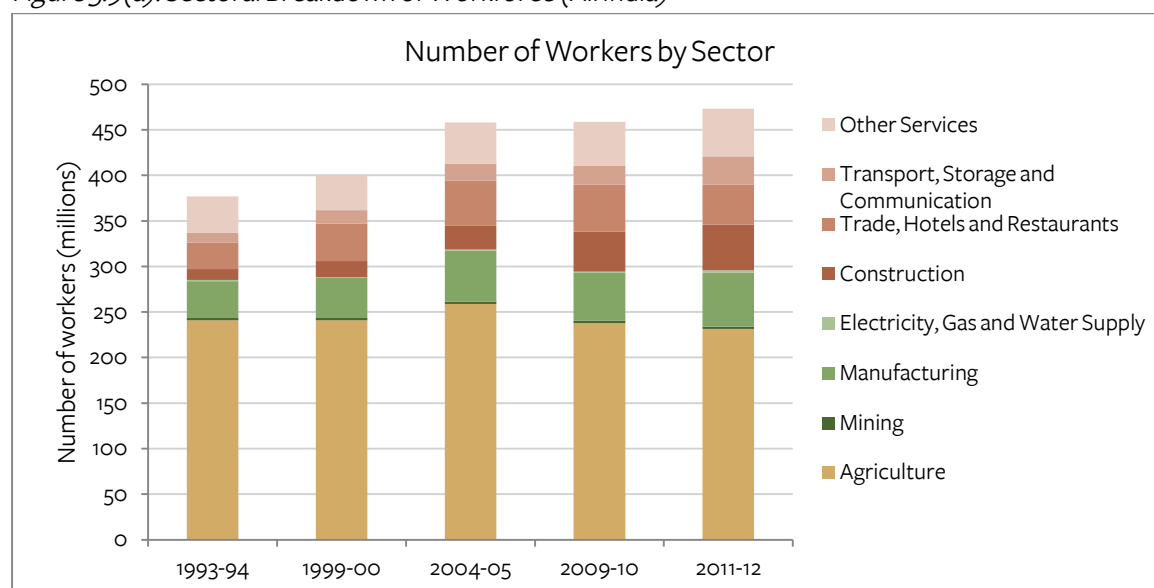


Source: National Sample Survey, Census of India (various rounds)

3.1.2 Sectoral Variation in Employment Trends

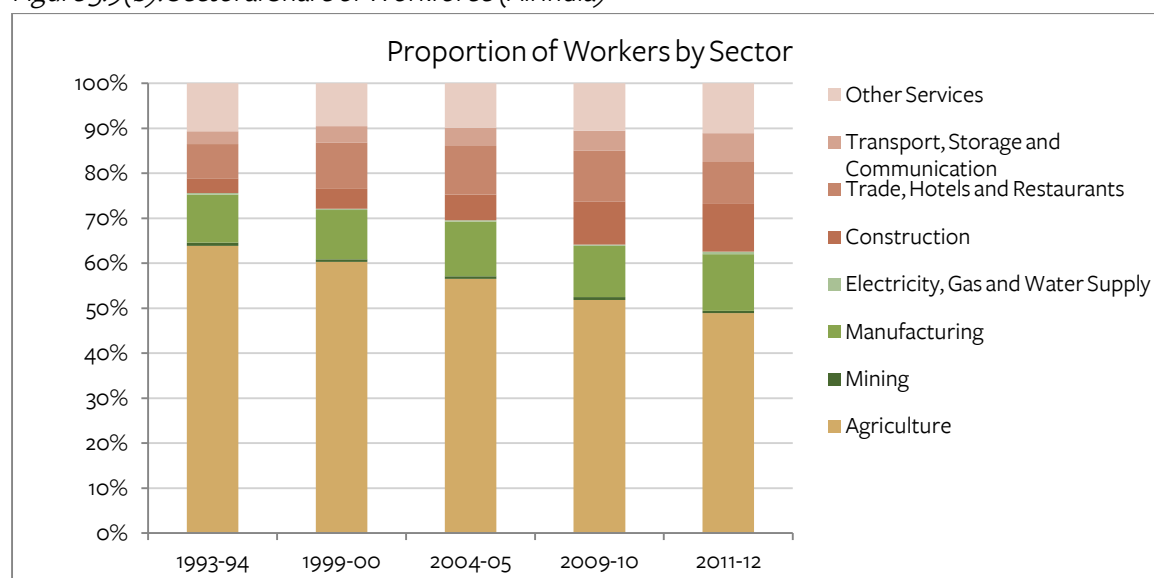
The share of workers in manufacturing, construction and trade sectors has increased. Figures 3.9a and b show the sectoral split of the number of workers—it shows that the aggregate number of people working in agriculture has stayed relatively stable since 1993-94, and that the increase in the overall number of workers has been driven by increases in manufacturing, construction, and trade. The shares of these sectors in total employment have been steadily rising over the last two decades.

Figure 3.9(a): Sectoral Breakdown of Workforce (All India)



Source: National Sample Survey (various rounds)

Figure 3.9(b): Sectoral Share of Workforce (All India)



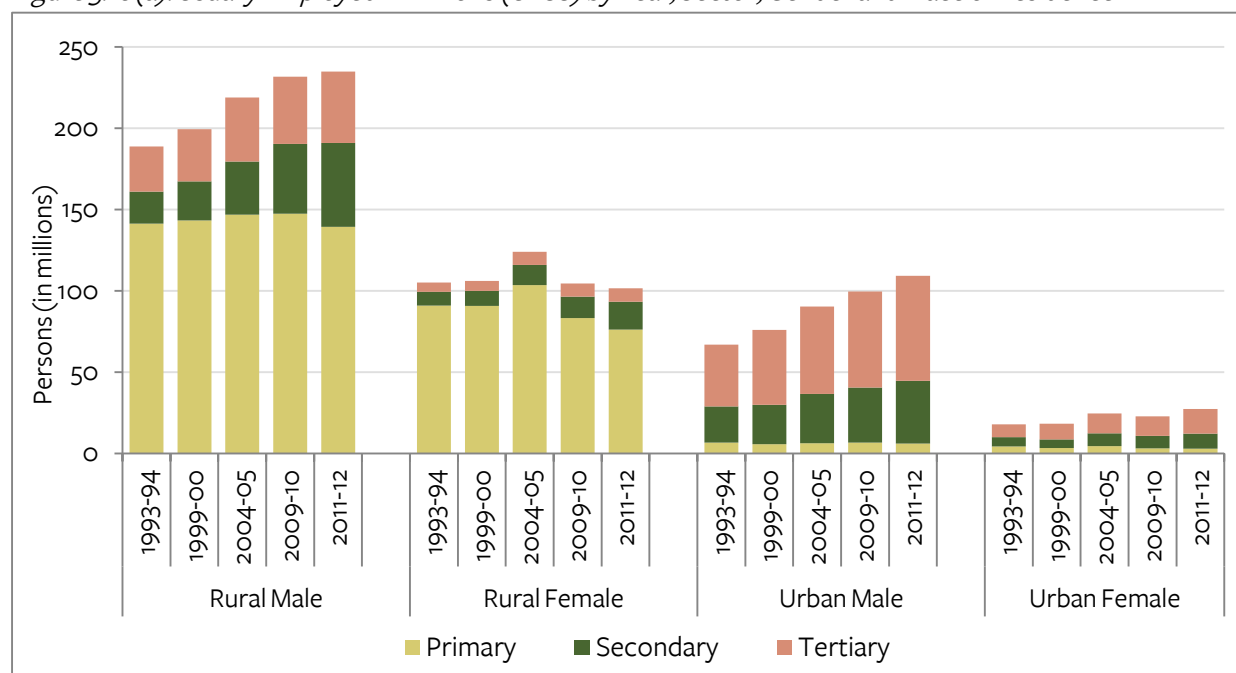
Source: National Sample Survey (various rounds)

These trends are not new, and have been commented on since the 1980s. In his seminal work on the urban economy, Rakesh Mohan comments about the slow pace of change of the structure of the workforce to non-agricultural activities despite rapid changes in the

structure of output of the economy (Mohan 1989), because of ‘advancement towards technologically sophisticated and capital intensive industries to the detriment of industries which are not only labour using but which would also be more competitive internationally’. He also talks about how a significant portion of the shift of the labour force away from agriculture is driven by manufacturing, both in rural and urban areas (ibid.).

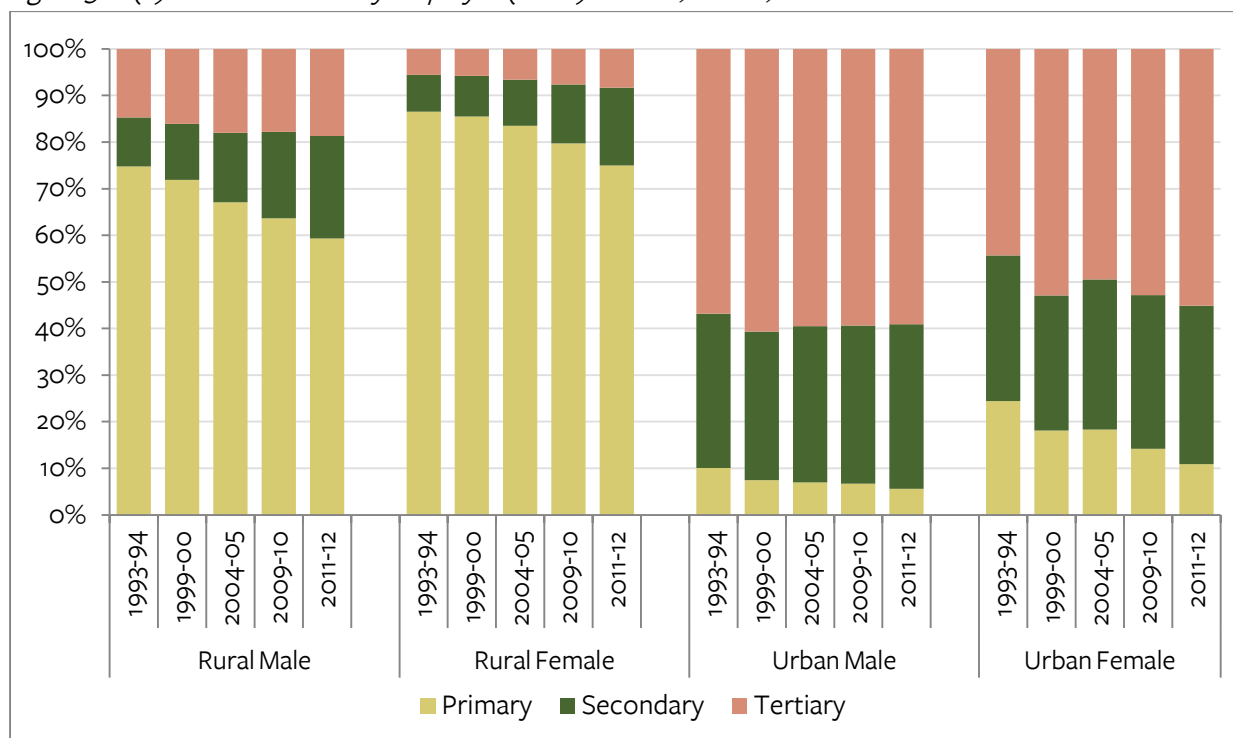
The figures below show the overall numbers as well as proportional shares of male and female workers across both urban and rural areas in the primary, secondary and tertiary sectors of the economy. Overall, it shows that there are far more workers in the rural sector when compared to the urban sector (both males and females), and that the rural workforce is largely employed in the primary sector. Urban workers are largely concentrated in the tertiary sector (60% of males and 55% of females in urban areas work in the tertiary sector). However, in recent years, the share of secondary and tertiary sector work in rural areas has been increasing, particularly for rural males. In 1993-94, only 25 per cent of rural male workers were in the secondary and tertiary sectors, and this proportion has gone up to 40 per cent in 2011-12.

Figure 3.10(a): Usually Employed in Millions (UPSS) by Year, Sector, Gender and Place of Residence



Source: National Sample Survey (various rounds)

Figure 3.10(b): Percent of Usually Employed (UPSS) BY Year, Sector, Gender and Place of Residence



Source: National Sample Survey (various rounds)

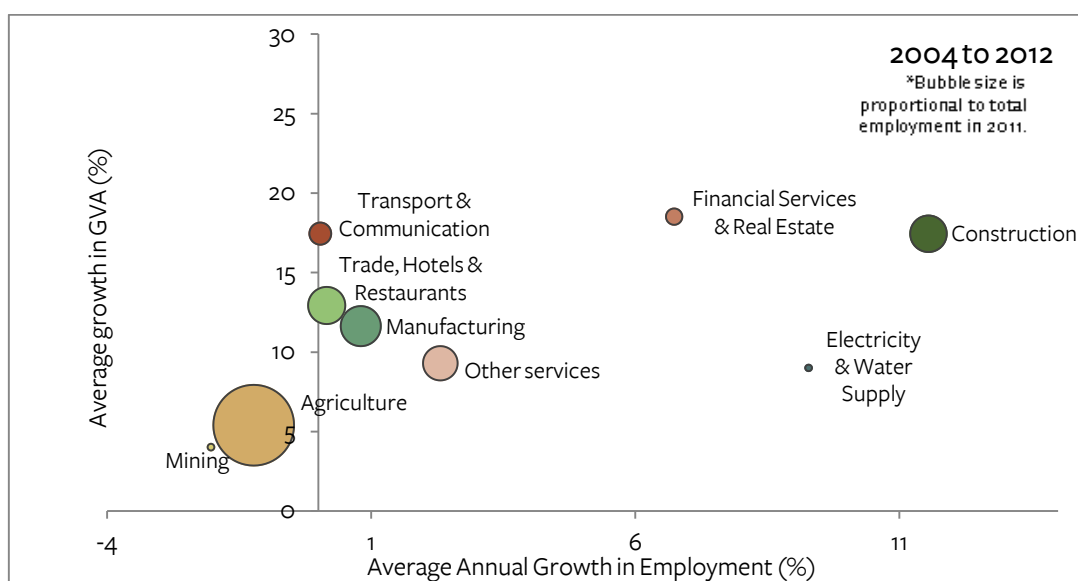
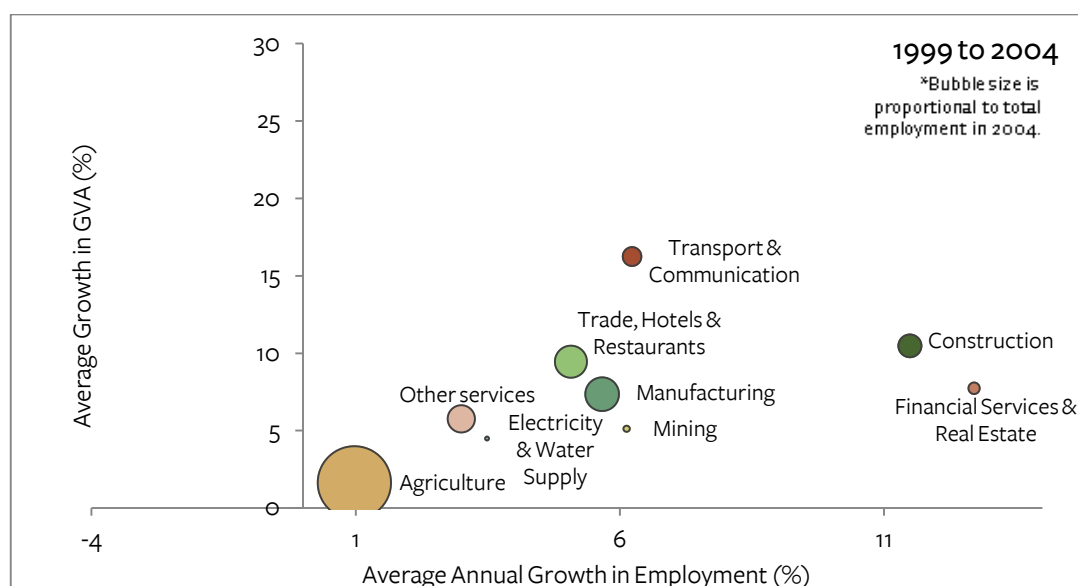
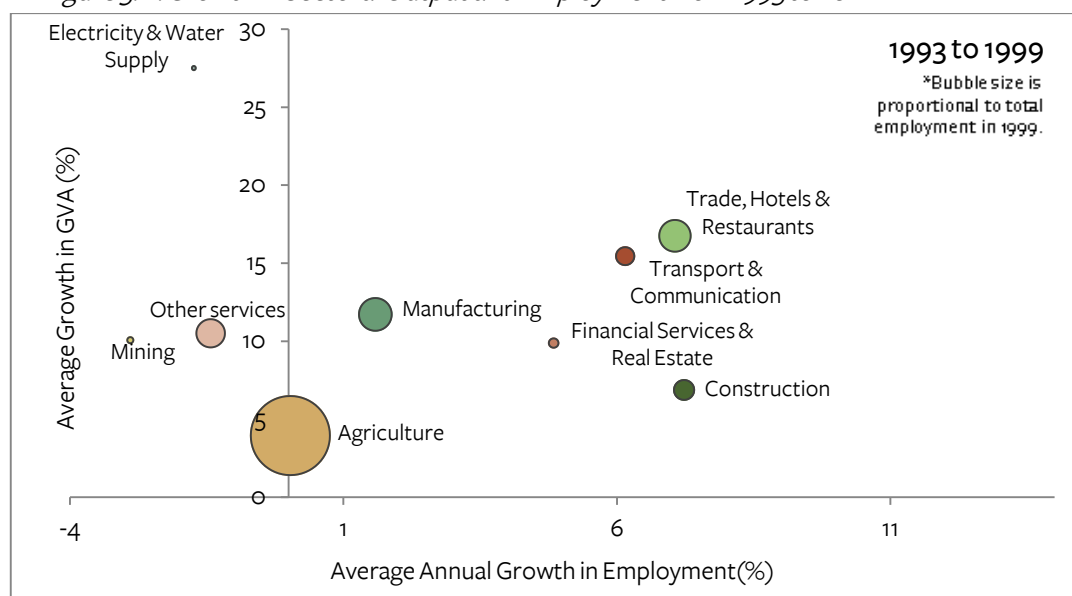
An analysis of the record of employment generation relative to output growth performance during the past two decades reveals that in most sectors of the economy, employment has risen much more slowly than output. The employment elasticities by sector are reported in the table below.¹² The only sector that has consistently had high employment elasticity across all the time periods listed here is construction. The elasticities in almost all the services sub-sectors have been declining, which shows that the services sector has not been able to generate employment in proportion to its growth in output. However, high employment elasticities need not always be a good thing—in fact declining elasticities might be driven by an increase in labour productivity, in which case it is a desirable outcome. Also, the high elasticity of agricultural growth in 1999-4 is driven by low growth of output and high growth of employment driven by rural distress, which is clearly undesirable. Therefore, caution must be exercised while looking at employment elasticities and these must always be looked at in context with other variables (see Appendix 2).

¹² Employment elasticities are a measure of how employment varies with output growth. An elasticity greater than one implies that employment is rising faster than output growth, whereas an elasticity lower than one implies that employment is being generated slower than output growth.

Figure 3.11 shows the relationship between output growth and employment growth in the different sectors for 1993-99, 1999-2004, and 2004-12. Between the first and the third charts, most of the bubbles move towards the left, which indicates a decrease in employment generation for all the sectors, except construction and financial services. Agriculture, which has the largest employment share in the economy, shows a decrease in employment (negative employment growth between 2004 and 2012), but a slight increase in the growth in value added terms during the same period. Manufacturing showed an increase in employment growth during 1999-2004, but has decreased again between 2004 and 2012. A similar trend is exhibited by the services sectors Trade, Hotels, and Restaurant, Transport and Communications, and Other Services. Employment growth in the construction sector continues to be high across time periods, and the numbers of people employed in construction are rising as can be seen by the larger bubble in the third chart. Similarly, the financial services and real estate sector has seen high employment growth between 1999-2004 as well as 2004-12, however, the numbers of people employed in this sector are relatively low.

The low employment elasticity of the manufacturing sector is because of the capital intensive and high skill nature of the Indian manufacturing sector (Panagariya 2008). The growth of the construction sector, which has been driven by economic growth, has been accompanied by an increase in employment because of the labour-intensive nature of construction. While the financial services and real estate sectors have grown since liberalisation, the impact of this is hardly felt in overall employment generation because of their low shares in overall employment.

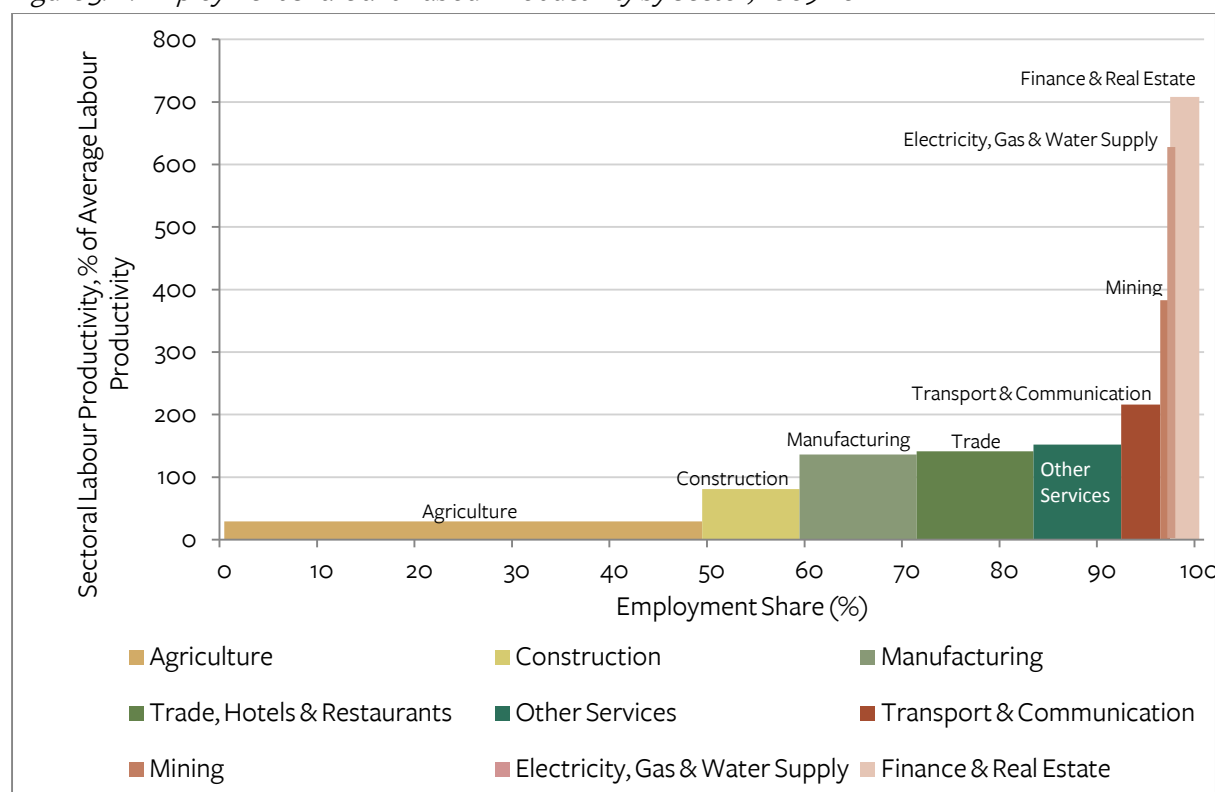
Figure 3.11: Growth in Sectoral Output and Employment from 1993 to 2012



Source: National Sample Survey, National Accounts Statistics (various years)

Another way to read the employment and output data presented here is by looking at sectoral productivity. We have already noted that the structure of employment has not changed as much as the change in output structure (see Section 3.1.2). This implies that there are still a large number of workers in agriculture, who now produce a smaller share of output, leading to a large number of people working in low productivity occupations. The chart below depicts the labour productivity in different sectors of the economy. The width of the rectangles is proportional to the employment share of that sector, and the height is proportional to productivity. The average labour productivity (in this chart represented by the horizontal 100% line) in the economy is low, largely because of very low agricultural productivity and its weight in the economy. The sectors with the highest productivity are finance and real estate, and electricity, gas and water supply, but these account for a very small share of total employment. The construction sector has lower productivity than the average in the overall economy whereas manufacturing, trade, and other services have labour productivity that is slightly higher. Together, manufacturing, trade and other services account for slightly over 30 per cent of total employment.

Figure 3.12: Employment Share and Labour Productivity by Sector, 2009-10



Source: National Sample Survey, National Accounts Statistics (2009-10)¹³

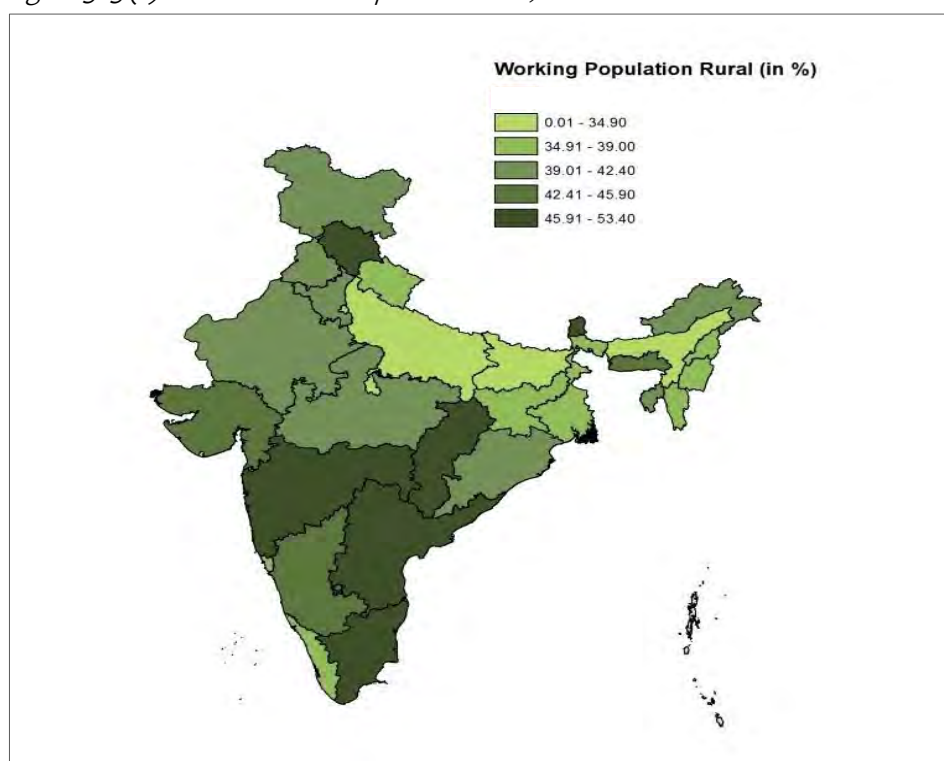
¹³ The motivation for this graph is from Ministry of Finance (2013). Economic Survey of India, 2012-13. New Delhi, Ministry of Finance, Government of India.

3.1.3 Spatial Variation in Employment Trends

The national-level analysis above masks considerable variation at the state level. This section analyses the performance of various states on the parameters outlined above—workforce participation rates across urban and rural areas and female participation rates. The analysis is restricted to the larger states, since the data from the NSS is of better quality in the larger states. The maps show the distribution of urban and rural WPRs across states, and the figures following the maps present the urban and rural WPR in 1993 and 2011, ranked in increasing order of urban WPR. We see that in every state, the rural WPR is higher than the urban. The only exception to this is Kerala, which has a higher urban WPR than rural in 2011.

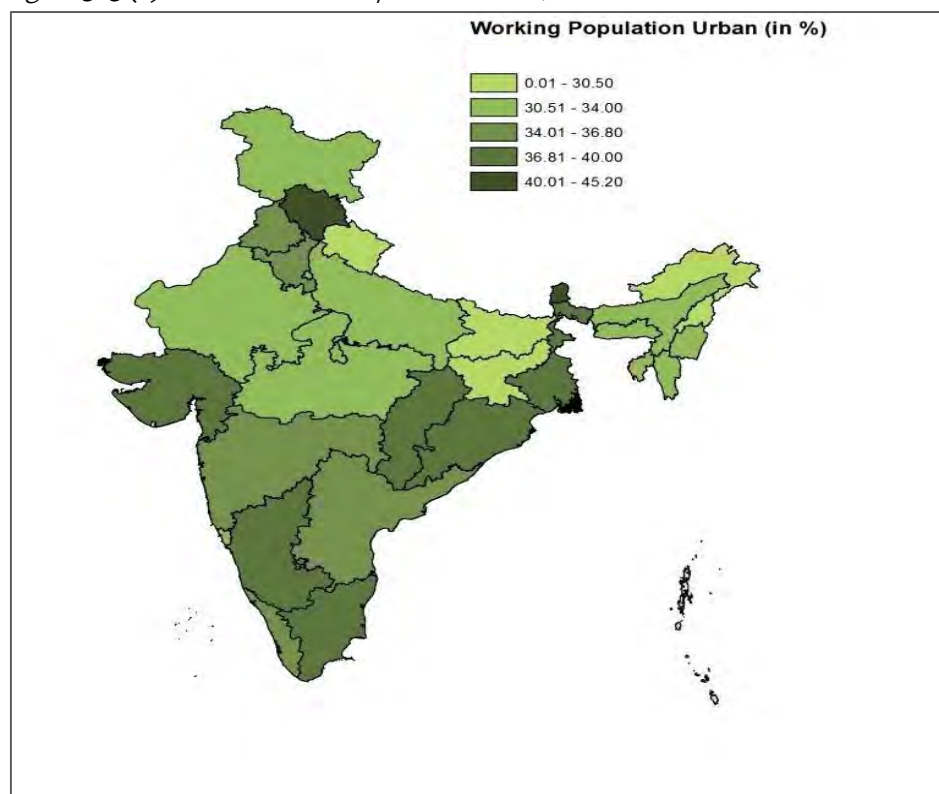
We also see that the more urbanised states such as Tamil Nadu, Maharashtra, Kerala, Karnataka and Gujarat have higher urban WPR in 1993 than the rural states Bihar, Uttar Pradesh, Rajasthan, and Orissa. However, in 2011, the picture has changed somewhat. Some of the more rural states such as Bihar, Orissa, Rajasthan, and Punjab have high WPR. States that were on the left side of the chart in 1993 have now moved to the right. In most of the states, urban WPR has increased slightly between 1993 and 2011, while rural WPR has decreased.

Figure 3.13 (a): Workforce Participation – Rural, 2011



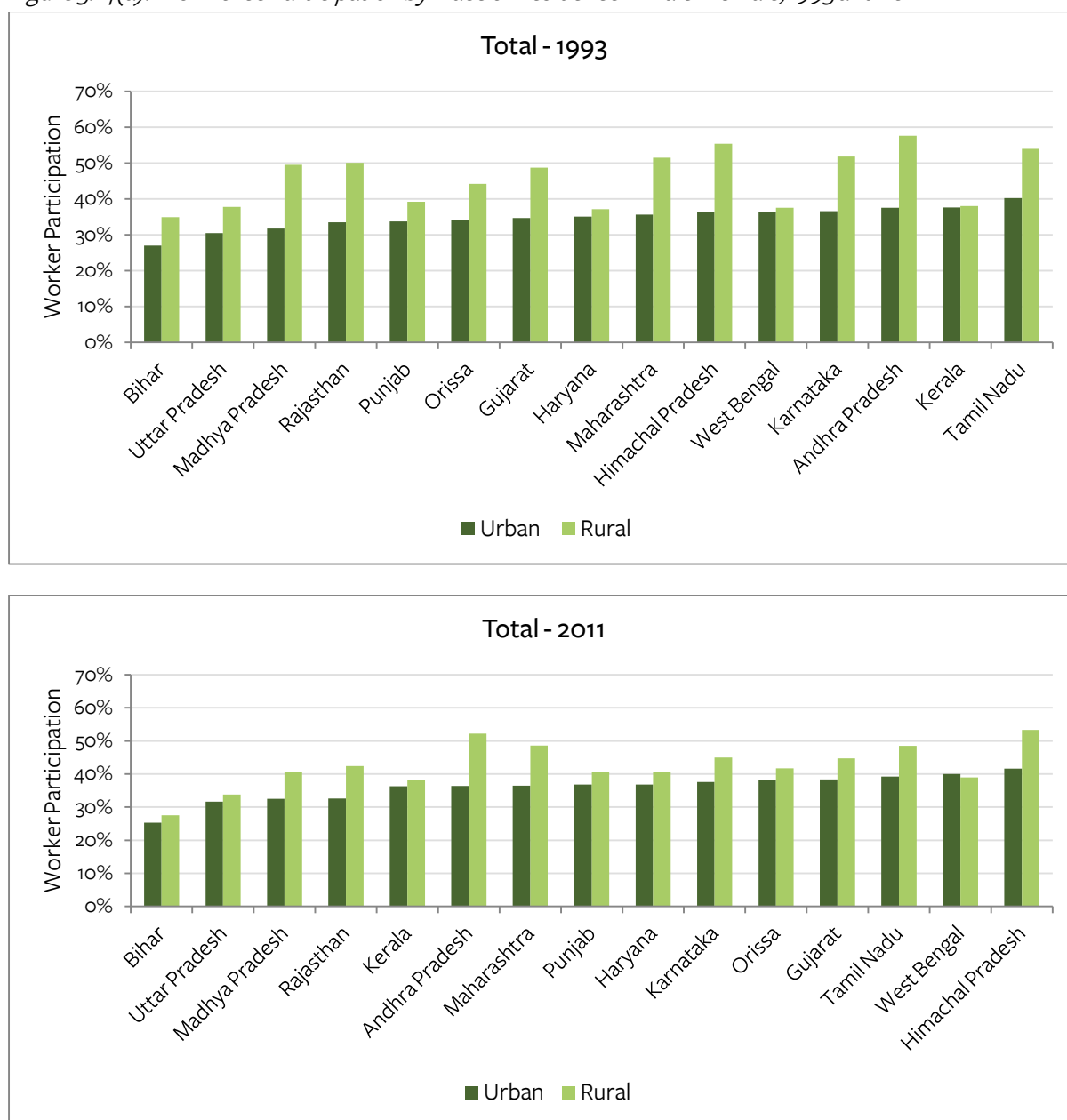
Source: National Sample Survey, 2011–12

Figure 3.13 (b): Workforce Participation – Urban, 2011



Source: National Sample Survey, 2011-12

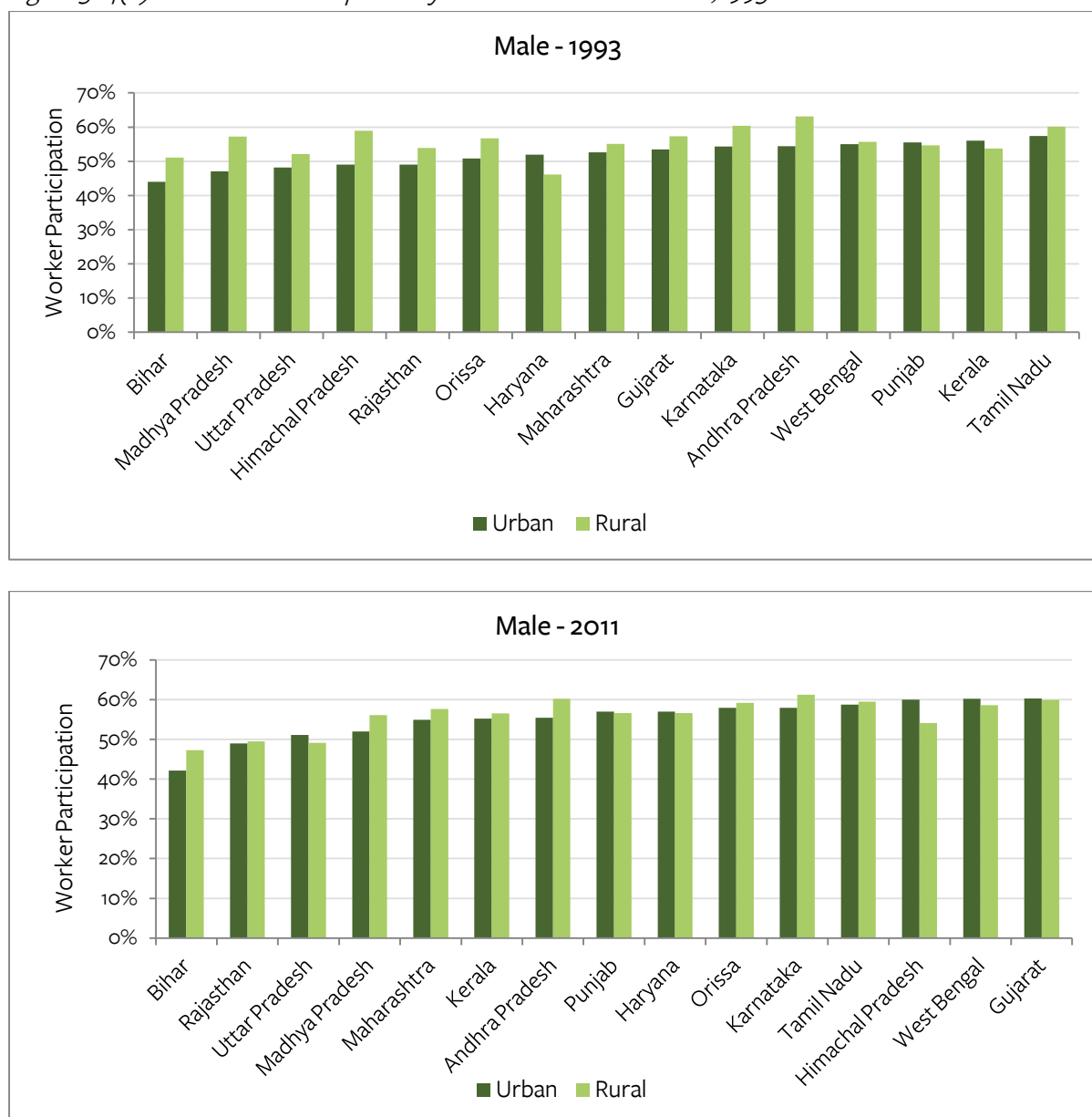
Figure 3.14(a): Workforce Participation by Place of Residence—Male+Female, 1993 and 2011



Source: National Sample Survey

Disaggregating this by gender, we see that the variation in WPRs across states is much lower for males. The difference between urban and rural WPRs is also lower. In fact, a few states have higher urban WPR than rural: Kerala, Haryana, and Punjab in 1993, and Kerala, Haryana, Punjab, Uttar Pradesh, Himachal Pradesh, West Bengal, and Gujarat in 2011. This set includes states that are both more and less urbanised than the all-India average, and does not seem to have an obvious pattern.

Figure 3.14(b): Workforce Participation by Place of Residence—Male, 1993 and 2011



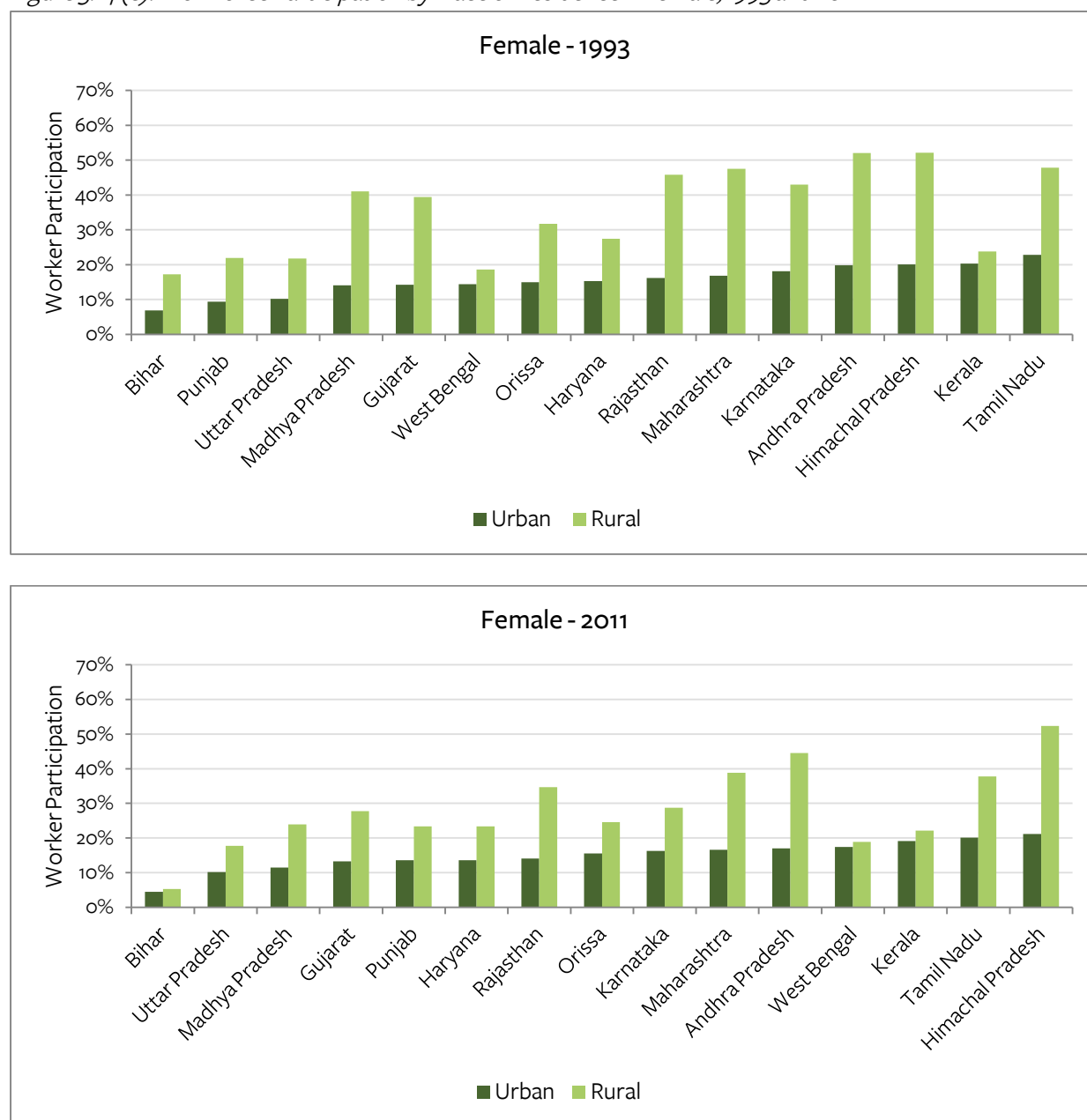
Source: National Sample Survey (2011–12).

The variation in WPRs across states is much higher for females, as is the difference between urban and rural WPRs. All states have much lower urban WPR than rural, although this difference seems to reduce in 2011 as many states see an increase in urban WPR and a decrease in rural WPR. In particular, rural WPR declines a lot in all the states that had high rural WPR in 1993: Madhya Pradesh, Gujarat, Rajasthan, Maharashtra, Andhra Pradesh, Karnataka, and Tamil Nadu. These are largely the western and southern states of the country (except Madhya Pradesh and Rajasthan), which tend to be more urbanised and richer. Could this have driven an increase in well-being in rural areas, which leads to fewer women reported to be working?

The states with lowest values of urban female WPR are Bihar, Punjab, and Uttar Pradesh in 1993 and Bihar, Uttar Pradesh, and Madhya Pradesh in 2011. These states are less urbanised than the all-India average. The states with highest value of urban female WPR are Tamil

Nadu, Kerala, and Himachal Pradesh in both 1993 and 2011, and these are highly urbanised states. More work is required to understand the relationship between level of urbanisation and urban female WPR.

Figure 3.14 (c): Workforce Participation by Place of Residence—Female, 1993 and 2011



Source: National Sample Survey 2011—12.

3.2 URGD in Employment

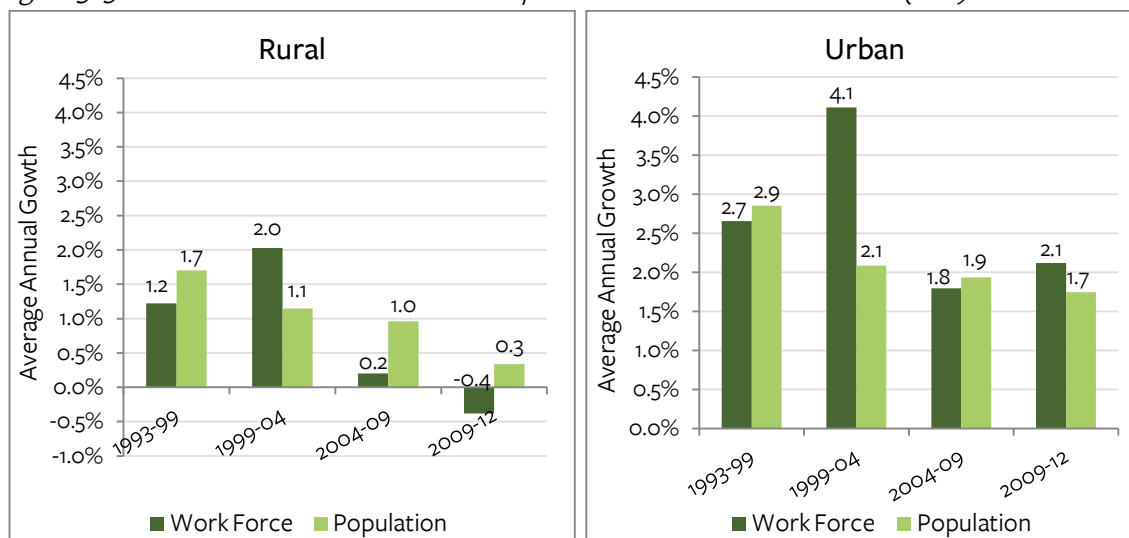
We now pull together the analysis of employment trends in the previous sub-section, and examine the distribution of employment across rural and urban areas using the concept of the URGD.

3.2.1 Comparing URGD in Population and Employment

We have seen in Section 2.2.4 that the URGD in output has been much higher since the early 1990s when compared with the period between 1970 and 1993, with the exception of 1999–2004. In the context of inclusive development, however, it is necessary to see whether these fast growing urban areas are absorbing and creating enough employment for the population newly entering the labour force as well as the population migrating from rural areas. Figures 3.10 a and b show the distribution of employment across rural and urban areas, both in aggregate numbers as well as structure of employment. Although it appears that employment generation in urban areas is faster than that in rural areas, the URGD provides a useful analytical tool to study this gap in employment in the two sectors numerically.

URGDs for employment are calculated by taking the difference of annualised growth rates of urban and rural employment between two consecutive NSSO rounds. We have calculated URGDs for four time periods using this method. Figure 3.15 below shows the urban and rural population and employment growth as well as the URGD in employment compared to the URGD in population (we use the employment statistics compiled using the Usual Principal Status since as it is a better measure of regular employment, and provides a more stable picture)

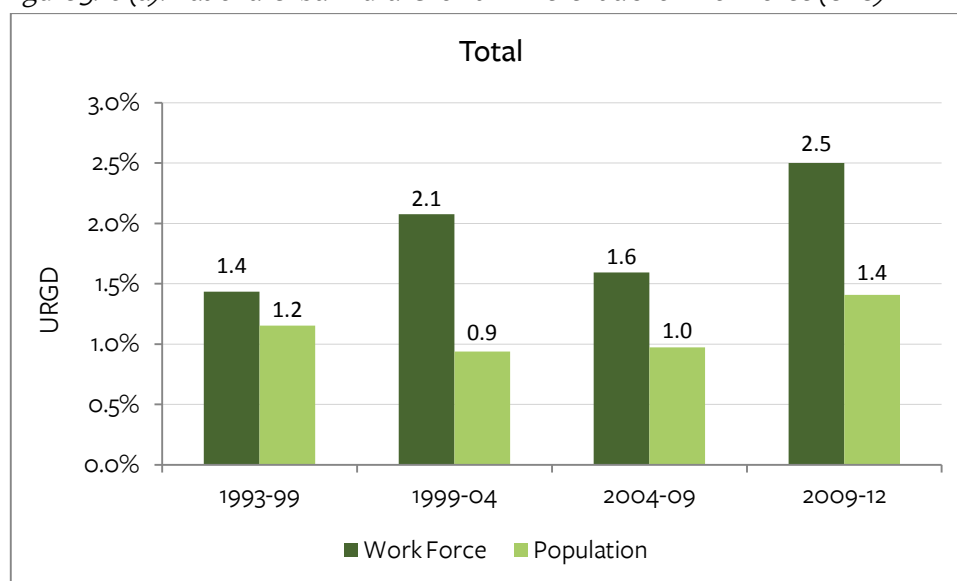
Figure 3.15: Growth rates of Workforce and Population in Rural and Urban Areas (UPS)



Source: National Sample Survey, Census of India (various rounds)

From the above figure, we see that URGD in employment has been growing steadily from 1.4 per cent in 1993–99 to 2.5 per cent in 2009–12 which indicates an increased divergence in employment creation between the rural and the urban. We get a clearer picture once we disaggregate this further and look at male and female employment URGDs.

Figure 3.16 (a): National Urban Rural Growth Differentials for Workforce (UPS)



Source: National Sample Survey, Census of India (various rounds)

Figure 3.16 (b): National Urban Rural Growth Differentials for Workforce (UPS) by Gender



Source: National Sample Survey, Census of India (various rounds)

We see that the male URGD remains fairly stable over the time periods and does not show much growth, which implies that urban areas have been generating about 1.5 per cent more employment growth when compared to rural areas since 1993-94. Major fluctuations, however, are seen in the female URGD which seems to be driving the excess of urban employment growth over rural employment growth at the national level. We see that urban female employment generation is much higher than that in rural areas especially in 2009-2012. In most of the time periods, female URGDs have been higher than males.

There are some possible explanations for this: one could be that since rural female workforce participation rate is higher than urban female workforce participation rate (see Figure 3.3), the growth rate of the former is lower than that of the latter. Another explanation could be a faster growth in urban female workforce participation rate driven by increases in education levels of urban females, or by an increase in the participation of educated women in the

workforce because of economic or social changes during the last two decades. As discussed in Section 3.1.1.6, Figures 3.8a–d show that the number of women with graduate degrees and higher in the workforce has been consistently rising since 1993.

Female participation rates are an important variable both for inclusion as well as potentially for generating growth. This is particularly true in urban areas, and if the current trends continue, we might see an increase in the (currently very low) urban female work participation rates. This leads to a particular set of questions for policy, which are not currently the focus of urban livelihood programmes. This will be discussed in greater detail in the Policy Recommendations section.

Thus, we see from the analysis above that urban areas are generating employment in excess of rural areas, and faster than the difference in urban and rural population growth rates. Questions about the quality of this employment, however, still remain. A key question for policymakers and planners therefore remains: how can cities continue to generate jobs of decent quality, and generate growth as well as enable the urban poor to work their way out of poverty.

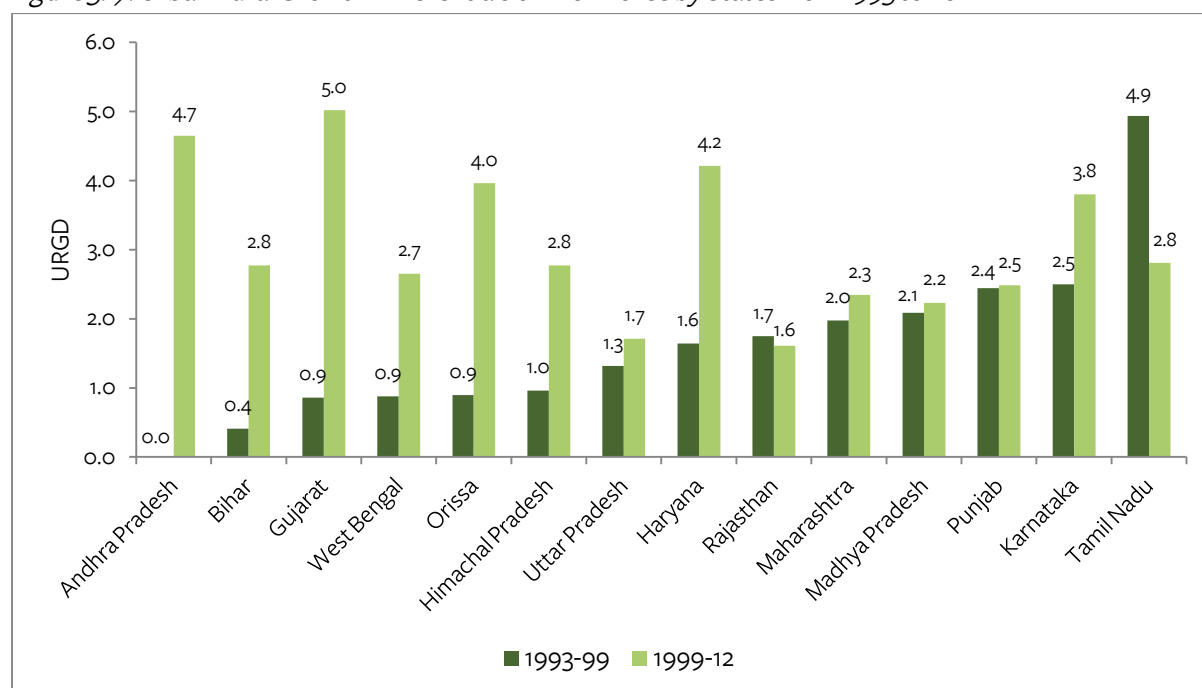
3.2.2 Spatial analysis of URGD

In Figure 3.17, we see the URGD during the 1990s and the 2000s across states. We have dropped the years 2004–5 and 2009–10 from our analysis and look only at the long-run trends in employment generation. From this analysis, we see that the variation in URGD across states was much lower in the 1990s when compared to this past decade. This implies that during the past decade, some states have experienced far greater urban employment generation relative to rural, and relative to other states. And that the divergence between states is likely to continue to increase as some states urbanise and grow faster relative to other states.

Kerala is an outlier and has been removed from the chart, being the only state with negative URGD in the 1990s, and then having the highest positive value in the 2000s (Kerala had a negative URGD between 1993–99 at -0.2 per cent which jumped up to 10.2 per cent between 1999 and 2012). This might be related to the large-scale reclassification of Kerala's settlements as urban in 2011; it is the state that has shown the largest increase in urbanisation between the 2001 and 2011 Census.

In the 1990s, Tamil Nadu had the highest URGD, followed by other more urban states such as Karnataka, Maharashtra, and Punjab. States that had higher URGD in the 1990s have lower values in the next decade, with Gujarat, Andhra Pradesh, Haryana, and Orissa having high levels in the 2000s. Could the URGD be a leading variable to predict urbanisation? More detailed analysis is required to answer this question, which is outside the scope of this paper. However, the chart below does reveal a set of interesting trends and relationships across the different states of India.

Figure 3.17: Urban Rural Growth Differentials of Workforce by States from 1993 to 2012



Source: National Sample Survey, Census of India (various rounds)

Section 4: Approaches for Policy

The previous section highlighted a set of shifting trends, a new analytical tool, as well as key areas for concern and intervention. How can cities actually become engines of inclusive development? A first step would be to change the narrative of urban development in the national imagination away from looking at cities as engines of growth, and to start asking a different set of questions for our urban areas. A new direction for policy intervention emerges if we interrogate the linkages between work, poverty reduction and economic development in cities. Concretely, this shift could take place through the following four inter-related themes.

4.1 Governance

4.1.1 Scales of Response

The objective of responding to economic development challenges in cities raises the question of the adequate scale, or level, of response. As noted by Harris (2002), increasing globalisation and the resulting decentralisation have raised the importance of city level planners in economic management. In fact, Harris goes as far as to say that the 'old fatalism—that economic growth is a matter exclusively for national governments—comes under threat'. On the other hand, scholars have argued that fiscal federalism theory allocates redistribution functions to higher tiers of government (Mathur 2009), and therefore functions such as poverty alleviation should be assigned to state and central governments. In reality, Indian city governments have few policy tools at their disposal to address poverty, expand labour demand, or affect larger economic development strategies. The 74th Constitutional Amendment places the following functions (inter alia) under the jurisdiction of the municipality: ¹⁴

1. Planning for social and economic development
2. Urban poverty alleviation
3. Slum improvement and up gradation
4. Water supply for domestic, industrial and commercial purposes
5. Public health, sanitation conservancy and solid waste management

In the current governance framework in India, *de facto* city-level economic development strategies are largely determined by state governments. The national government also influences economic development outcomes in cities, both through a set of explicit policies targeted at urban and regional industrial development, but more powerfully through implicit policies such as choices about developmental paths, subsidies to industry versus agriculture, or policies governing taxation and trade which provide impetus to certain locations over others (Chakravorty 2000). In addition to industrial policy, India has witnessed greater centralisation of urban management even for subjects such as infrastructure provision, slum improvement, skill development and health as evidenced by large central programmes such as the JNNURM, and the proposed NULM and NUHM.

Judging by current trends, this may not change in the near future. Therefore, much of the responsibility for choosing developmental paths that will favour the growth of employment intensive growth, and focus on the links between employment and poverty reduction, will necessarily come from the state and central governments. The role of the central government

¹⁴ 74th Constitutional Amendment, accessed November 2013 at:
<http://indiacode.nic.in/coiweb/amend/amend74.htm>

would be to set the tone and the objectives for such policies, while the state governments would choose the mix of policies that will be appropriate given regional histories and advantages.

In the medium to long run, it is important that city governments themselves are able to participate more actively in shaping and choosing these outcomes, as their administrative and financial strength improves, and as the experience of urban decentralisation deepens further, both politically as well as administratively.

4.1.2 Horizontal Integration

The split between the MoUD, MoHUPA, the Ministry of Labour, and the Ministry of Commerce and Industry in the Union Government constrains the ability of a coordinated response to the challenge of employment generation as a strategy for inclusive urban development. In order to implement a strategy for doing so, much greater coordination across the Ministries will be required. In particular, policies and projects focused on industrial planning such as the SEZ or NIMZ policy or projects such as the Delhi-Mumbai Industrial Corridor, need to be linked better with the urban planning and management efforts in these regions.

4.1.3 The Missing Middle

As demonstrated in Figure 2.12, much of the new urban population added between 2001 and 2011 was due to reclassification. The large increase in the number of Census Towns has not (as yet) been accompanied by a corresponding change in governance, and so these areas are still ‘governed under the rural administrative framework, despite very different demographic and economic characteristics’ (Pradhan 2013). As argued earlier, this trend of reclassification is likely to continue in the coming decade. In addition, a significant proportion of our population lives in what are classified as Large Villages which do not differ from towns in their population criteria (Jana 2013). Therefore, many of these settlements are starting to acquire urban characteristics, but are denied the appropriate infrastructure interventions because of the dichotomous nature of urban-rural governance in India. We need to move to a better understanding of the rural-urban gradient and the increased importance of peri-urban areas as sites of transition, and devise appropriate governance mechanisms to handle these transitions.

4.2 Measurement

Currently, the national statistical frame treats rural and urban areas as separate for the purpose of measuring variables such as population, employment, poverty, and consumption, however, other than population, none of these variables have adequately granular data for particular cities. Economic variables such as output, employment, and productivity are not measured at the city level, even though estimates do exist. It is imperative for a city or even a state government to have adequate information at the city level in order to plan for economic development. Employment is currently measured in five-year intervals by the NSSO, and even though they have introduced larger samples in metropolitan cities, not enough is known about smaller towns. In addition, because of the strict dichotomy between urban and rural in both governance and measurement terms, the nature of urban-rural linkages and peri-urban dynamics are obscured in national statistical systems. To illustrate, not enough is known about residence or about the nature of work done by circular migrants, or about workers that split their time across rural and urban areas (Chandrasekhar 2011). A

measurement frame is required to monitor, track, and better understand the movements of these variables in cities.

4.3 Sectoral Focus

This paper argues for a shift in the choice of development pathway for Indian cities—away from the current one that favours capital- and skill-intensive growth to one that focuses explicitly on sectors that have high employment generation potential, particularly for large numbers of workers with low education and skill levels. Panagariya (2008) convincingly argues that India cannot escape the industrialization stage if it is to achieve growth, poverty reduction, and pull its vast workforce from agriculture into higher productivity sectors. He argues that ‘India must walk on two legs as it transitions to a modern economy: traditional industry, especially unskilled-labour-intensive manufacturing, and modern services such as software and telecommunications’ (ibid.). The most rapid growth in the past two decades has been in the services sector, however, with a low elasticity of employment, and a high degree of informality. Policies need to be designed to address informality in the services sector, which currently accounts for the largest proportion of urban employment. The remainder of this section focuses on implications for industrial policy.

What does it mean for the government to focus on unskilled-labour-intensive manufacturing? The approach paper to the XIIth Plan (Planning Commission 2011) as well as the new National Manufacturing Policy of 2011 identify the following as employment-intensive industries: textiles and garments, leather and footwear, gems and jewellery, and food processing industries. While the Plan does spell out explicit sectoral policies for the various sub-sectors of manufacturing, it also brings attention to the tension faced by the **government in not ‘picking winners’** (Planning Commission 2013), which has proved to be an ineffective model for industrial policy in India. It instead focuses on building infrastructure for learning and collaboration between the government and the private sector, based on a study of the experiences of Japan, Korea, Germany and China.

Many reasons have been posited for the stagnancy in the Indian manufacturing sector, including infrastructure bottlenecks, the difficulty in obtaining land and environmental clearances, and so on. In particular, economists have highlighted the role of labour laws in preventing the growth of large-scale firms in unskilled, labour intensive sectors (Hasan and Jandoc (2012), Panagariya (2008)). Because of the politically sensitive nature of labour sector reforms in India, and the difficulty of raising infrastructure levels across the board, the government has tried to get around all the barriers listed here through the establishment of National Investment and Manufacturing Zones (NIMZs) in which the provision of infrastructure and securing of environmental clearances would be streamlined and labour laws would be relaxed.

If this policy succeeds in its objectives, it will provide an alternative direction to urbanisation, with industry locating in enclaves while existing cities become largely services-based economies. Given the dismal past experience with SEZs, it remains to be seen whether the NIMZ policy will succeed and have its desired impact. A more balanced approach would be to adopt differentiated strategies for existing manufacturing hubs, for different size classes of cities, and for different regions. However, these strategies would have to be cognizant of concerns about resource and land constraints, and environmental pollution.

For instance, the textile industry is water intensive and creates its own set of issues and conflicts because of effluents and groundwater contamination. A case of water use by the

textiles industry in Tirupur is in the box below. The closure of units in 2011 led to a combination of outcomes: several units moved elsewhere and continued to operate illegally, and at the same time several effluent treatment plants modified their technology to meet the zero liquid discharge norms laid down by the Supreme Court and High Court.

Tirupur

Tirupur is a good example of a medium size city which has over the past decade and a half attempted to augment its urban water supply system. This attempt also happens to be the first example of a public-private partnership venture in India, where a state government granted a long-term concession to a public limited company to draw raw water and supply to domestic and industrial users and collect revenue. Located in the southern state of Tamil Nadu, near the industrial centre of Coimbatore, the economy of Tirupur is largely reliant on its knitware industry. Since the mid-1980s, as textile exports from India increased, the city has witnessed rapid industrial growth (Madhav, 2008).

Tirupur got its first public water supply system in 1965 and the water source was the Bhavani River, 54 km from the city. With a capacity of 7 million litres per day (mld) this project supplied water to the municipality of Tirupur and 7 villages en route to the city. With the rapid industrial growth in the 1980s, the population grew significantly and in 1992 a new water supply line from the same source with a capacity of 32 mld was added. But the textile industries, with their water-intensive dyeing and bleaching units, did not receive any piped water and relied exclusively on groundwater or water purchased from private suppliers who relied on groundwater from outside the city. By the 1990s, 2000-3000 trucks of about 10000 litre capacity each were plying 7 to 10 trips daily to supply the textile industries with water (Narain, 2012a; Madhav, 2008).

The over extraction of groundwater and the contamination of both surface and groundwater led to the industries facing a severe water crisis in the 1990s. This led to the initiation of a public-private partnership project which was designed to supply 185 mld of which 125 mld would be supplied to the 900-odd textile units while 25 mld would be supplied to Tirupur city and the remaining 35 mld to other rural towns and villages (Dwivedi, 2008). The water was supposed to be sold at Rs 45/kilolitre (kl) to industries, Rs 5/kl to the city and Rs 3/kl to other users. But at this price, the industrial water use turned out to be below the estimates used to calculate the financial viability of the project. In 2007, the water company reduced the rate to 35/kl and offered an additional 10% discount if industries exceeded their initially agreed upon water usage limit. This 10% discount was to be calculated on the entire volume of water used and this effectively established a system which incentivised excessive industrial use of water (Madhav, 2008).

According to Dwivedi (2008), the project has not substantially increased the water availability to the domestic users in Tirupur city since it prioritised the more financially attractive industrial users. As the industries increased their water use from 2007, huge amounts of industrial effluent were produced which further contaminated surface and groundwater in downstream areas since the one crucial piece of infrastructure which the public-private project did not include was a treatment facility for industrial effluents. This led to serious conflict between the downstream farmers and the industrial units, which culminated in a January 2011 court order which directed all industrial units to shut down till they did not become zero-discharge units (Reddy, 2012).

Source: Balakrishnan (2012)

The issue of land will be dealt with in greater detail in the forthcoming IIHS-RF paper on urban land, however, some issues with the current land regime for industrial use are flagged here (Sami 2011):

One of the major impediments to economic development in India (as in most developing countries) is the availability of serviced land: according to the India Infrastructure Report (2009), problems relating to land and its acquisition were responsible for about 70 per cent of delayed infrastructure and other development projects in India (Sivam 2002, Sarkar 2009).

The challenge before Indian administrators and policy makers is to devise a solution to this conundrum that is both socially just and economically favourable, taking into account a variety of political and economic interests. The system of land acquisition and transfer, as it operates currently, is a broken one and has repeatedly suffered from blatant misuse on the part of administering governmental agencies. However, an entirely market-driven alternative is also not a desirable outcome in the Indian context. Not only will a potential solution have to balance the interests of those whose land is being taken and those acquiring land but also tread carefully around issues of power between the state and central government and the judiciary. Since land acquisition is a concurrent subject under the Indian Constitution, state governments may also legislate on the issue (Sarkar 2009). Indeed, conflicting political interests at the state and national levels and concerns about power sharing between various levels of government are among the main reasons why earlier proposals to amend the land acquisition process have not been successful.

...

However, to say that land reform in India is not an easy issue to tackle would be an understatement. First, there are several characteristics of land, as a commodity, that make it extremely difficult to regulate. Second, land markets in India are underdeveloped and poorly regulated. There are significant issues with valuation, security of titles, misuse of the powers of eminent domain and the existence of informal and illegal markets that further complicate matters. Moreover, regulatory constraints on the sale and transfer of land, especially agricultural land, have had the effect of depressing land values. Third, there are multiple social, economic and political interests that are tied to land that need to be taken into account. With economic liberalization and greater privatization, the number of stakeholders with an interest in urban planning and development processes has also significantly increased.

Any attempt to reform land regulations will have to explicitly engage with all of the issues. Moreover, given the extent to which informal practices are embedded in the social construct in Indian cities and the role that they play in fulfilling demand for land-based services, especially housing, it will be difficult and perhaps not advisable to attempt to entirely eliminate the informal sector. A more pragmatic approach would possibly be to propose a solution that co-opts the services provided by the informal sector. In a country like India, with significant income disparities and a large number of the population that depend on primary sector activities for their livelihood, any attempt at land reforms must also be socially and economically just, taking into account the impact that these would have on marginalized groups and low-income populations.

Finally, the more labour-intensive sectors of the economy also happen to be industries with a high degree of informalisation and casual work. Therefore, specific interventions will be required to address the quality of work, work conditions, remuneration, as well as social security entitlements for workers in these sectors. The NCEUS has provided a sweeping set of recommendations regarding social security for informal workers, and it is important for the government to operationalise these.

4.4 Women and Work

As we have argued in this paper, female WPR is very low in India compared to international standards, and urban female WPR is even lower. However, it appears that the increase in urban employment generation relative to rural is being driven by an increase in urban female WPR. In fact, the trend of a lower fraction of educated women in urban areas working has been reversed in recent years as more and more educated women are now entering the workforce. If this increase in female WPR is a lasting trend driven by increases in education levels and empowerment of women and other social and economic changes in the economy, then the future expansion of employment in cities could be largely driven by more and more women entering the workforce. This has implications for inclusion, as well as for more a more balanced model of economic development.

However, feminist economists have challenged the positive link between women increasingly working in urban areas in developing countries and their economic empowerment, pointing to questions of the condition, quality, and wages for their work (Khosla 2012). There is evidence that women in developing countries most commonly find employment in urban industries that have low wages, require semi-skilled workers, and are casual or contracted activities. This has been referred to as the ‘process of “feminization of flexible **labour**”, where women tend to be segregated into the most exploitative and casual form of labour within increasingly informalising economies’ (ibid.). Therefore, an increase in the number of women in the workforce by itself is not a good indicator for improvements in poverty outcomes through employment generation. The quality, security, and remuneration from employment are equally important.

Section 5: Conclusion

This paper argues that the increasing concentration of people and economic activity in Indian cities, particularly since liberalisation, has focused greater policy attention on cities. The policy response to urbanisation views cities as drivers of growth, driven by their contribution to national output growth and several prominent global reports such as those by McKinsey and PwC focusing on the economic weight of cities in developing countries. Hence, there is a push towards more and better infrastructure delivered through programmes like the JNNURM, justified by the importance of cities as growth engines. On the other hand, this growth has brought about tension over resource allocation decisions not only between rural and urban areas but within urban areas themselves. Another strand in the literature and in policy is focused at addressing this inequality and vulnerability which are also seen as fallouts of inequitable urban growth. These two strands tend to miss the role of employment generation in economic development as well as poverty reduction.

We argue in this paper for a more integrated response to these two trends, to move away from looking at cities as engines of growth, and rural areas as places needing developmental intervention and the sites for inclusion, and instead propose that the policy frame starts looking at cities as engines of inclusive development that transform themselves as well as rural areas. There needs to be a focus on linking macro dynamics like urbanisation, employment generation and economic and human development. Employment generation plays a strong role in trying to achieve economic growth along with poverty reduction; it has the potential to provide more equitable outcomes in our developmental trajectory.

The paper analyses trends in population, output, poverty, employment and productivity. Our first set of findings cohere with widely accepted trends: we find that workforce participation rates are declining despite rapid economic growth, but that the number of people working is increasing. This is driven by an increase in the workforce in urban areas, while rural areas are seeing a slowdown. These aggregate changes are largely driven by variations in the female workforce, which is declining in rural areas and increasing in urban areas. The number of women in the workforce is very low particularly when compared with other countries at similar levels of development as India.

Looking at sectoral variation, the increases in the workforce since the early 1990s have been in the manufacturing and services sectors, but employment elasticities in these sectors are low, with the exception of the construction sector. There has been an increase in informal and casual work. There is a high degree of correlation between working in the informal sector and being poor. All of the trends above display significant variation when analysed at the state level: for instance, poverty ratios are lower in states with higher levels of urbanization. Urbanised states, on an average, have higher workforce participation as compared to less urbanised ones.

For our second set of findings, we use URGDs as an analytical tool to gauge the various trends that emerge. We find that the URGD in employment is growing steadily since the early 1990s, and is consistently higher than the URGD in population. This means that urban areas are generating employment in excess of rural areas, which is greater than what the urbanisation rate would imply. This is driven by increasing URGD in female employment, especially after 2000. When we decompose this by education level, we find that the largest increase is that of urban educated women entering the workforce, which is a relatively recent trend that has not received much scholarly attention.

This leads to set of questions for further research. More research is required to understand the dynamics of informality and poverty, particularly on how informalisation has impacted the poor. We do not know enough about how the informal sector, and the poor, can become agents in the growth process. Is there a set of economic policies that could enable informal enterprises to improve their productivity, and generate more employment opportunities of decent quality? Also, more research is required to unpack recent trends in female workforce participation rates, particularly to understand the opportunities and challenges for urban educated women entering the workforce at one end, and to arrive at policy changes that **would explicitly focus on the issues raised by the ‘feminisation of labour’ at the other end.** Finally, what does it mean for a developing country to pursue an industry-intensive growth pathway in the current global scenario of sustainability concerns?

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Appendix 1

Average Annual Growth Rate of Urban Population for World's Major Regions and India, 1950-2015

Period	World	More Developed Regions	South America	Northern America	Europe	Less Developed Regions	Less Developed Regions Excluding China	Latin America & the Caribbean	Africa	Sub Saharan Africa	Asia	East Asia	South Central Asia	South Eastern Asia	Western Asia	India
1950-55	3.12	2.35	4.7	2.67	2.06	4.17	3.92	4.52	4.64	4.88	3.93	4.57	2.89	3.95	5.08	2.41
1955-60	3.14	2.27	4.52	2.61	2.04	4.21	4.08	4.44	5.05	5.48	3.85	4.28	2.97	4.15	4.9	2.34
1960-65	3.08	2.07	4.28	1.99	1.99	4.19	4.17	4.31	5.1	5.45	3.86	4.01	3.39	3.97	4.84	3
1965-70	2.67	1.77	3.83	1.57	1.6	3.58	4.09	3.92	4.66	5.11	3.28	2.66	3.51	4.03	4.8	3.15
1970-75	2.56	1.37	3.56	0.95	1.35	3.64	4.01	3.67	4.39	4.83	3.38	2.56	3.96	3.96	4.56	3.74
1975-80	67	1.15	3.43	0.97	1.11	3.89	3.96	3.43	4.45	4.84	3.72	3.18	4.2	4.03	4.05	3.89
1980-85	2.7	0.92	3.17	1.16	0.8	3.93	3.73	3.01	4.29	4.51	3.88	3.77	3.6	4.41	4.78	3.3
1985-90	2.63	0.95	2.81	1.37	0.72	3.65	3.43	2.75	4.15	4.53	3.63	3.71	3.28	4.1	3.8	3.1
1990-95	2.38	0.76	2.46	1.68	0.32	3.24	2.95	2.49	3.79	4.27	3.17	3.43	2.84	3.48	2.74	2.81
1995-00	2.22	0.61	2.23	1.67	0.11	2.97	2.74	2.21	3.44	3.89	2.93	3.03	2.63	3.53	2.63	2.58
2000-05	2.2	0.67	1.94	1.41	0.32	2.83	2.43	1.9	3.4	3.81	2.83	3.36	2.46	2.25	2.51	2.37
2005-10	1.92	0.68	1.59	1.31	0.4	2.4	2.33	1.6	3.36	3.71	2.28	2.18	2.43	2.22	2.35	2.31
2010-15	1.85	0.64	1.33	1.22	0.37	2.27	2.27	1.38	3.28	3.6	2.17	1.94	2.49	2.16	2.09	2.38

Source: Kundu (2011)

Appendix 2

Employment Elasticities by Sector, 1993-2011

Sectors	1993-99	1999-04	2004-11
Agriculture	0.007	0.595	-0.226
Mining	-0.247	1.196	-0.505
Manufacturing	0.116	0.771	0.069
Electricity, Gas & Water Supply	-0.054	0.776	1.030
Construction	0.901	1.097	0.662
Trade	0.361	0.537	0.012
Transport & Communication	0.341	0.384	0.002
Finance & Real Estate	0.420	1.643	0.364
Other services	-0.116	0.521	0.248
All	0.099	0.431	0.039

Source: National Sample Survey, National Accounts Statistics (various years)



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