

## 2 | TRENDS AND PATTERNS OF URBANIZATION AND THEIR ECONOMIC IMPLICATIONS

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It is often argued that the process of economic liberalization and associated structural reform would accelerate rural–urban (RU) migration and boost the pace of urbanization. Linking of India with global economy would lead to massive inflow of foreign capital as also rise in indigenous investment resulting in an increase in employment opportunities within or around the existing urban centres. The critics of globalization, however, argue that employment generation in the formal urban economy might not be high due to the capital intensive nature of industrialization under the new policy regime<sup>1</sup>. A low rate of infrastructural investment in the public sector in the attempt to control budgetary deficits would slow down both agricultural as well as agro-industrial growth, resulting in high unemployment and exodus from rural areas. This would lead to rapid growth in urban population leading to the unregulated expansion of the urban informal sector. Recent data from Population Census, however, question the proposition of accelerated urban growth.

### URBANIZATION AT THE MACRO LEVEL

The annual exponential growth rate of urban population during 1950s was 3.5 per cent. This was the highest the country had seen until that time and led to the emergence of theories of ‘over urbanization’. Subsequently, this high growth rate has been attributed to independence and partition of the country as also non-rigorous identification of towns and cities in the 1951 Census. Formalization of the criteria for identifying urban centres in the 1961 Census resulted in a dramatic decline in urban growth figures in the following decade. The 1970s, however, following the same methodology of urban population

enumeration, saw a very high urban growth of 3.8 per cent, fuelling speculation that India was on the verge of an urban explosion. Speculations notwithstanding, the growth rate came down to 3.1 per cent in the 1980s. It has gone down further to 2.7 per cent in the 1990s, which is the lowest in the post-independence period. As a consequence, the percentage of population in urban areas has gone up sluggishly from 17.3 in 1951 to 23.3 in 1981 and then to 27.78 in 2001 (Figure 2.1 and Table A2.1). But, in terms of population size, India’s urban population is vast<sup>2</sup>. Moreover, population in large cities has grown rapidly (Table 2.1) and this has led to serious infrastructural deficiencies in urban India.

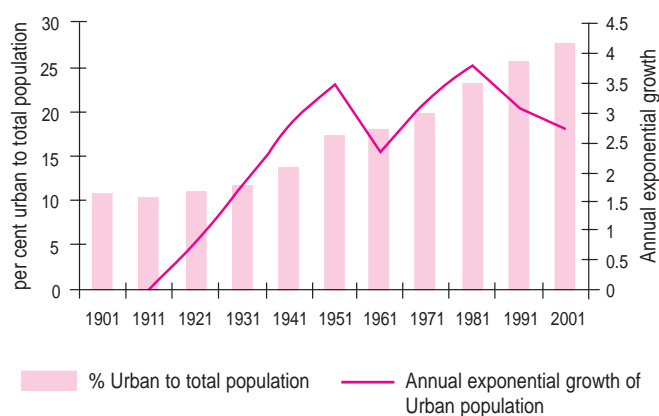


Fig. 2.1 Percentage and Growth Rate of Urban Population since 1901

Source: *Population Control*, Paper-2, Rural–Urban Distribution, 1981, 1991 & 2001 (Unpublished)

<sup>1</sup> See Gupta (1999), Kundu (1997) as also Special Group of Planning Commission (2002)

Views expressed in the chapter are of the author.

<sup>2</sup> Just to illustrate this point, we may consider the total urban population of the world which was not more than 250 million in 1900. In comparison, the urban population in India alone is 285 million by the end of the century. The figure is 14 per cent greater than world’s total urban population in the beginning of that century.

Table 2.1  
Growth of Million Plus Cities of 1991 during 1990s

	2001	1991	Annual exponential growth rate
1. Greater Mumbai	16368084	12596243	2.62
2. Kolkata	13216546	11021918	1.82
3. Delhi	12791458	8419084	4.18
4. Chennai	6424624	5421985	1.70
5. Hyderabad	5533640	4344437	2.42
6. Bangalore	5686844	4130288	3.20
7. Ahmadabad	4519278	3312216	3.11
8. Pune	3755525	2493987	4.09
9. Kanpur	2690486	2029889	2.82
10. Nagpur	2122965	1664006	2.44
11. Lucknow	2266933	1669204	3.06
12. Jaipur	2324319	1518235	4.26
13. Surat	2811466	1518950	6.16
14. Kochi	1355406	1140605	1.73
15. Vadodara	1492398	1126824	2.81
16. Indore	1639044	1109056	3.91
17. Coimbatore	1446034	1100746	2.73
18. Patna	1707429	1099647	4.40
19. Bhopal	1454830	1062771	3.14
20. Vishakhapatnam	1329472	1057118	2.29
21. Ludhiana M. Corp.	1395053	1042740	2.91
22. Varanasi	1211749	1030863	1.62
23. Madurai	1194665	1085914	0.95
Total for Million Plus Cities	94738248	70996726	2.88

*Note:* The growth rates for towns and cities in different size categories have been computed by considering these by their size class distribution in the base year. Furthermore, the population figures for the base year have been obtained from the Census volumes of the terminal year, since the former often get revised due to merging of towns and boundary changes during the decade. In case of the state capitals, Guwahati has been excluded for the period 1981–91 and its base year population was not available. The city, however, has been included for growth calculations for 1991–2001.

Other than Ludhiana, we are referring to the urban agglomeration figures for each city.

*Source:* Census of India (1981, 1991, and 2001).

The population census data on internal migration (excluding the international migrants) reveals that mobility has generally declined over the decades, both in rural as well as the urban areas. In case of migration for men, wherein economic factors are likely to be relatively more important than that for women, the decline in the percentage of migrants can be noted as significant. The decline in the percentage of

*lifetime* male migrants to total male population can be observed during the recent decades from 18.3 per cent in 1961 to 13.8 per cent in 1991. In case of rural areas the percentage figures has gone down from 13.9 to 9.4 during the above period. Importantly, the decline is noted as equally significant for urban areas the figure going down from 37.5 per cent to 26.0 per cent.

Analysis of *intercensal* male migrants reveals a similar pattern. The percentage of male *intercensal* migrants (rural and urban combined) within the country has gone down sharply from 11.3 per cent in 1961 to 6.1 per cent in 1991. The rural and urban figures were 8.4 per cent and 23.8 per cent in 1961 that have gone down to just less than half that level in 1991. Furthermore, the percentage of interstate (intercensal) migrants among males has declined from 2.2 to 1.2. The fall is from 0.9 to 0.5 in rural areas and from 7.9 to 3.3 in urban areas. Other factors remaining constant, one would expect an increase in interstate migration due to emergence of several new states during the period. The decline, therefore, is much more significant and must be interpreted as reflecting a distinct process of slowing down of population mobility across the state boundaries (Kundu and Gupta 2000). In relative terms the decline is higher in urban than rural areas implying that migration across the states, which was a significant factor in urbanization during colonial period, has become less important in recent decades.

The data from NSS for the past two decades confirm the declining trend of migration for males, both in rural and urban areas, although the fall is less than reported in the Census. The migration rates had declined to all time low levels during 1983–93 where after there has been a slight recovery. The fact that percentages of migrants in 1999 are marginally above the figures for 1993 (but less than that of 1983) may be attributed to more liberal definition of migrants adopted in the 55<sup>th</sup> round of the NSS (Kundu et al. 2003). In case of women, the percentage of female migrants has gone up marginally during the past couple of decades.

The recently released migration data from the Census of 2001 reveals that the percentage of total migrants in the country has gone up marginally from 27 per cent to 29 per cent during 1990s although the figure is below that of 31 per cent in 1961. Significantly, there is no acceleration in net rural urban migration during 1991–2001, which is as low as 14.2 million only. In the absence of migration data from the 2001 Census, Kundu (2002) had estimated net rural urban migration during the 1990s to be 14.3 million, which is strikingly similar to the figure, as revealed by the Census data. One would now see that the percentage share of migrants in the total incremental urban population came down from 21.7 per cent during 1980s to 21.0 per cent during the 1990s. A sharp fall in the rate of urbanization during 1991–2001 confirms deceleration in population mobility in the country. The general conclusion

thus emerges, unmistakably, that Indians and more importantly the men have become less mobile over the past few decades. A similar trend is not perceivable for women, who are governed by marriage and family related factors. One may also infer that many women left behind in rural areas are joining their families as also that there is much more family migration now than before in urban areas. It would therefore be important to have large capacity enhancement of urban infrastructure to provide decent living conditions to present as well as future urban population. Also, the macro processes, planning system as well as the organizational structure in urban centres seem to be having an inbuilt mechanism to ensure that the pace of urbanization does not lead to unregulated growth of urban informal sector.

### URBANIZATION PATTERN

An important feature of urbanization in India is dualism—urban growth at macro level is decelerating but in class I cities it is growing. An analysis of the distribution of urban population across size categories reveals that the process of urbanization in India has been large city oriented. This is manifested in a high percentage of urban population being concentrated in class I cities, which has gone up systematically over the decades in the last century.

The massive increase in the percentage share of urban population in class I cities from 26.0 in 1901 to 68.7 in 2001 has often been attributed to faster growth of large cities, without taking into consideration the increase in the number of these cities (Figure 2.2, Figure 2.3, and Table A2.2). Undoubtedly, the faster demographic growth is an important factor responsible for making the urban structure top-heavy<sup>3</sup>. Table A2.3 reports the growth rates for different categories of towns during 1970s and subsequent decades. One can note that the class I cities have experienced a distinctly higher growth rate than lower order towns except those in class VI. Indeed, the latter do not fall in line with the general pattern of urban growth in other size categories as they are governed by factors exogenous to the regional economy<sup>4</sup>.

In the context of demographic dominance of urban scene by class I cities, it is important to note that there were only 24 class I cities in 1901 that have gone up to 393 in 2001. While a number of lower order towns have graduated to class

<sup>3</sup> Despite increasing concentration of urban population in larger cities over the years, several researchers and planners find no distortion and talk of stable morphology in Indian urban structure (Mohan and Pant 1982). They hold that population growth is more or less uniform across size classes.

<sup>4</sup> These towns constitute a special category, as many of these are industrial townships, pilgrimage centres etc. or have come into existence through establishment of public sector units.

I category, the process of rural settlements acquiring urban characteristics has been weak.

The pattern of growth has remained similar over time although there is a general deceleration in urban growth in all size categories in the past two decades. Class I cities have maintained an edge over class II, III, IV and class V towns in terms of the growth rate (of common towns). The gap, however, seems to have widened during 1991–01 (Figure 2.4 and Table A2.3).

Class I cities in the country experiencing higher population growth as compared to other categories (except VI) is due to both aerial expansion as well as in-migration. A large number of satellite towns have emerged in the vicinity of these cities.

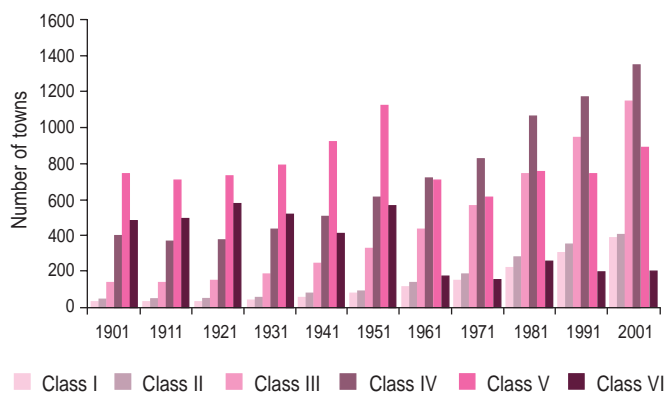


Fig. 2.2 Number of Towns in Different Size Categories

Notes: Population Census classifies urban centres into six categories based on population size as shown below:

Class I 100,000 or more      Class II from 50,000 to 99,999  
Class III from 20,000 to 49,999      Class IV from 10,000 to 19,999  
Class V from 5000 to 9999, and      Class VI below 5000

Source: Census of India (1981, 1991, and 2001)

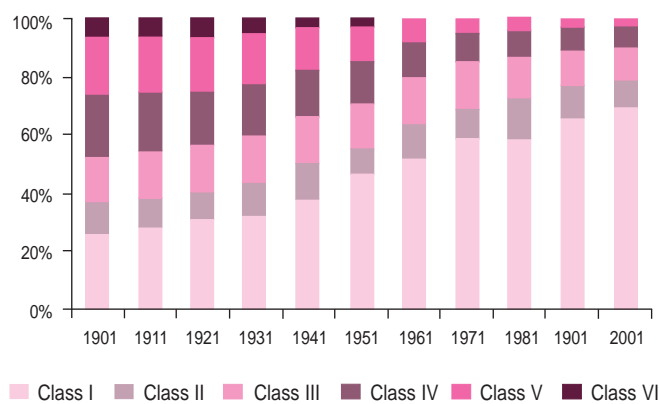


Fig. 2.3 Proportion of Urban Population in Different Size Categories

Source: Census of India (1981, 1991, and 2001)

Many of these are becoming a part of the city agglomeration over time. There are also outgrowths that have been treated as parts of the agglomeration by the Census. Further, there has been expansion in the municipal boundaries of the class I cities, resulting in higher urban growth figures.

The growth pattern of metro cities—cities having population of a million or more—corroborate further the thesis of concentrated urban development. The demographic growth in metro cities has been higher than that of common towns or even the class I cities in recent decades (Figure 2.5).

The growth would have been even higher but for the location of large industrial units outside the municipal limits, thanks to the pressures exerted by the environment lobby. This is facilitated by easy availability of land, access to unorganized labour market, besides lesser awareness and less stringent implementation of environmental regulations in the rural settlements at the urban periphery. The poor are able to build shelters in these ‘degenerated peripheries’ and find jobs in the industries located therein or commute to the central city for work (Kundu 1989 and Kundu et al. 2002). The entrepreneurs, engineers, executives, etc., associated with modern industries and business, however, reside within the central city and travel to the periphery through rapid transport



Fig. 2.4 Annual Population Growth Rates in Different City/Town Size Categories

Source: Paper-2, Rural-Urban Distribution, 1981,1991. For 2001, unpublished data from website.

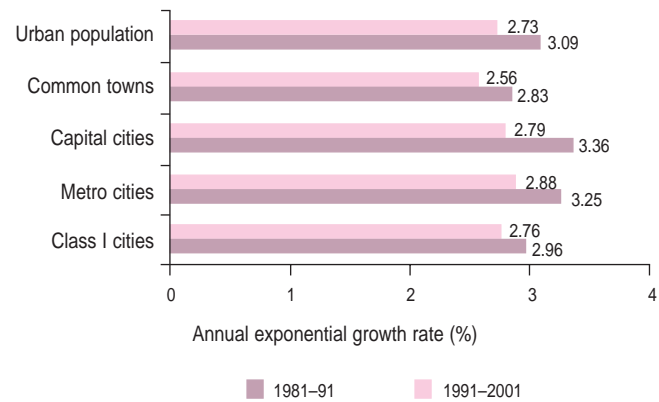


Fig. 2.5 Annual Population Growth Rate in Different Categories of Urban Centres

Note: The population growth rates for class I, metro and capital cities have been computed using the base year population for classification of cities.

Source: Same as Table 2.1

corridors. This segmented structure of city growth, variants of which are emerging across regions has brought the migrants to the rural peripheries in many large cities.

While demographic growth rates in the state capitals and Delhi have been at par with the 3.84 per cent growth in the million plus category of cities during 1981-91, the growth rates of the former have declined substantially in the 1990s to 2.79 per cent only. It would be important to enquire whether this is because of the strategy of structural adjustment, expenditure control, fall in the infrastructure investments by the central and state governments etc., which could have adversely affect the growth of the capital cities.

### URBANIZATION TREND: AN INTERSTATE ANALYSIS

The regional variations in the distribution of urban population are significant. A large proportion is concentrated in six most developed states, namely Maharashtra, Gujarat, Tamil Nadu, Karnataka, Punjab, and West Bengal, accounting for about half of the country’s urban population. By the 2001 Census, they report percentage of urban population much above the national average of 27.78, whereas the less developed states report significantly low figures. Indeed, the levels of urbanization are high in the states with high per capita income and vice versa (Table 2.2).

The pattern of *urban growth* across states is significantly different from that of the *levels of urbanization*. Since independence until 1991, the developed states that have high percentage of people in urban areas have shown medium or low growth of urban population. High urban growth has however been registered in relatively underdeveloped states,

Table 2.2  
Pattern of Urbanization and Growth of Urban Population across States/UTs

Sl.N.	States	Percentage urban population				Annual exponential growth rate		
		1971	1981	1991	2001	1971–81	1981–91	1991–01
1	Andhra Pradesh	19.31	23.25	26.84	27.08	3.94	3.55	1.37
2	Arunachal Pradesh	3.70	6.32	12.21	20.41	8.32	9.28	7.00
3	Assam	8.82	9.88	11.09	12.72	3.29	3.29	3.09
4	Bihar	7.97	9.84	10.40	10.47	4.27	2.66	2.57
5	<i>Chhattisgarh</i>	10.38	14.69	17.40	20.08	5.33	4.00	3.09
6	Delhi	89.70	92.84	89.93	93.01	4.56	3.79	4.14
7	Goa	26.44	32.46	41.02	49.77	4.37	3.96	3.32
8	Gujarat	28.08	31.08	34.40	37.35	3.42	2.90	2.8
9	Haryana	17.66	21.96	24.79	29.00	4.65	3.58	4.11
10	Himachal Pradesh	6.99	7.72	8.70	9.79	3.02	3.11	2.81
11	Jammu & Kashmir	18.59	21.05	22.76	24.88	3.80	3.44	3.44
12	<i>Jharkhand</i>	16.01	20.29	21.25	22.25	4.51	2.61	2.55
13	Karnataka	24.31	28.91	30.91	33.98	4.08	2.55	2.53
14	Kerala	16.24	18.78	26.44	25.97	3.19	4.76	0.74
15	Madhya Pradesh	18.58	22.34	25.27	26.67	4.25	3.63	2.71
16	Maharashtra	31.17	35.03	38.73	42.4	3.35	3.27	2.95
17	Manipur	13.19	26.44	27.69	23.88	9.70	2.98	1.21
18	Meghalaya	14.55	18.03	18.69	19.63	4.87	3.10	3.16
19	Mizoram	11.36	25.17	46.2	49.5	11.79	9.57	3.27
20	Nagaland	9.95	15.54	17.28	17.74	8.49	5.58	5.27
21	Orissa	8.41	11.82	13.43	14.97	5.21	3.08	2.61
22	Punjab	23.73	27.72	29.72	33.95	3.62	2.55	3.19
23	Rajasthan	17.63	20.93	22.88	23.38	4.52	3.31	2.71
24	Sikkim	9.37	16.23	9.12	11.1	9.55	-3.23	4.83
25	Tamil Nadu	30.26	32.98	34.2	43.86	2.45	1.76	3.56
26	Tripura	10.43	10.98	15.26	17.02	3.26	6.19	2.53
27	Uttar Pradesh	14.02	18.01	19.89	20.78	4.78	3.27	2.84
28	<i>Uttaranchal</i>	NA	NA	NA	25.59	NA	NA	2.84
29	West Bengal	24.75	26.49	27.39	28.03	2.75	2.54	1.84
Union Territories								
1	Andaman & Nicobar	22.77	26.36	26.8	32.67	6.38	4.10	4.40
2	Chandigarh	90.55	93.6	89.69	89.78	5.92	3.07	3.40
3	Dadra & Nagar Haveli	0	6.67	8.47	22.89	–	5.28	14.59
4	Daman & Diu	–	–	46.86	36.26	–	4.93	1.87
5	Lakshadweep	0	46.31	56.29	44.47	–	4.46	-0.77
6	Pondicherry	42.04	52.32	64.05	66.57	4.66	4.92	2.26
	All India	20.22	23.73	25.72	27.78	3.79	3.09	2.73

Notes: (a) The figures for the state of Uttar Pradesh for the 1970s and 1980s pertain to the undivided state as existed during that time. The figures for the 1990s are, however, for the new state and hence these figures are not temporally comparable.

(b) In the absence of the Census data for total and urban population for the year 1981 in case of Assam, the urban and total population growth rates have been assumed to be constant during 1970s and 1980s. The same has been assumed for 1980s and 1990s for Jammu and Kashmir. The percentage of urban population has been arrived at for Assam (1981) and Jammu and Kashmir (1991) based on these assumptions.

(c) Goa in 1971 and 1981 corresponds to Goa, Daman and Diu.

Source: Census of India (1981, 1991, and 2001)

viz. Bihar, Uttar Pradesh, Rajasthan, Orissa and Madhya Pradesh, the states that have low percentages of urban population (Table 2.2). This implies that the relationship between urban growth and economic development is generally negative. However, some of the developed states like Maharashtra and Haryana are exceptions, as they record urban growth rates higher than the country average.

Urban scenario in the post independence period has, thus, been characterized by dualism. The developed states attracted population in urban areas due to industrialization and infrastructure investment. Interestingly, the less developed states too, particularly their rural districts that is, districts having predominantly rural population earlier (for example, Gurgaon) and small and medium towns, experienced rapid urban growth. This can partly be attributed to government sponsored infrastructural investment in the district and *taluka* headquarters, programmes of urban industrial dispersal, and transfer of funds from the states to local bodies through a need based or what is popularly known as 'a gap filling' approach. A part of RU migration into smaller towns from their rural hinterland in less developed states could, however, be explained in terms of push factors, owing to lack of diversification in agrarian economy.

The 1990s, however, make a significant departure from the earlier decades, since many of the developed states like Tamil Nadu, Punjab, Haryana, Maharashtra and Gujarat have registered urban growth above the national average (Table 2.2). Karnataka has remained slightly below the national average and West Bengal is an exception whose growth rate is low due to specific policies followed by the state government. The backward states, on the other hand, have experienced growth either below that of the country or, at the most, equal to that. Making a comparison over the past two decades, the growth rates for developed states have either gone up or remained the same in the 1990s<sup>5</sup>. The backward states, however, have recorded either a decline or stability in their urban growth.

The urbanization process has, thus, become more concentrated in developed regions with the exclusion of backward areas in recent years (Figure 2.3). This is also reflected in the larger cities recording relatively higher growth when compared to smaller towns, as noted in the preceding section. This could, at least partly, and rather paradoxically, be attributed to the measures of decentralization whereby the responsibilities of resource mobilization and launching infrastructural projects have been given to local bodies, as noted below. Large municipal bodies that have a strong

<sup>5</sup> Given a significant fall in overall urban growth rate at the macro level, the marginal decline in case of Maharashtra and Karnataka may be treated as fluctuation around the rate of the previous decade. West Bengal is an exception but here the explanation lies in political economy of the state, giving greater emphasis to rural development.

economic base, particularly those located in developed states, have an advantage that has clearly been manifested in their high economic and demographic growth.

### ECONOMIC BASE OF URBAN CENTRES

Neo-classical economists view urban centres as the engines of growth for the region or the country. Concentration of population and economic activity in space has been considered crucial for leveraging certain external economies that provide a base for improvement in efficiency, technological innovation and access to global market. The fact that growth impulse originates from the cities and towns is supposedly confirmed by the fact that per capita urban income is generally higher than that in rural areas. The data support for this in the Indian context is not very robust since income data with rural urban break-ups are not available on a regular basis. Among the few important attempts made to provide such break-ups, one can mention the Task Force on Urban Development which had estimated that urban income exceed rural by 182 per cent in 1980–1 (GOI 1983).

In the absence of reliable income estimates for recent years, one can use the data on consumption expenditure to gauge the disparity. The urban–rural (UR) disparity in consumption expenditure is expectedly less than that in income due to transfer of income from urban to rural areas. The UR ratio which was about 1.62 in 1993–94 works out to be 1.75 in 1999–2000. It may further be observed that monthly per capita expenditure in rural areas has grown by 12 per cent and 8 per cent by 7 day and 30-day reference period, the corresponding percentage figure for urban areas being 19 per cent and 16 per cent. Undoubtedly the UR disparity has widened over the years.

The fact that UR disparity has been accentuated over the years questions the thesis that cities are engines of growth and growth impulses naturally disseminate to the small towns and villages in the hinterland. Further, it would be erroneous to consider the urban segment to be homogenous or assume that the growth process helps in pushing up the entire urban system. Indeed, the disparity within the urban segment works out to be high and growing over the years. This, in the absence of income data at settlement level, can be assessed through information on sectoral distribution of employment. Incidence of non-household manufacturing employment which has the highest productivity across sectors as well as high growth potential would be extremely important in this matter. The class I cities, on an average, have about 30 per cent of their workers in non-household (NH) manufacturing while class IV and V towns have less than 7 per cent. The difference in consumption expenditure across size class of urban centres too reveals sharp intra urban inequality (Table 2.3). The per capita monthly consumption expenditure as

Table 2.3  
Average Monthly per capita Expenditure and Percentage Poor  
in Different Size Class of Cities/Towns

City/Town size	1987-8	1993-4	1993-4	1999-2000
	URP	URP	MRP	MRP
Monthly per capita consumer expenditure				
Million plus cities	324	606	608	1070
Medium towns (50,000 to one million)	242	445	453	831
Small towns (Less than 50,000)	210	378	382	700
All urban centres	246	458	464	855
Rural Areas	158	281	286	486
Percentage poor				
Million plus cities	35.2	22.6	18.4	14.2
Medium towns (50,000 to one million)	40.5	32.2	27.6	20.4
Small towns (Less than 50,000)	45.3	36.2	33.2	24.2
All urban centres	41.2	31.4	27.4	19.9
Rural Areas	47.6	41.0	35.7	23.9

*Note:* The NSS data on consumption expenditure were collected in 1987-8 using uniform reference period (URP) of one month only for all commodity groups. In case of 1999-2000, different reference periods were used for different commodity groups and hence the term mixed reference period (MRP). For 1993-4, information have been presented by both the reference periods for facilitating comparison.

*Source:* The estimates are based on unit record data pertaining to 50<sup>th</sup> and 55<sup>th</sup> rounds of consumption expenditure survey of the National Sample Survey Organization.

per NSS in million plus cities works out to be Rs 1070 which is about 53 per cent higher than that reported in towns with less than 50,000 population in 1999-2000. The poverty calculations further confirm this proposition. While in class I cities, about 12 per cent of the households are reported to be below poverty line, the figure for medium towns is 23 per cent, which is even higher than in rural areas (Kundu and Sarangi 2005).

Increasing UR disparity, heterogeneity within the urban segment, slowing down of UR mobility as also the rate of urbanization have often been mentioned as indications of slowing down of the engines of growth or of inefficiency in the process of urbanization. During the first three decades since independence, there have been concerted attempts to put up a ceiling on the population absorptive capacity of large Indian cities through physical planning controls on location of economic activities and urban land-use, imposed by way of Master Plans, laws and building bye laws, etc. Land and

labour laws and administrative interventions in urban areas created rigidities in the functioning of the market, leading to fixation of uneconomic prices and emergence of sub-optimal solutions. All these led to a dualism in the urban system wherein the only large cities got linked to national or international markets and experienced reasonably rapid urban growth indicating that these controls had limited impact in slowing down their in-migration. These cities have been incapable of absorbing the investments and labour force within the formal segments, creating problems of slums and informal economy. Further, it is noted that development indicators including land values do not show a systematic decline with increase in distance from city core, which again is taken as a negative reflection of efficiency of spatial organization within the city.

Importantly, small cities/towns in most of the states are stuck in the quagmire of underdevelopment and experienced a low demographic and economic growth, increasing the distortions in settlement hierarchy inherited from the colonial period. The tragedy of a dual urban structure is reflected in the fact that not many of these towns are able to attract investors from the national or world markets and consequently attract little migration. Also, not many rural settlements transform themselves into vibrant urban centres. The share of agricultural income stagnating significantly below its share in employment and the gap increasing over time, are pointers to sectoral as well as spatial barriers to mobility. Indeed, the state policies attempting to stabilize the agrarian economy through procurement of products at predetermined prices, generally above the market, have contributed to the decline in migration.

### ACCESS OF CITIES AND TOWNS TO URBAN RESOURCES

Urban Land Ceiling Act (ULCA), designed to ensure equity in access to land within a framework of planned urban development, unfortunately failed in achieving the objective. It has been considered as one of the key hindrances in development of cities. A study on the Mumbai land market suggests that the act has increased land prices in the central business districts as well as all other areas across the city (Box 2.1). The new system of governance, ushered within the framework of structural reforms, has been responsible for launching measures attempting to disband such laws including zoning restrictions, building laws and bye-laws and streamline procedures for slum relocation and opening up avenues for resource mobilization by municipalities. All these have made the cities relatively independent of state level as well as municipal controls. It would be important to analyse its impact on the functioning of land, labour, and capital markets in urban areas and how that has affected the pace and pattern of urban growth in the country.

Box 2.1  
Urban Land Ceiling Act (ULCA) and its Impact

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The Urban Land Ceiling Act (ULCA) was introduced by the Union Government of India in 1976 under the nationalization policy adopted in early 1970s. The act placed a limit of 500 sq mt on individual ownership of land, and any land owned above this limit was termed as 'surplus land' to be handed over to the government. This surplus land surrendered to the government would be used for public purposes, including distributing it to the poor landless people. However, private trusts and companies, were allowed to retain their properties if they used it for the specific purpose for which their trusts have been set up. It stated that the objective of the act was to discourage monopolies over urban land and increase the opportunities of housing.

However, the consequences of the Act turned contrary to its own objectives. The land which otherwise would have been developed for housing has remained undeveloped as the private individuals were reluctant to simply surrender the land. This is evident from the exemption given to about 10,000 acres from the Act in Mumbai. The Act has caused extensive damage to the real estate market by not allowing the development on private land. If it were to be scrapped, 400–500 acres of land could be freed for development. The slow progress made on the implementation of Act is evident from the fact that the government has acquired less than 100 acres of land in the past 26 years under this Act. Private developers holding the power of attorney to the thousands of acres of land belonging to trusts and companies could not commercially develop them as per the regulations of the Act. Trusts and family held companies are estimated to control 50 per cent of all private land in Mumbai.

The Act which was introduced in 1976 was repealed by the Union Government in 1999, but states were permitted to make the final decision on whether the Act would be retained. While the Urban Land Ceiling and Regulation Act (ULCRA) has been scrapped in most states, it continues to be in existence in Maharashtra as the state government believed in modifying the Act rather than repealing it altogether. The Urban Reform Initiative Fund (URIF) created in 2003 by the Union Government, however, provided incentives for the state governments to repeal the act and embark on the reform agenda. In light of the experience of states such as Delhi, Karnataka, Haryana, Punjab, Uttar Pradesh, Gujarat, Chandigarh and Pondicherry, who have repealed the Act, Maharashtra Government would also like to scrap this Act now and allow the free release of land for the development purposes.

*Note:* Views expressed here are of the author of the box.

### Activating Urban Land Markets

One of the problems coming in the way of the development of cities is scarcity of land within the central areas and business centres. Government agencies have taken measures for improving the functioning of the land market, thereby providing space to national and global business houses. The demand for land in the cities with high growth potential has been phenomenal as the private corporate sector, both, from within, and outside the country has expressed interest in setting up production units, commercial offices and residential complexes for the elite.

The only way space could be provided in central districts is by permitting vertical growth. International banking cum development organizations working in the urban sector have proposed substantial increase in Floor Space Index (FSI) so that multi-storied structures can come up. Understandably, many low-rise structures have been demolished to create space for high rise office, commercial or residential complexes. Efforts are on to consolidate land placed under less efficient usage, owing to historical factors, state restrictions on land use, unauthorized occupation by slum dwellers, etc., and put to more lucrative use. Many ULBs have also tried to generate resources for infrastructural development by selling vacant

municipal land or permitting extra FSI to private builders. Sanctioning of loans by certain international agencies has often been contingent on the acceptance of the conditionality of opening up the land market or ensuring higher FSI in the central city by the local authorities (Kundu et al. 1999). (Also see Box 2.1 and Box 2.2.)

Implementation of many of these land market reforms in 'select global centres of the future' has been slow as these have come up against political pressures, legal bottlenecks, and bureaucratic hurdles. A few of the large cities have, however, been successful in taking advantage of the relaxation in planning controls and municipal laws, reflected in significant changes in land use pattern and relocation of economic activities. These have facilitated investment from within as well as outside the country, which has led to significant increases in their land values. The system of allowing extra FSI to be traded in the land market, mentioned above, has helped the process of reorganization of space and population. A case study of Mumbai's transferable trading rights illustrates the argument (Box 2.2).

Simplification of legal and administrative procedures for changing land use, bringing in greater clarity in land titles, reducing the financial and administrative costs of transferring land etc. have understandably resulted in 'low valued' users being pushed out to the peripheries in these cities. The low

## Box 2.2

## Impact of Density Controls on Land Markets in Mumbai

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Mumbai, the largest metropolis of India, has a system of land use planning, under which, the Mumbai Metropolitan Regional Development Authority (MMRDA) prepares plans allocating land for different uses and coordinates the procurement of it for development. However, development control is primarily exercised by the municipal authority of the city, Municipal Corporation of Greater Mumbai, which lays down the norms for development on the land allocated for different uses. The systems of land use planning and regulation have been undergoing changes over time with amendments for legislation and expansion of institutional framework. Density controls came into fore through the development control regulations in 1964, which prescribed a uniform density of development, as an FSI of 1.33, 1.0 and 0.75, across three different parts of Mumbai—the (inner) city, suburbs and extended suburbs—respectively.

However, besides density regulation, other forms of government intervention for example, Urban Land Ceiling Act (ULCA) and Rent Control Act (RCA), also influence the operation of land and housing markets. The gamut of regulations in place makes it difficult to isolate the impacts caused by density regulation. It is nearly impossible to identify specific impacts and ascribe them to density regulation. The city's land markets and housing show a sharp division between demand and supply; rich and poor; city and suburbs; all of which indicate strong rigidities prevalent in the market.

A multi-variate analysis shows that density regulation had significant influence across the city as well over continuous time period (Ramakrishna 2005).

*Price Impacts*

The results indicate the marginal propensity of density regulation on land prices is very high in the central business district, whereas that was not the case in suburbs. The density control accounted for almost 40 per cent of the land prices, which is relatively very high.

*Non-price Impacts*

The non-price impacts of density controls are essentially those impacts that can be observed on the spatial scale of the city as well as across agents on city space. This analysis was one using informal interviews held with a few knowledgeable individuals.

*Spatial Impacts*

Density controls appear to have had a pervasive effect on the spatial organization of the city. As the city population began to grow over time, the concentration has been shifting away towards suburbs and beyond. This expansion has resulted in cramped condition of housing in suburbs, which is reflected in the greater share of slum population as well as the coexistence of slums and squatter settlements alongside skyscrapers. Town cramming could have been partly exacerbated by density controls constraining the supply of housing by restricting the development on land. Another spatial impact of density control, resulting from high land prices, particularly those in CBD, is 'gentrification' in which the poor or low-income groups are displaced by rich or high-income groups by renovation of property. Since the property effect has been prevalent in the markets, partly on account of restrictions on development, the poor or low-income groups are driven out to suburbs and beyond. This is also reflected in the share of slum population in the city and suburbs, with the latter holding lion's share.

*Behavioural Impacts*

The behavioural impacts might be two fold: development of speculative as well as rent seeking tendencies among the agents on city space. Speculative tendency has particularly been the characteristic of real estate markets in Mumbai. Density controls might have fuelled the rise of speculation by artificially reducing the intensity of development and encouraging the withholding of land and housing units in anticipation of higher prices. The need for relaxing density controls and other restrictive land use regulations has been emphasized in the MMRDA plan document. The recent attempts like 'transferable development rights (TDRs)' are an attempt to get away from stringent and unyielding form of density controls.

*Note:* Views expressed here are of the author of the box.

income and slum colonies, informal activities, old and pollutant industries etc. have been the obvious candidates for relocation. Land in the central areas has become available to the industrial offices and business houses and rich professionals and businessmen who can afford the prices. The poor, on the

other hand, have been pushed to marginal land within the cities or in the peripheries, ushering in a process of city segmentation. The shifts have often been carried out directly through eviction of slum dwellers or indirectly and discreetly through state sponsored slum improvement schemes,

'rehabilitating' them out in the peripheries. Some of the schemes do have a provision for allotting the evicted slum dwellers plots or flats, in the building being constructed at the original site. The allottees, nonetheless, have not been able to hold on to the plots due to their acute need for finance, growing land values and relaxation in legal and administrative environment<sup>6</sup>. All these, in a way, have strengthened the process of degenerated peripheralization, discussed above.

It may nonetheless be pointed out that, given the socioeconomic realities in India, the private sector would not be able to bring about the changes in urban land market, land use, etc., without state becoming a partner. Understandably, the changes in the system of governance and urban planning, as recommended by international agencies and overwhelmingly endorsed by Indian planners, envisage state's role as an active facilitator. Public agencies in several states and cities have responded favourably to these recommendations, by ushering in the necessary changes, although the democratic structure and bureaucratic inertia have made the process somewhat slow. The message, however, has come loud and clear, from various municipal reform measures and the perspective set in the Ninth and, more recently, Tenth Plan document, that changes in land market are possible and are forthcoming (GOI 2003).

## THE CAPITAL MARKET

It is well recognized that much of the subsidized capital, made available under governmental programmes for provision of basic services during the first three decades of planning, has gone to a few large cities and benefited mostly the high and middle income colonies. There is no way that these can continue in a more liberalized regime of the 1990s. Several measures of globalization and structural reform have been launched for developing a vibrant capital market, enabling state and local governments as well as the para-statal agencies to mobilize resources by issuing bonds and other credit instruments and make infrastructural investment. Unfortunately, their successes have been limited, particularly in basic amenities sector, covering drinking water, electricity sanitation, etc. This can be attributed to the sluggishness in reform in capital market. And, when investors have come forward, they have once again limited themselves to a few large cities with economic potential and their high-income colonies.

<sup>6</sup>The major concern in the scheme for Rehabilitation of Slum and Hutment Dwellers, currently being implemented in Brihan Mumbai, for example, is not to ensure that poor hold on to their land but to prevent future encroachment in central areas. The Study Group (1995) set up for this purpose observes that '(e)ncroachments of any land need to be firmly and quickly removed. For this purpose action needs to be taken as the first signs of unauthorized construction surface. Administrative machinery needs to be established and strengthened wardwise with police force, which should be well equipped.'

The conditionalities imposed by the capital market for resource mobilization have often restricted the functioning of local bodies and even come in their way of fulfilling their normal obligations towards the residents of the cities. They have often been forced to pledge their regular earnings from octroi, grants from the state, etc. as a guarantee for debt servicing. Furthermore, the projects financed through such arrangements worked out through credit rating or other financial intermediaries are those that are commercially viable so as to ensure profitability to the investors and other stakeholders. The arrangements, thus, are leading to a situation wherein the finances generated from the common people get escrowed as a security for projects that are likely to benefit better off sections of population or elite colonies. The policy of liberating the local governments from the regulatory and legislative controls of the state under the new system of governance is thus bringing the former under the direct control of financial institutions. Institutional borrowings of the para-statal agencies, involved in the provision of the amenities, at high rates of interest, reduction in their grants from government, etc. have further eroded their capacity to invest in backward states, smaller order towns, slums and low income areas.

The issue of depending on the capital market or the banking sector for fulfilling the social obligations of providing basic amenities to all sections of population including the poor needs to be examined with empirical rigour. It would be erroneous to expect the small and medium towns to finance capital expenditure through internal resources or borrowings from the capital market. These towns, particularly those located away from the 'emerging global centres of growth' and in backward regions, have failed in attracting much private investment. They find it difficult to finance any development project through internal resources or borrowings from the capital market. The fiscal discipline imposed by the government, HUDCO, credit rating agencies and other financial intermediaries, has had a desirable effect in curbing non-productive expenditure. Nonetheless, paucity of internal resources has made it difficult for towns in backward states to undertake infrastructure investment of any kind. With governmental investment in infrastructure and basic amenities becoming less and less in smaller towns over the years and their failure to attract private or institutional investment, the disparity within the urban economy has gone up significantly. The deficiency in basic amenities has been a serious hurdle in attracting private investment from within or outside the country, which is reflected in the low demographic growth in small towns in the 1990s.

It is only a few large cities with strong economic base that have been able to secure high credit rating and raise resources through bonds and other innovative credit instruments. These have launched projects and sought private sector involvement for delivery of services to people who could afford the market prices, as noted above. This would be all very desirable from

the development of capital market but may not answer the needs of basic amenities for the majority of urban poor. The process of urbanization has thus become exclusionary in nature.

Migrants in class I cities have been noted to be economically and occupationally better-off than the non-migrants even in the early 1980s (Premi 1985). In-migration of poor in these cities seems to have reduced further during 1990s as access to basic amenities have become increasingly difficult for them, partly due to a reduction in public expenditure (particularly capital expenditure) on urban development and social sectors (Kundu et al. 1999). These have led to a dramatic reduction in the percentage of poor in the 1980s and 1990s in case of the class I and metropolitan cities, as revealed through NSS data (Dubey and Gangopadhyay 2001; Kundu and Sarangi 1995).

Contrary to the expectation that relaxation in controls under the new governance would lead to unshackling of the forces of urban growth, there has been a significant deceleration in growth, which is understandable. The resistance of large cities to absorb rural migrants, particularly the poor, has resulted in slight deceleration in growth, besides changes in the composition of the migrants. The small and medium towns, having less than, say 50,000 population, have however, been badly hit, being primarily responsible for the sluggish pace of urbanization in the 1990s. These towns, particularly those located at long distances from the 'emerging global centres of growth' and in backward regions, have not received much private sector investment from within the country. These, having a low manufacturing base and low-level of infrastructure facilities and basic amenities, can hardly be expected to attract foreign investment. Public investments too have declined here due to state governments and para-statal agencies being brought under some kind of financial discipline. The local bodies in these towns have been unable to use land as a resource and land values have stagnated and even declined in many regions. With investments in infrastructure and basic amenities in these towns reducing considerably over the years, the disparity across urban centres has gone up.

Thus, an unplanned intervention by public agencies in the land, labour and capital market has led to lopsided urban growth in the country and it may continue in coming years. Continuation of stop-gap measures have serious implications on growth pattern of class I cities and developing states. Class I cities would continue to be homes to large slums, the only place where new migrants can take refuge. Small and medium towns of less developed states on the other hand remain small as they are not able to grow inorganically through migration as they cannot provide jobs to migrants.

If indeed the public agencies intervene only as an 'active facilitator' in the land, labour and capital market—removing its deficiencies and saving the actors from market failures—the process of exclusionary urban growth is likely to be

strengthened in future years. Urbanization would exhibit the same sluggish trend as in the past couple of decades. Developed states and large cities would receive most of the migrants recording reasonably high growth. A large section of the migrants, however, is likely to be absorbed in degenerated peripheries or in marginalized land within the cities, causing serious problems of city segmentation. Backward states, on the other hand, would exhibit very low economic dynamism. The small and medium towns in these states are likely to experience serious problems due to infrastructural deficiency resulting in absence of livelihood.

### A PERSPECTIVE ON URBANIZATION

The above analysis reveals that the levels of inequity in the provision of basic services across the states and size categories of urban centres in the country are extremely high. The investments for the development of infrastructure and provision of basic services have not been spatially balanced during the past few decades. More specifically, the state governments and para-statal institutions did not exhibit sensitivity in favour of small and medium towns. Unfortunately, privatization, partnership arrangements and community-based projects that are being projected as alternatives have not been able to fill the vacuum created by the withdrawal of the state, taking place under the new system of governance. Planners and policy-makers have in recent years made a strong case for para-statal agencies as also the local governments to depend increasingly on their internal resources and institutional finance with the objective of 'bringing in efficiency and accountability in their functioning'. Various schemes and projects that are being launched by private and joint sector under this changed perspective have priced out large sections of the poor from provisioning of services. The same is the case with public sector projects as well since these have increasingly been made to depend on institutional borrowings and capital market and accept their conditionalities. All these have accentuated the disparity across the states and size class of urban settlements as also between rich and poor localities within the cities.

In view of this macro scenario, a case can be made for providing special capital support to the less developed states that are not in a position to allocate requisite funds to their urban centres for this purpose. Particularly, small and medium towns in these states need to be supported in their infrastructural projects, as their economic bases are not strong enough to generate adequate revenues for the purpose. This would imply increasing the total resources allocated for urban development, which was also recommended in the report of the National Commission on Urbanization (1988). There must, however, be explicit stipulations to ensure that most of this fund goes to small and medium towns and for the provision of basic services for the urban poor.

Reforms in land, capital and labour markets must be expedited to increase the inflow of capital from institutional sources and private sector. The public agencies should, however, take the overall responsibility of ensuring access to infrastructure and basic amenities to all sections of population in different size classes of urban centres, irrespective of their income or affordability. For this purpose, it would be important to set up the 'minimum standards' for various services in realistic terms. The government may, however, fulfil this responsibility through subcontracting arrangements with the private sector, by engaging NGOs and CBOs or by strengthening the local bodies.

Constitutional amendment for decentralization of financial powers is not sufficient for augmenting resources of the local bodies. There has to be actual devolution of powers and responsibilities and their use by the municipal bodies. The management capacities of these bodies need to be strengthened by employing more technical personnel and training the existing staff. They should be able to organize their affairs better, including increased mobilization of tax and non-tax resources. Manufacturing activities at the town level are noted to exhibit a strong correlation with the availability of infrastructure and amenities. One may, therefore, argue that the provision of these services in small urban settlements, besides being a goal in itself, would help in generating non-agricultural employment and diversifying their economic base.

## CONCLUSION

In view of the conflicting claims, an attempt is made here to assess the rates and pattern of urbanization and their implications for accessing urban resources and overall economic growth by analysing urbanization trends and fractionalizing urban growth into various components at the macro level.

The size class distribution of urban population and their growth rates over the decades and the interstate variation in the levels and growth in urban population highlights that the recent trend is a sharp departure from the past. An analysis of changes in the system of governance, particularly in the context of access to land and capital resources for urban centres in different size and functional categories shows that large Indian cities through physical planning controls on location of economic activities and urban land-use, imposed by way of Master Plans, laws and building bye laws, etc. have created

rigidities in the functioning of the market, leading to fixation of uneconomic prices and emergence of sub-optimal solutions especially in large cities.

Small cities/towns, in most of the states are stagnating. They are experiencing low demographic and economic growth, increasing the distortions in settlement hierarchy inherited from the colonial period. The tragedy of a dual urban structure is reflected in the fact not many of these towns are able to attract investors from the national or world market and consequently attract little migration. Also, not many rural settlements transform themselves into vibrant urban centres. The share of agricultural income being significantly below its share in employment and the gap increasing over time, are pointers to sectoral as well as spatial barriers to mobility. A dualism in urbanization is emerging. The process of urbanization has become exclusionary in nature.

The cities and towns are facing the challenge of meeting the conflicting goals of catering to the 'demands' of global capital market on the one hand and for providing access to employment, land and basic amenities to the local population on the other. An empirical perspective based on the growth in urbanization in India since 1901 suggests that a case can be made for providing special capital support to the less developed states that are not in a position to allocate requisite funds to their urban centres for development. Particularly, small and medium towns in such states need to be supported in their infrastructural projects as their economic bases are not strong to generate adequate revenues for the purpose.

Finally, if the public agencies intervene only as an 'active facilitator' in the land, labour and capital market—removing its deficiencies and saving the actors from market failures—the process of exclusionary urban growth is likely to be strengthened in future years. Urbanization would exhibit the same sluggish trend as in the past couple of decades. Developed states and large cities would receive most of the migrants recording reasonably high growth. A large section of the migrants, however, is likely to be absorbed in degenerated peripheries or in marginalised land within the cities, causing serious problems of city segmentation. Less developed states, on the other hand, would exhibit very low economic dynamism. The small and medium towns in these states are likely to experience serious problems due to infrastructural deficiency resulting in absence of livelihood.

## ANNEXE TABLES

Table A2.1  
Number of Towns, Percentage and Growth Rate of Urban Population in India since 1901

Census year	No. of towns/UAs	Per cent Urban to total population	Annual exponential growth of urban population
1901	1827	10.84	–
1911	1815	10.29	0.03
1921	1949	11.18	0.79
1931	2072	11.99	1.75
1941	2250	13.86	2.77
1951	2843	17.29	3.47
1961	2365	17.97	2.34
1971	2590	19.91	3.21
1981	3378	23.34	3.83
1991	3768	25.72	3.09
2001	4368	27.78	2.73

*Note:* Estimated population has been taken for Assam and Jammu & Kashmir in 1981 and 1991 respectively.

*Source:* Population Census, Paper-2, Rural–Urban Distribution, 1981, 1991 & 2001 (Unpublished)

Table A2.2  
Number of Towns and Percentage of Urban Population in Different Size Categories

Census year	Number of towns						Percentage of urban population					
	Class I	Class II	Class III	Class IV	Class V	Class VI	Class I	Class II	Class III	Class IV	Class V	Class VI
1901	24	43	130	391	744	479	26.00	11.29	15.64	20.83	20.14	6.10
1911	23	40	135	364	707	485	27.48	10.51	16.4	19.73	19.31	6.57
1921	29	45	145	370	734	571	29.70	10.39	15.92	18.29	18.67	7.03
1931	35	56	183	434	800	509	31.20	11.65	16.8	18.00	17.14	5.21
1941	49	74	242	498	920	407	38.23	11.42	16.35	15.78	15.08	3.14
1951	76	91	327	608	1124	569	44.63	9.96	15.72	13.63	12.97	3.09
1961	102	129	437	719	711	172	51.42	11.23	16.94	12.77	6.87	0.77
1971	148	173	558	827	623	147	57.24	10.92	16.01	10.94	4.45	0.44
1981	218	270	743	1059	758	253	60.37	11.63	14.33	9.54	3.58	0.50
1991	300	345	947	1167	740	197	65.20	10.95	13.19	7.77	2.60	0.29
2001	393	401	1151	1344	888	191	68.67	9.67	12.23	6.84	2.36	0.23

*Note:* Population Census classifies urban centres into six categories based on population size as shown below:

Class I 100,000 or more

Class II from 50,000 to 99,999

Class III from 20,000 to 49,999

Class IV from 10,000 to 19,999

Class V from 5000 to 9999, and

Class VI below 5000

*Source:* Census of India (1981, 1991, and 2001)

Table A2.3  
Annual Exponential Growth Rates of Urban Population in Different Size Categories

Census year	Class I	Class II	Class III	Class IV	Class V	Class VI
1901–11	0.54	–0.73	0.46	–0.55	–0.43	0.72
1911–21	1.57	0.68	0.50	0.03	0.46	1.47
1921–31	2.24	2.89	2.28	1.59	0.89	–1.25
1931–41	4.81	2.59	2.51	1.47	1.50	–2.26
1941–51	5.02	2.10	3.07	2.01	1.97	3.31
1951–61	3.72	3.50	3.05	1.65	–4.05	–11.62
1961–71	4.29	2.93	2.65	1.67	–1.14	–2.32
1971–81	4.34 (3.46)	4.43 (3.09)	2.69 (3.33)	2.43 (3.00)	1.64 (3.15)	5.05 (3.90)
1981–91	3.84 (2.96)	2.38 (2.75)	2.26 (2.59)	1.02 (2.50)	–0.13 (2.62)	–2.45 (3.64)
1991–01	3.42 (2.76)	1.76 (2.37)	2.15 (2.27)	1.64 (2.19)	1.93 (2.22)	0.80 (3.26)

*Note:*

1. Size class wise figures exclude Assam in 1981 and Jammu & Kashmir in 1991
2. All classes exclude six towns in 1941, four each in 1931 and 1921 and two each in 1911 and 1901 of Goa, which could not be assigned to any size class as their population for these years is not available. Total number of towns therefore would not match with the figures of Table A2.1.
3. The growth rates for towns in a size category have been computed by taking the population in the category in the base and terminal year, without considering the change in the number of towns therein. The figures in brackets are, however, computed by taking only the population of the towns that belonged to a category, both for base and terminal years.

*Source:* Paper-2, Rural-Urban Distribution, 1981,1991. For 2001, unpublished data from website.

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