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[Come on, liberals: Let's change India!](#)

India's centralised approach to urbanization

[Sanjeev Sabhlok](#)

The Freedom Team of India is trying to bring together 1500 like-minded liberals willing to contest elections as a coherent group from 2014 onwards. The Team aims to ultimately offer the Indian people a choice both of good candidates and good policy. As the Team continues to grow, albeit slowly, I want to start discussing issues which could inform the policies offered by the Team. I begin by looking at urban policy.

Productivity gains from urbanisation

In 1776 Adam Smith wrote about division of labour as the major driver of productivity in free societies. While the assembly lines seen in factories are a good example of this division of labour, specialisation is now an even more widespread part of modern life. Another driver of productivity, highlighted by Alexis de Tocqueville in 1835, is social capital arising from the vibrant associations and networks of like-minded people. Both these drivers of productivity require people to live close together, and thus form the motivation for urbanisation. The average Indian, however, has not yet benefited from these productivity-enhancing features, with only 28 per cent of Indians living in urban areas today, compared with 44 per cent of the Chinese, 78 per cent of the Americans, and 86 per cent of the Australians.

Before we examine how urban areas can be managed to cope with increased urbanisation, we should ask whether it is feasible for a country like India to live predominantly in cities? How is it possible, we wonder, to feed a huge urban population?

The answer is that a relatively small population should be able to produce all the food we need after we reform our agricultural policies. Such reforms should lead to increased mechanisation and productivity. Since agricultural reforms will require a separate discussion, let us, for the moment, assume that it *is* possible to increase agricultural productivity to feed up to 600 million additional urban dwellers. In addition, let us assume the existence of good education and health policies with the result that rural migrants to urban areas stand a real chance of being productive. We also assume incremental and organic growth of urbanisation, not a forced approach.

Local governance at the heart of urban reform

We all know that today, even with our extremely low levels of urbanisation, our urban areas are in a bad shape. My sister owns an IT company in Delhi and travels all over the city daily. She was complaining the other day to me that it now takes her two hours to cover the distance which took her an hour ten years ago. Such congestion not only hurts businesses but also reduces social capital as it becomes increasingly difficult for people to associate with each other.

So how can we start improving our urban areas? We need to increase urban infrastructure and improve the urban environment while avoiding the congestion which can quickly reduce the gains from urbanisation. Three principles can inform the governance arrangements for urban reform: good incentives, accountability, and subsidiarity.

The principle of subsidiarity says that ‘a central authority should have a subsidiary function, performing only those tasks which cannot be performed effectively at a more immediate or local level’. This tells us that state governments must stay out of urban management, which is a local matter. This should be in the hands of local councils that service, say, about two lakh people each. For instance, New York has 51 councils and Melbourne has 28. So Delhi should have 60 councils. Instead, we have mega-municipalities which have little or no local representation and are far removed from ground realities.

For the states to create the third tier of government at the urban or rural level it was not really necessary to amend the Constitution. But with the 74th amendment there can now be no excuse for the states to avoid creating such a third tier. Unfortunately, the states still refuse to do so. Instead, tenured generalist bureaucrats without the foggiest idea of good policy and without any accountability to anyone, are charged today with ‘managing’ our cities using their exaggerated notions of personal wisdom and perspicacity, with no participation from the citizens.

This needs to change. The state governments must create a framework of laws for the local councils to implement. This framework should link urban and rural councils and reduce the dichotomy between these two. The framework must delegate key functions like land planning and zoning, land acquisition, local (third tier) roads and parks, libraries, community halls, and waste disposal to the councils. Food and other inspections should also be dealt with by councils. The state can retain the role of coordinating the records of land use and ownership.

To fund these services, the councils should be empowered to raise land taxes and rates, and to recover unpaid dues from recalcitrant residents. Councils which want to attract wealthier residents will then provide better infrastructure by charging higher rates. Since all the infrastructure needs of urban areas cannot be funded through rates and taxes, the councils should be empowered to issue long-term bonds to fund these needs. Citizens will then be free to pick the council that best suits their budget and preferences. The competition between councils will generally keep the rates low and the services high.

It is important for the councils to have sufficient representation. The ratio of representatives to citizens must be in line with international best practice. For instance, Delhi should have 300-600 elected councillors including 60-odd mayors. Of course, these political representatives would need to be held to account through elections held every three years. In addition, the state government would need to retain a judiciously exercised power to dismiss corrupt councils and order new elections.

To ensure a clear line of sight of accountability, elected councillors would have to be fully empowered to hire the chief executives of their councils on a performance-based contract at market rates, and to fire them for non-performance. This contract should be based on an understanding of the principal-agent problem and the use of the right incentives. These chief executives, in turn, would need to be empowered to hire (and fire) the best professional land planners, environmental scientists and landscaping specialists. This approach, followed in many developed countries, achieves the best results for the community.

Coordination issues, and migration

How will the councils in large cities coordinate their diverse plans? The association of councils will be able to coordinate most issues, including long term plans for the relevant city. The state government can help if asked to. These professionally managed councils will also be able to manage the migrations from rural areas effectively. Since new migrants generate wealth, the councils will likely compete for new migrants by providing relevant infrastructure to make best use of the new migrants' talents.

In brief, this model of responsive and accountable decentralised government, based on the principles of freedom, will lead India to dramatically better cities and ensure that it can meet the forthcoming challenge of mega-urbanisation and wealth creation.

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As usual, before closing this write-up, I would like to urge you to consider leading India. Consider joining the Freedom Team (freedomteam.in). Write to me.

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