

Prosperity and Inequality in India and China

Capital Formation and Social
Discontent

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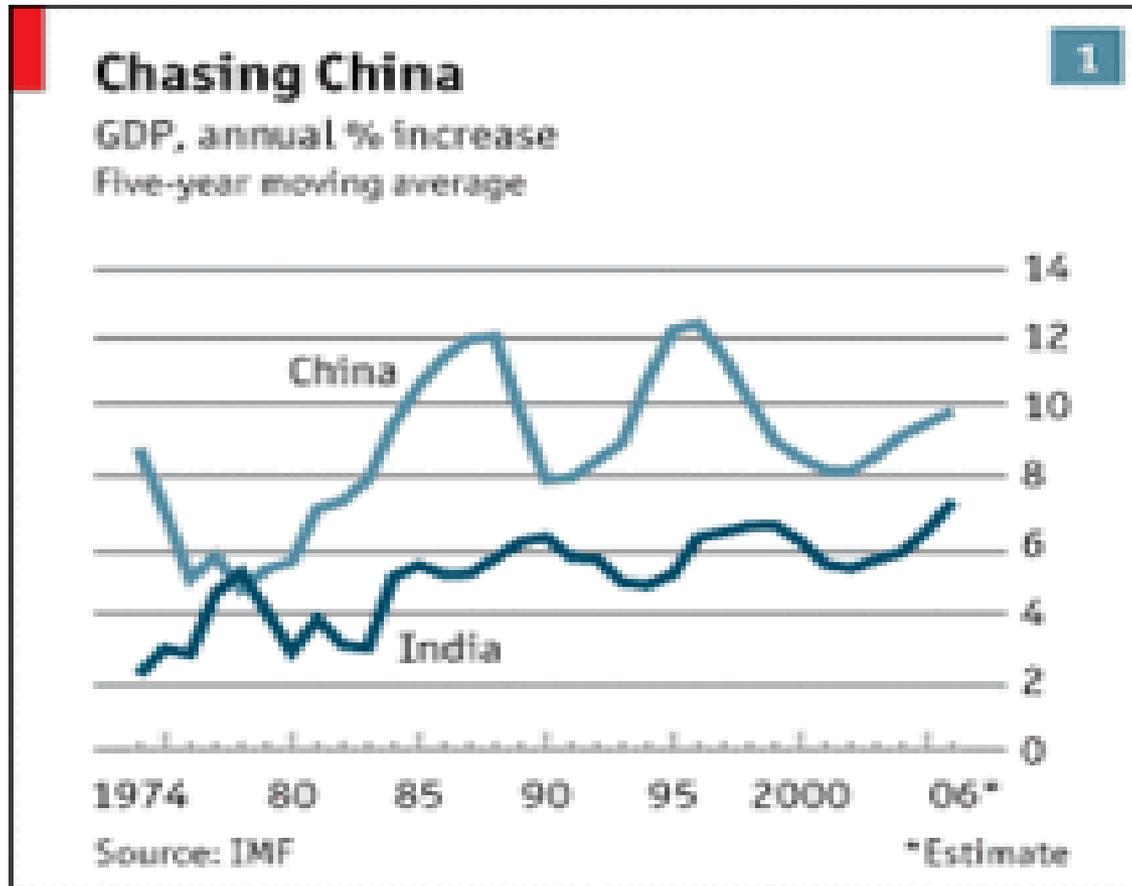
March 27th, 2008

Overview

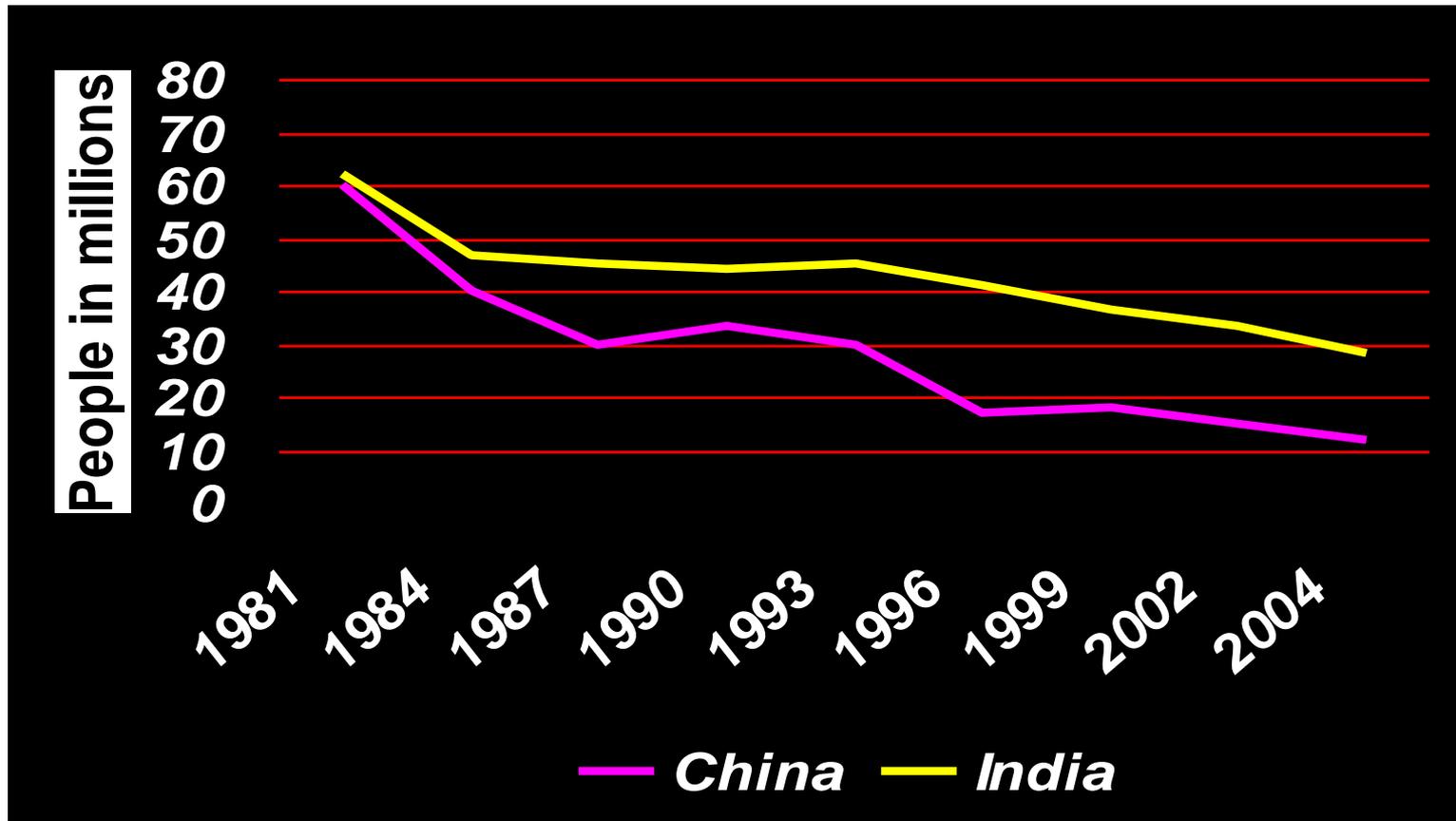


- Present a “New” Perspective on Urban-Based Development in India and China
- Suggest that the Perspective Actually isn’t so new
- Speculate about some of the Capital formation and social Issues Involved

I. Chinese and Indian Growth: What is New? Higher Growth

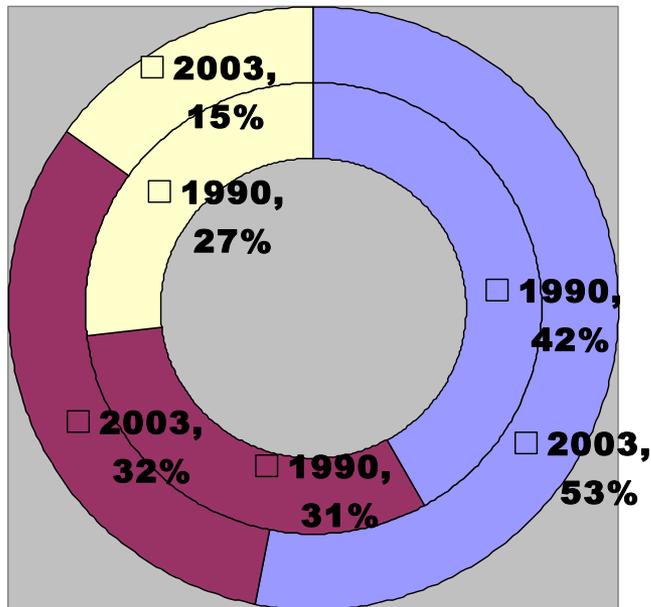


Chinese and Indian Poverty: What is New: Much less Poverty.



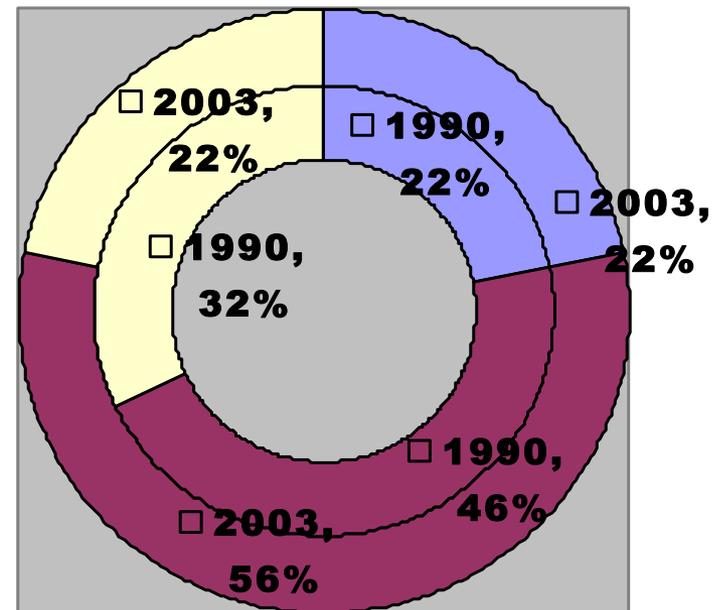
Chinese and Indian Growth: What is New? Urban Economic Growth

India GDP 1990 and 2003



■ Industry ■ Services ■ Agriculture

China GDP 1990 and 2003



■ Industry ■ Services ■ Agriculture

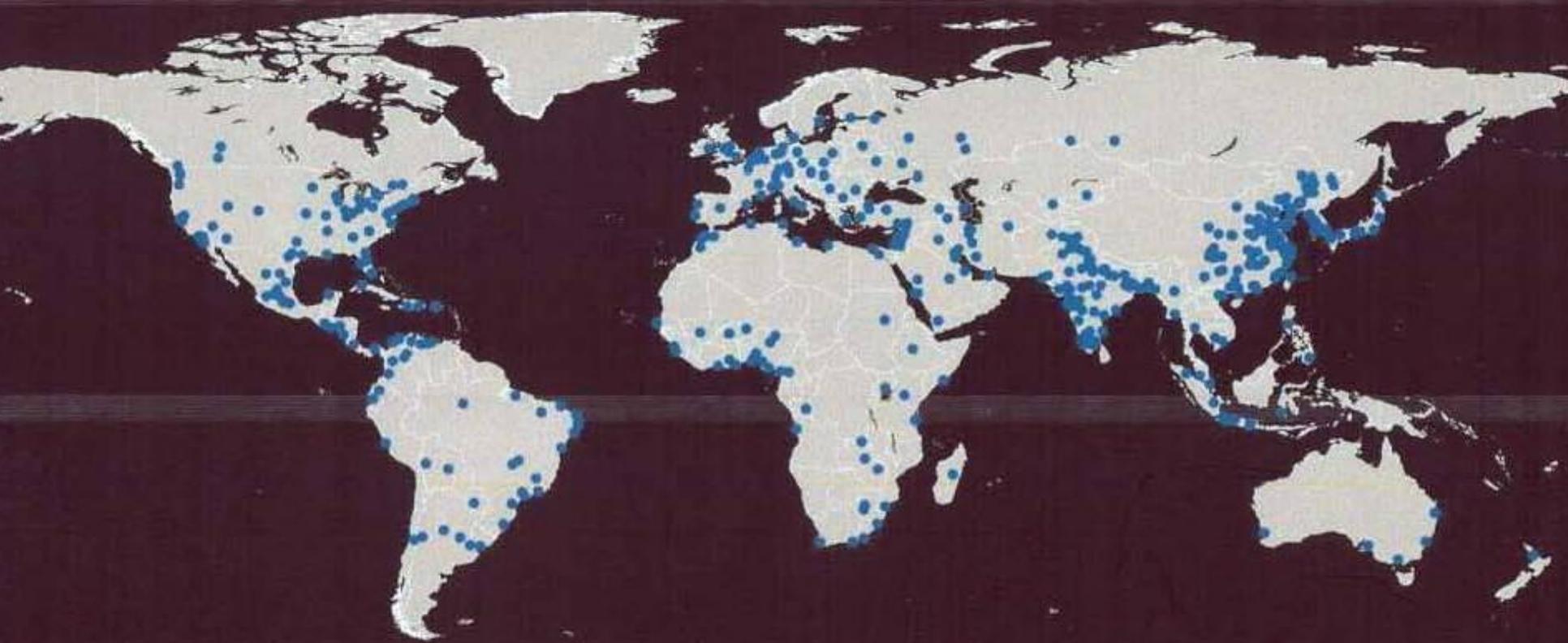
- Indian and Chinese Urbanization in a World Context



Cities over 1 million 1950



Cities over 1 million 2015



1950 City by population



2005

City by population



The Opening

- Since 1978 in China and 1991 in India
- Growth rates have soared;
- Poverty has fallen at dramatic rates;
- A shift to much more urban-based economic activity; and
- Cities have exploded in size and number

II. What Happened to Capital Formation and Social Discontent?

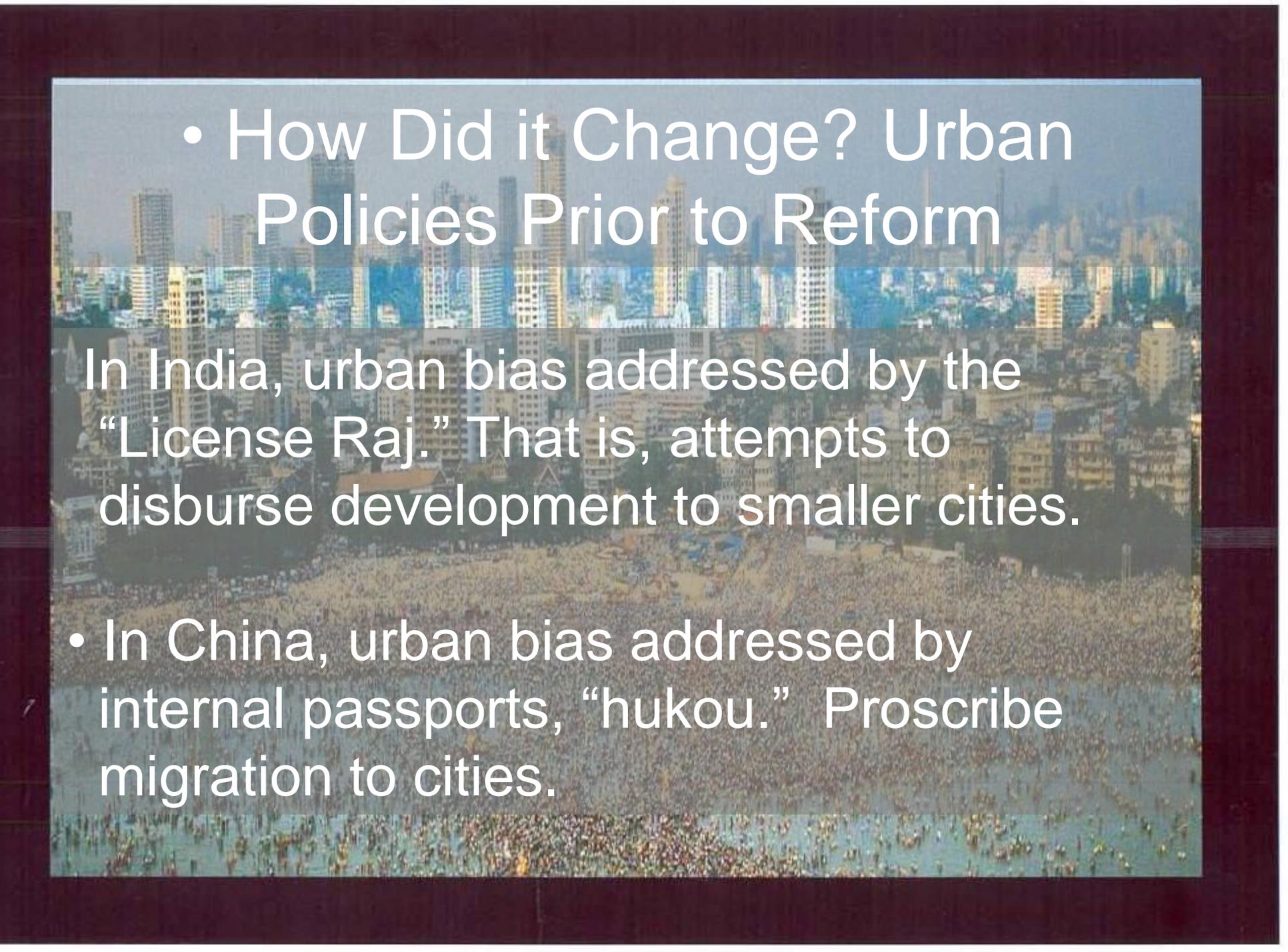
First, consider the perspective of the old regime:

“Urban bias is the main explanation for why poor people stay poor in post-colonial countries.” Michael Lipton 1984



•What Changed?

- Cities became drivers of higher growth...but starting points and processes different.
- Starting Point: In India encroached infrastructure and inner city slums; China no encroachments and slums on periphery;
- Processes: China no land market; India highly regulated one. China controls people, India property.



- How Did it Change? Urban Policies Prior to Reform

In India, urban bias addressed by the “License Raj.” That is, attempts to disburse development to smaller cities.

- In China, urban bias addressed by internal passports, “hukou.” Proscribe migration to cities.



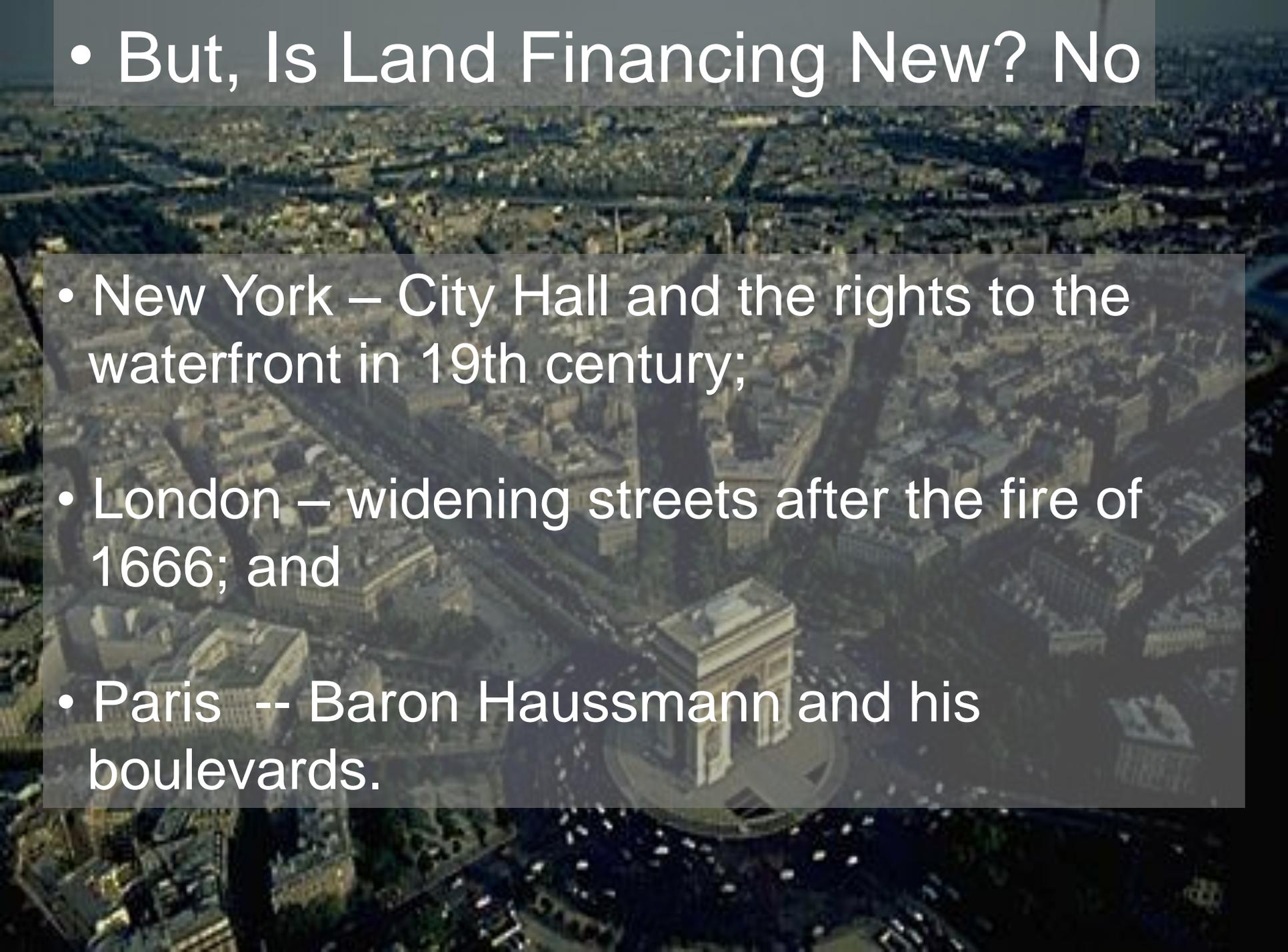
- Decontrolling the Cities

- India -- Eliminate the License Raj
- China -- Open up internal migration
- In both -- finance of urban development through land valuation, as well as more open, market-oriented economies.

- What is New About these Policies?

- They opened up and unshackled their cities. Policy-makers no longer tried to stop the “parasitism” of bourgeois urban life.

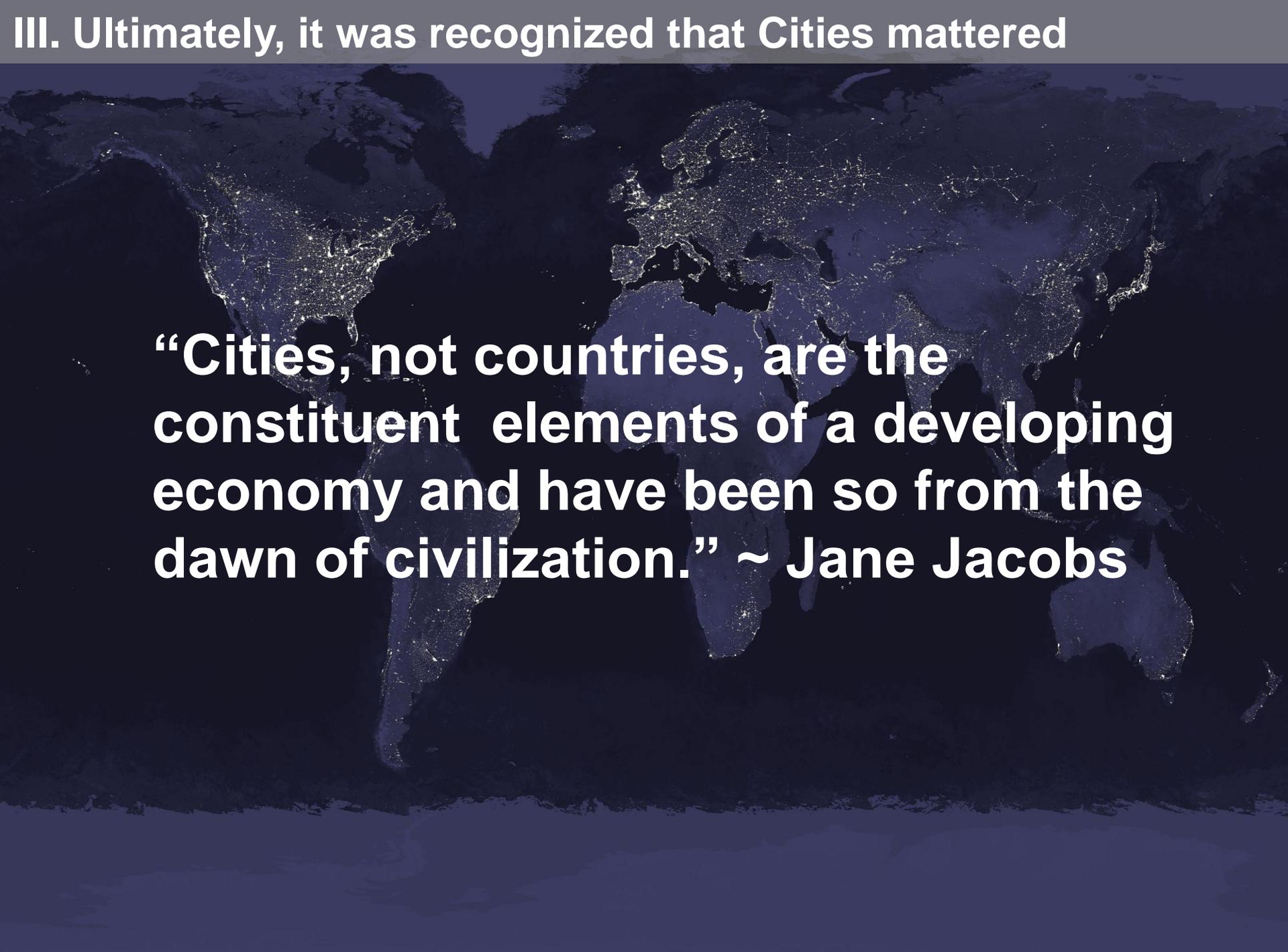


An aerial photograph of a city, likely Paris, showing a dense urban landscape with a prominent monument in the foreground. The monument is a large, classical-style structure with a central archway, surrounded by a circular plaza. The city extends into the distance, with a mix of greenery and buildings. The image is used as a background for a presentation slide.

- But, Is Land Financing New? No

- New York – City Hall and the rights to the waterfront in 19th century;
- London – widening streets after the fire of 1666; and
- Paris -- Baron Haussmann and his boulevards.

III. Ultimately, it was recognized that Cities mattered

A world map at night, showing the outlines of continents and the glowing lights of cities. The lights are most concentrated in North America, Europe, and East Asia, with a sparser distribution in Africa and South America. The background is a dark, deep blue.

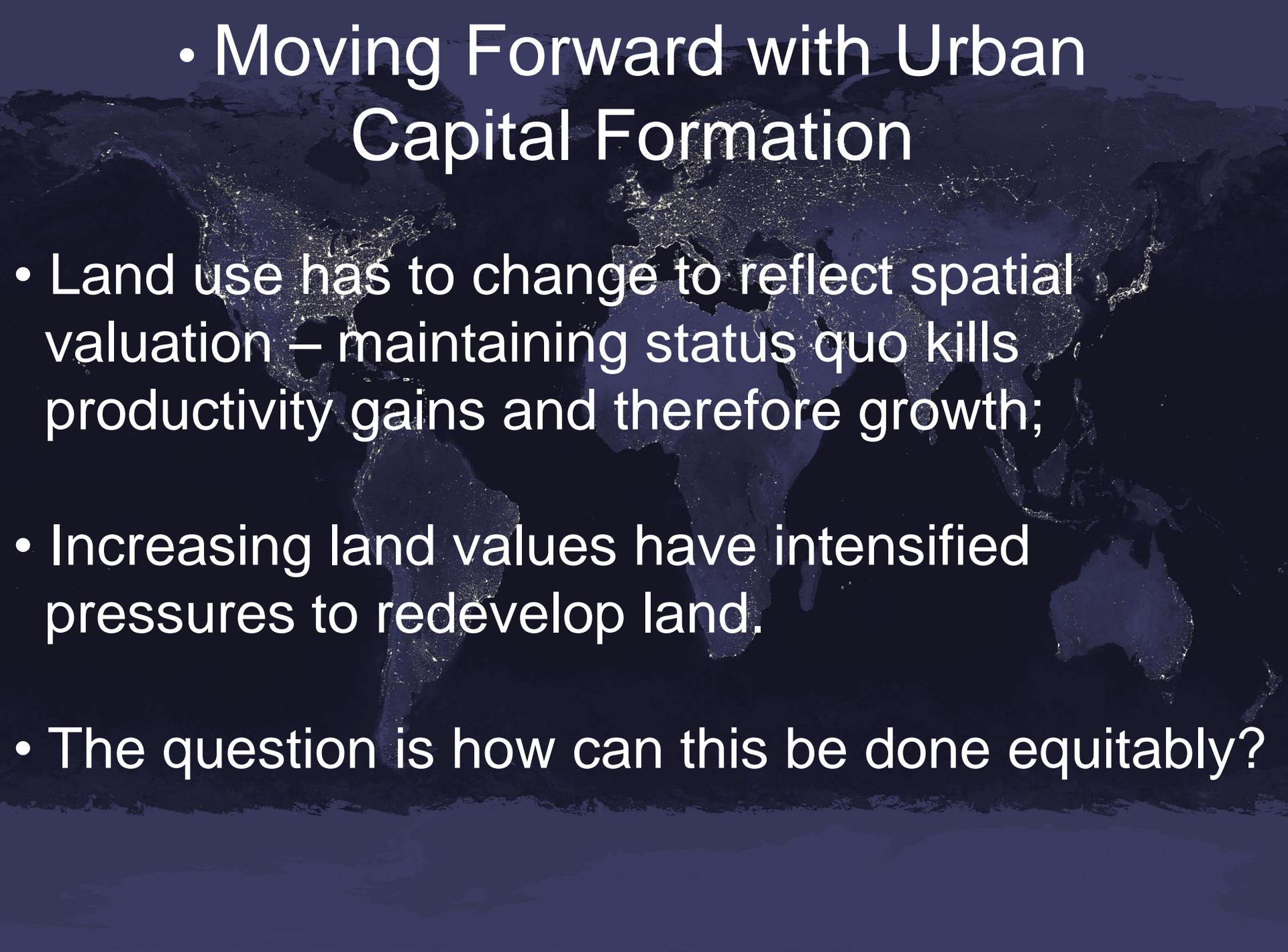
“Cities, not countries, are the constituent elements of a developing economy and have been so from the dawn of civilization.” ~ Jane Jacobs

What Works?

In principle, China has had more success – much higher growth, more rapid urbanization, better and greater improvement in urban conditions...

... but much better starting point – half of Mumbai's population are still slum dwellers – also China is a less litigious and more corporate-oriented society.

In the end, both have worked, but the question is: How to move forward?



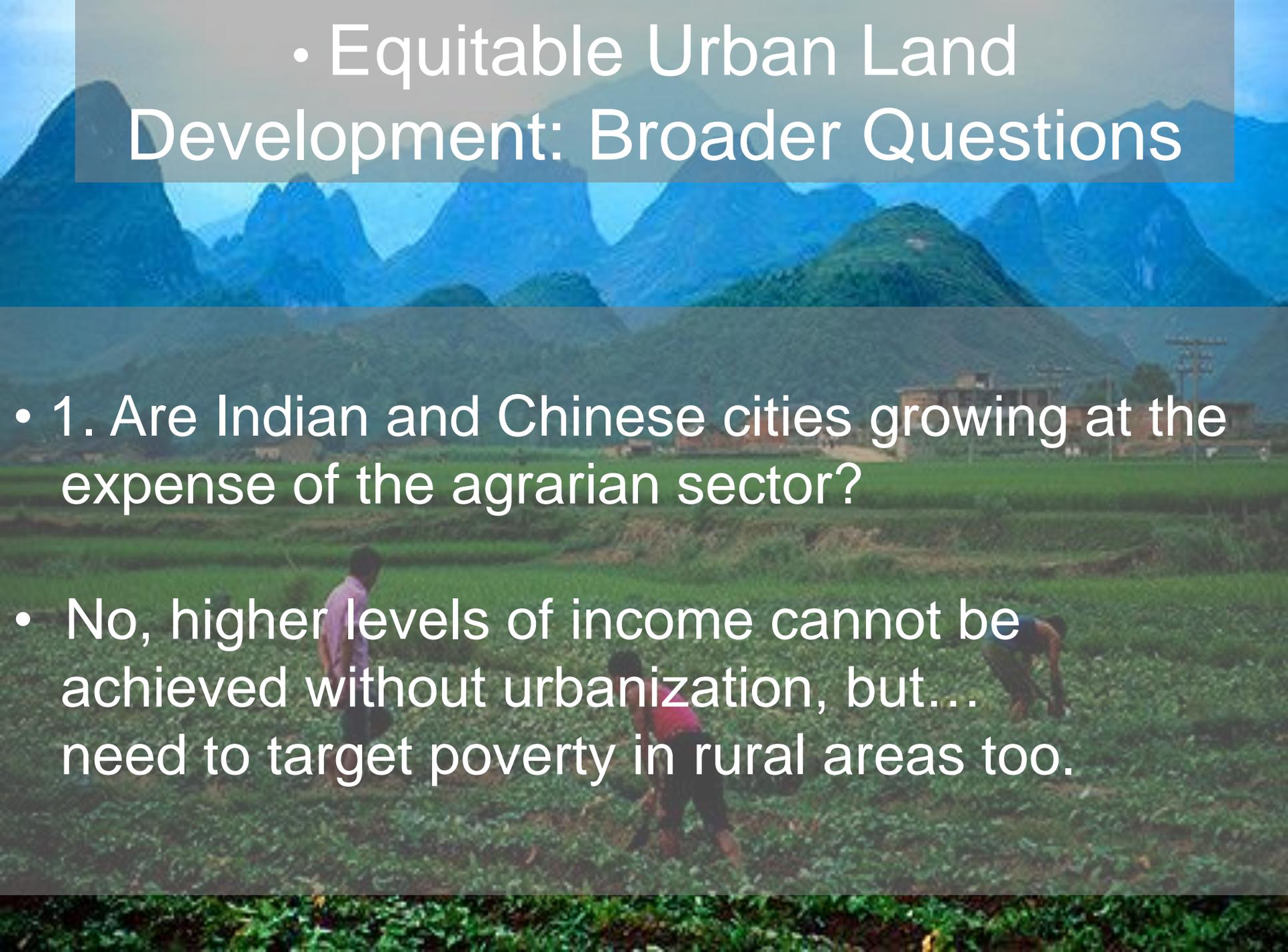
- Moving Forward with Urban Capital Formation

- Land use has to change to reflect spatial valuation – maintaining status quo kills productivity gains and therefore growth;
- Increasing land values have intensified pressures to redevelop land.
- The question is how can this be done equitably?



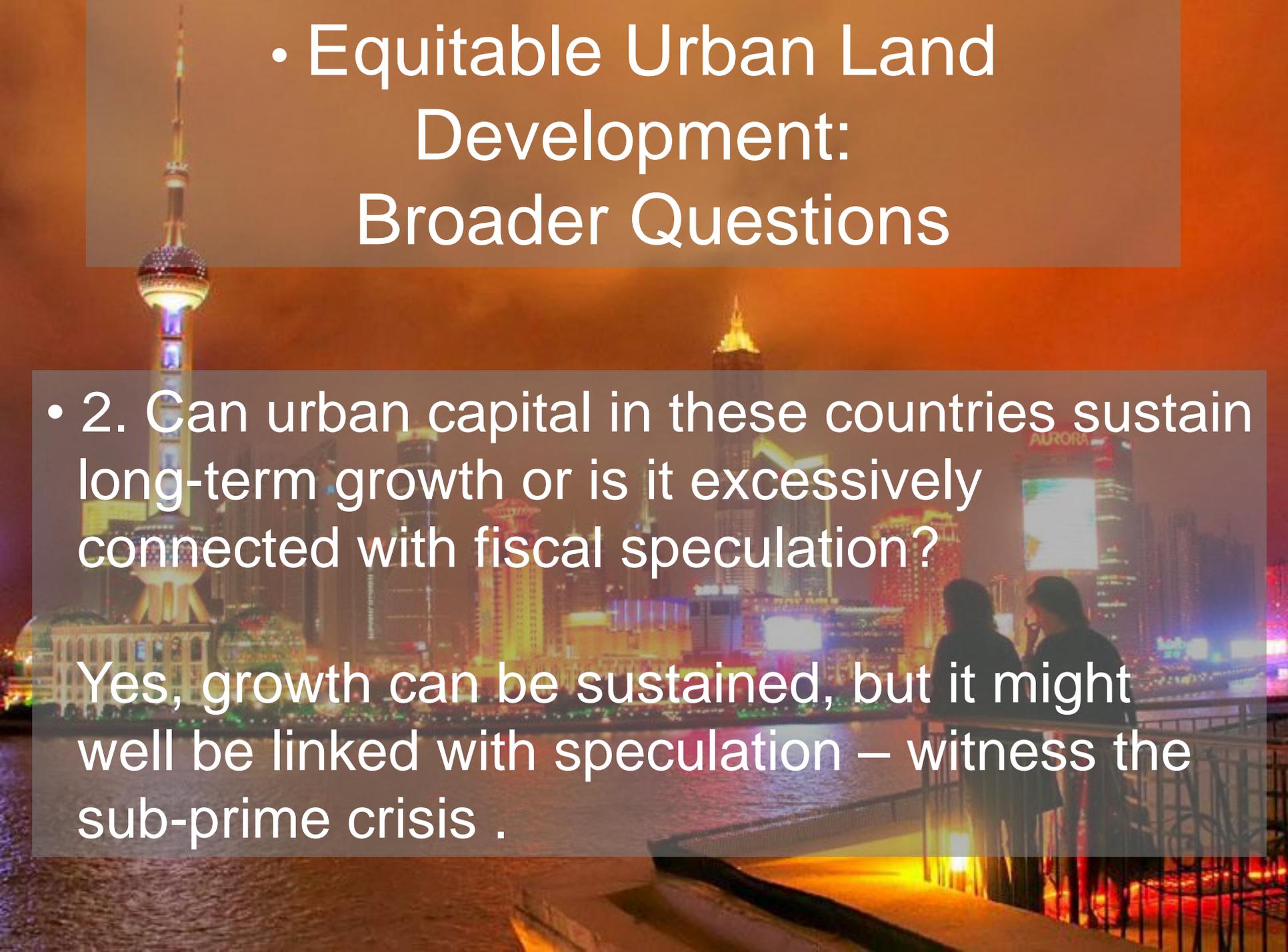
- Equitable Urban Land Redevelopment

- In principle, either the Chinese or the Indian approach can work:
- Negotiating with Community as to their rights and compensation, as in India (sometimes); or
- Using a formula to dictate compensation terms, as in China.

The background of the slide is a photograph of a rural landscape. In the foreground, there is a lush green field where several people are working, likely planting or tending to crops. In the middle ground, there are some simple buildings and utility poles. The background is dominated by a range of jagged, green mountains under a clear sky. The text is overlaid on a semi-transparent blue-grey rectangular area at the top of the image.

• Equitable Urban Land Development: Broader Questions

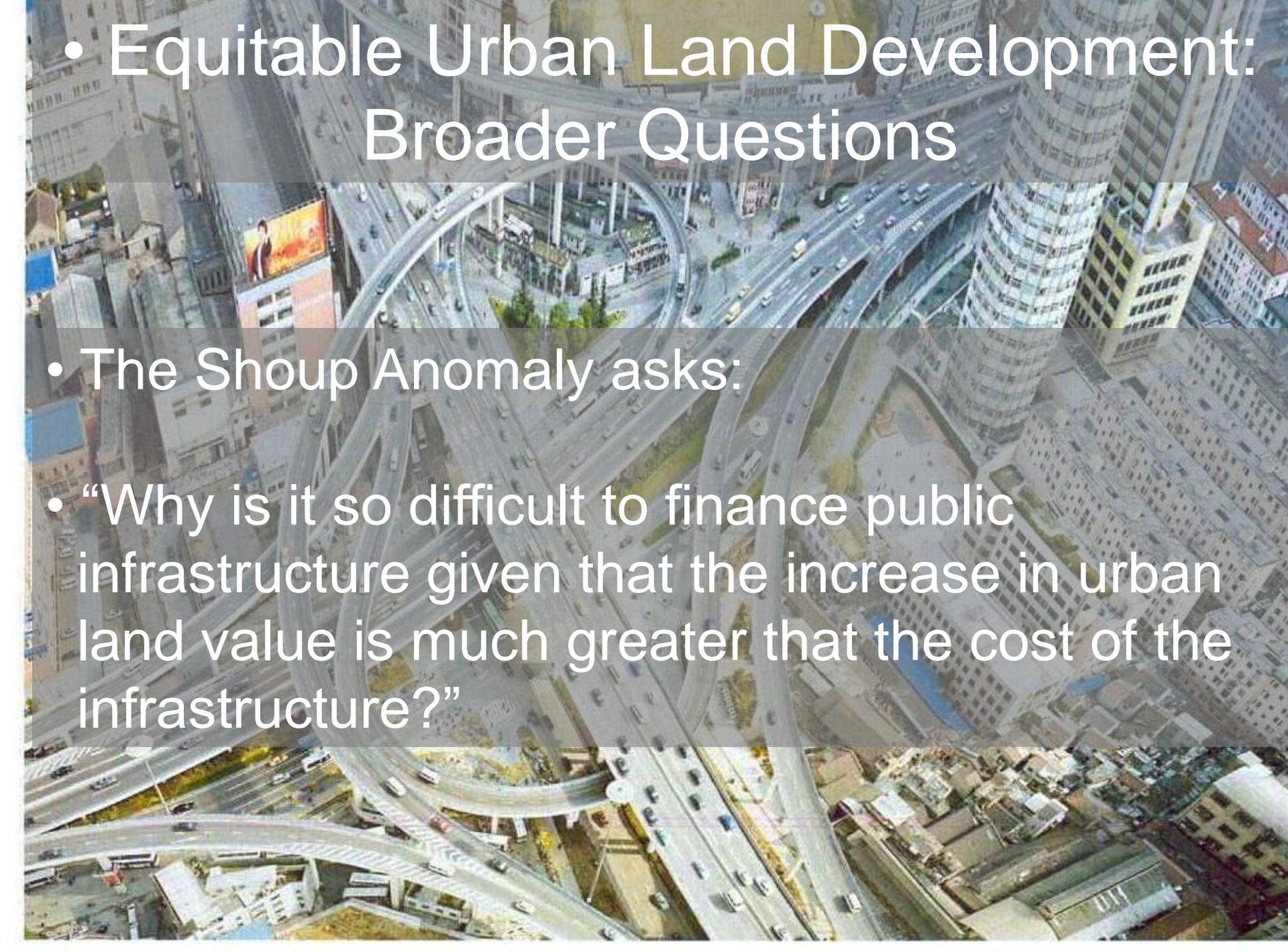
- 1. Are Indian and Chinese cities growing at the expense of the agrarian sector?
- No, higher levels of income cannot be achieved without urbanization, but... need to target poverty in rural areas too.



- Equitable Urban Land Development:
Broader Questions

- 2. Can urban capital in these countries sustain long-term growth or is it excessively connected with fiscal speculation?

Yes, growth can be sustained, but it might well be linked with speculation – witness the sub-prime crisis .



- Equitable Urban Land Development:
Broader Questions

- The Shoup Anomaly asks:

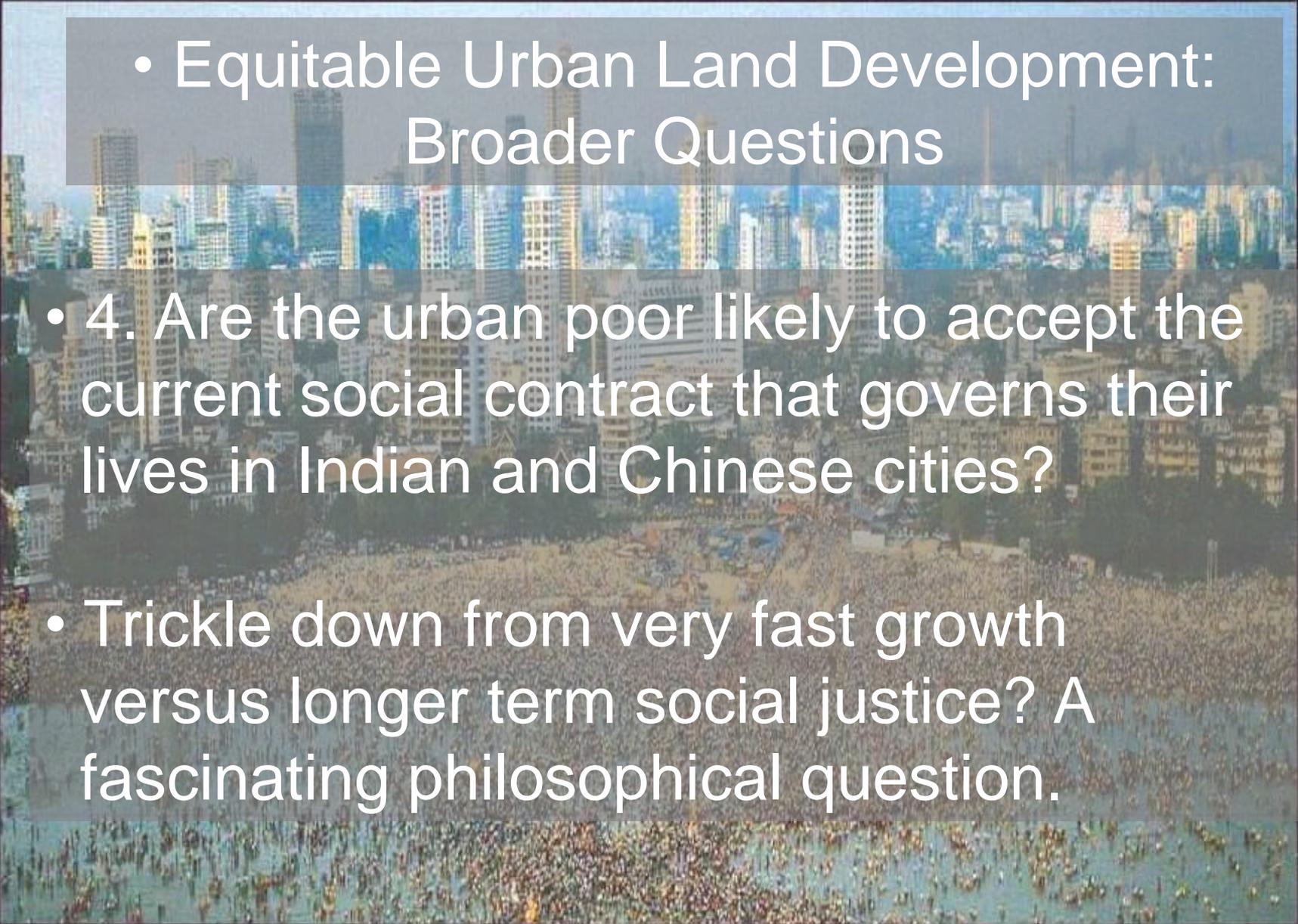
- “Why is it so difficult to finance public infrastructure given that the increase in urban land value is much greater than the cost of the infrastructure?”



• Equitable Urban Land Development: Broader Questions

3. Can urban planning in China provide a possible model for India (or vice versa)?

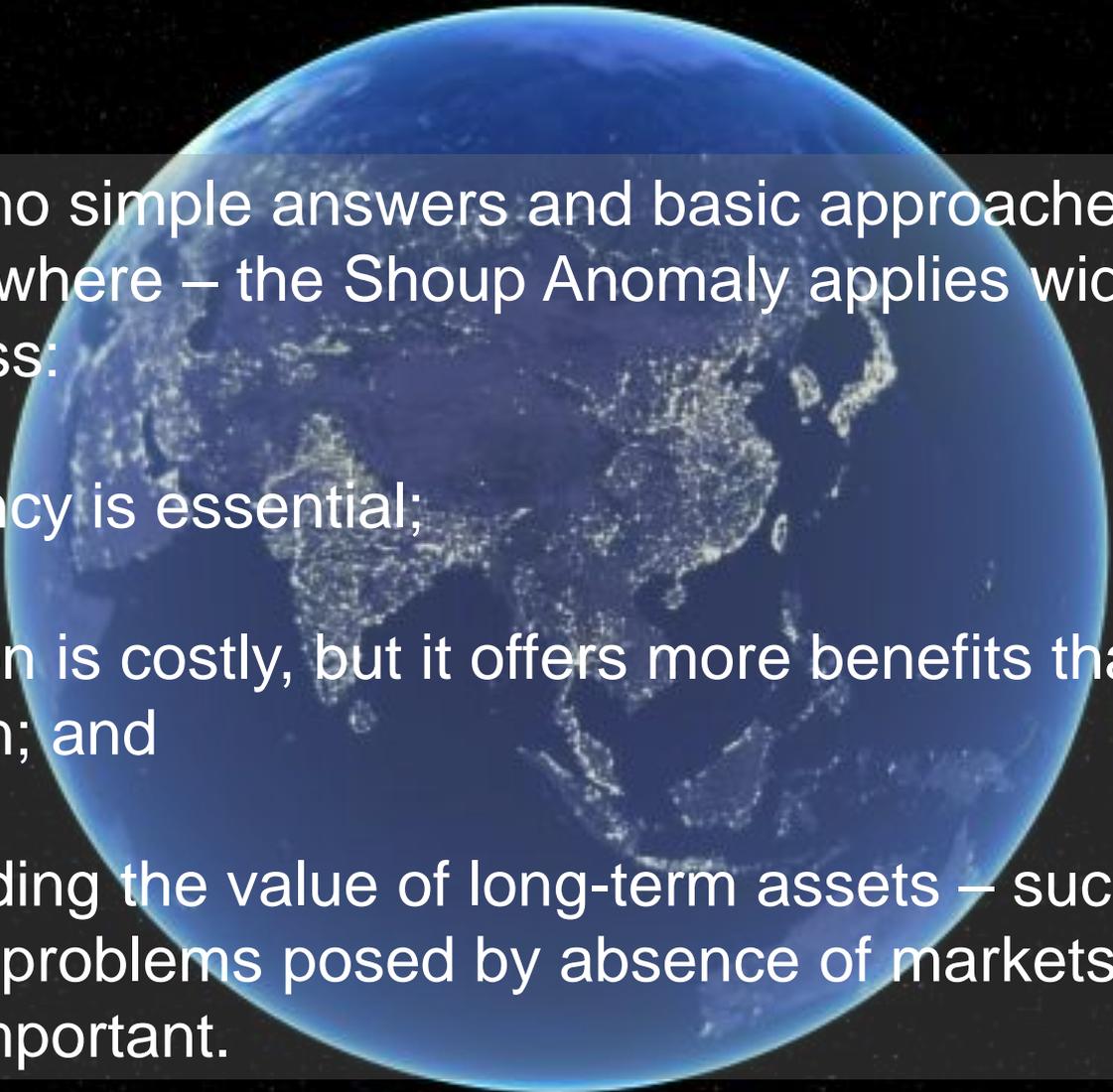
• Probably not. Very different starting points and processes.

An aerial photograph of a city, showing a dense urban core with numerous high-rise buildings in the background. In the foreground, there is a vast, sprawling informal settlement or slum, characterized by a dense cluster of small, low-rise structures. The overall scene illustrates the stark contrast between modern urban development and informal housing.

- Equitable Urban Land Development:
Broader Questions

- 4. Are the urban poor likely to accept the current social contract that governs their lives in Indian and Chinese cities?
- Trickle down from very fast growth versus longer term social justice? A fascinating philosophical question.

•Conclusion

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- There are no simple answers and basic approaches that will work everywhere – the Shoup Anomaly applies widely -- nevertheless:
 - Transparency is essential;
 - Participation is costly, but it offers more benefits than just better cooperation; and
 - Understanding the value of long-term assets – such as land – as well as the problems posed by absence of markets for these assets is important.