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## Our forbidden cities

'Professor, I think I didn't get the point of your classes on exchange rates and price comparisons across countries,' said Ashish. Since he had been the best student in my MBA class thus far, I was rather surprised. May be my students had indeed been confused.

"Not at all," replied Ashish. "You've been very clear, professor. But I still don't understand. Let me explain why. We are at the end of the programme, and last week I received a job offer from a firm in Mumbai. The position looks interesting and Mumbai is a great city to live in, although I grew up in Delhi and I've been there only once. The salary also looked attractive: it is not very different from what some European firms are offering us. Over the weekend, I made a few enquiries with friends in Mumbai and did the numbers. There is no way I could survive in Mumbai with the salary they are offering. To be precise, I could survive, but I could only afford an apartment a couple of hours away from the office. The job is challenging and demanding, often you must stay in the office after dinner. Maybe I would end up sleeping in there. And then, what's the purpose of moving to Mumbai if you cannot enjoy the city after work?"

Ashish ended up accepting a job in London. He found a flat at Islington. Not close to the office, but on the tube it takes 45 minutes to get home, convenient even when he works late at night. He misses India and when I see him, he still asks what he didn't get about that class on exchange rates and prices.

The drivers of a country's development are its cities and the young. The cities because, as Harvard University's Ed Glaeser explains in his new book *Triumph of the City*, they bring out the best in humankind. History has shown that a country's success depends on the health of its cities. The young, on the other hand, have ideas and the ability to turn ideas into profitable projects. You can do this when you are 25; at 50, it's much harder. Mumbai's loss of Ashish is a symptom of India's development problems.

What would it take to make it possible for a young professional to live at a reasonable distance from his office in Mumbai? A number of somewhat difficult steps, which would require a very forward-looking government. Most of Mumbai is occupied by low-rise, inefficient houses. Forget their availability, they are far from the standards a young MBA is looking for. They should be leveled and replaced by efficient high-rise buildings. A few historical areas should be preserved, but they occupy a very small fraction of the half-a-million square kilometres over which the city extends. Shanghai has transformed itself preserving the Bund and a few historical markets. New York has leveled anything which existed prior to the 1920s: we don't seem to miss it. The real problem is not the crumbling houses, but the people who live there. Once the new high-rise buildings are ready, there will be space for both the old dwellers and the young MBAs. But rebuilding Mumbai, even a few neighbourhoods, will take the good part of a decade. What happens to the current inhabitants in the meantime?

The solution is a modern metro system. Delhi has done it, Mumbai is about to inaugurate its first metro line. A metro serves two purposes. While the neighbourhoods of the city are being rebuilt, it will make it possible to temporarily relocate those who now live in the centre, without forcing them to give up their jobs. If the city becomes a big success, even the new high-rise buildings will not suffice to house all who will want to live in the city: the metro will make it possible to develop new areas at an easy commuting distance.

Can new metro projects be launched, not only in Delhi and Mumbai, but also in Bangalore, Kolkata, Chennai, Hyderabad? I think they can, for two reasons. First, Delhi and Mumbai are doing it. The new Delhi metro is clean, efficient and has already opened up new areas of the city. Two years ago, living in Gurgaon and working in downtown Delhi would have been a nightmare: now the commute takes 30 minutes. The Delhi metro is the evidence that even in India, such a project can be completed.

Second, the financial resources could be made available. India's GDP is growing at 8% per year and the real interest rate is around 5% (I am following the most recent IMF projections). The government is targeting (for 2014-15) a balanced primary budget, that is a level of total spending (at the Union and the state level) equal to the volume of projected revenues. With such a wide gap between the growth rate of the real interest rate, a balanced primary budget means a falling debt-to-GDP ratio. If instead India were to target a constant debt ratio (just below 70% of GDP, the target set by the 13th Finance Commission), the fiscal space available for investing in public infrastructure would be as large as 2% of GDP per year. Such a volume of infrastructure investment may be what is needed to make an 8% growth sustainable.

Is riding the trade-off between reducing the debt below 70% of GDP and investing in infrastructure a risk India can run? It all depends on the quality of public projects. To be productive, to be completed in time and to avoid corruption, public investment should be concentrated in a few, easy-to-monitor projects. The Delhi and Mumbai metros are two good examples. They should be the first in a sequence of new projects.

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The views expressed by the author are personal.

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