

Global Bengaluru

21st Century Challenges

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The Centre for Budget and Policy Studies (hereinafter referred as the Centre) is a non-partisan, non-profit, independent society established by a group of professionals based in Bangalore and registered under the Karnataka Registration of Societies Act in February 1998 (no 777 of 199701998). The President is Dr. S. Rajagopalan and the Secretary M.S. Ramaprasad and Director is Dr. Vinod Vyasulu.

The objective of the Society is to contribute through research to understanding and implementing a process of long run, sustainable, equitable development in countries like India. Equity, as we understand it, extends across time - future generations must not be deprived of resources because of irresponsible use - and class and gender - all human beings have inalienable rights that society must ensure.

An area in which the CBPS has made a contribution is in the context of the ongoing process of democratisation and decentralisation following upon the 73rd and 74th amendments to the Indian Constitution. In this context, budgets of different governmental bodies are important statements of policy priority. Budget analysis at local levels is an area where much needs to be done. An example is the work of the Centre in studying the budgets of two zilla panchayats [Dharwad and Bangalore (Rural)] in Karnataka. This report, formally released by the Governor of Karnataka, Her Excellency Smt. Rama Devi on July 4, 2000, is being used in, programmes to orient those who have newly been elected to local government bodies. The CBPS is currently working on a study of the finances of a few city municipal councils in Karnataka.

One way of meeting our objective is by providing inputs into ongoing debates in society on matters of policy priority by collecting and analysing information and presenting scenarios on different options that face the public. Industry is one such area. The functioning of different sectors of industry, its impact on employment, livelihoods, productivity and the like, and the different options open to this country, in the midst of major global changes like the advent of the WTO, need careful study and debate. CBPS did a study and published a monograph. Another area of importance is an understanding of the nature of the local economy. The Centre has worked on this issue and a manual on the method to calculate District Income in India, sponsored by the Planning Commission, is being published by Macmillan India.

Another area of importance is ecological and environmental sustainability. The interface between local bodies and environmental programmes is another area of focus. CBPS has studied the working of programmes like drinking water, watershed development and joint forest management to see how local bodies can contribute to the meeting of national objectives.

CBPS was a partner in a campaign called PROOF (Public Record of Operations & Finance, along with 3 other Bangalore based organisations. The PROOF campaign provides an opportunity for citizens & the corporation of Bangalore (BMP) to join hands and demonstrate that public money is being used for public good. This will be achieved by systematic BMT performance report & reviews, substantiated by performance indicators & explanatory statements.

CBPS will remain a small body of professionals who will work by interacting and networking with others who share such interests. Working groups for different studies with professional membership will be set up, and will work with minimal infrastructure. Full use will be made of modern technology in this process. The results of such work will be used in training, in dissemination of results and in follow up programmes.

*Muthinantha matondu gottenamma
Ninage gottenamma,
Naavu kalakke thakkanthe nedaya beku,
Ondu taalakke thakkanthe kuniya beku*

From a popular Rajkumar song

*Chhodo kal ki baatein, kal ki baat puraani
Naye daur mein likhenge milkar nayi kahaani
Hum hindustani, hum hindustani - 2
Aaj puraani zanjeeron ko tod chuke hain
Kya dekhe us manzil ko jo chhod chuke hain
Chaand ke dar pe jaa pahuncha hai aaj zamaana
Naye jagat se hum bhi naata jod chuke hain
Naya khon hai, nayi umangein, ab hai nayi jawaani*

A popular Hindi film song

Global Bengaluru: 21st Century Challenges

Introduction

This essay began with an invitation from the M.R. Arya memorial Trust to give a lecture to celebrate the centenary of this distinguished Bangalore banker. I have not known Mr Arya, but who can ignore the institution he has left behind in today's ING Vysya Bank? It is an institution which from small local beginnings has evolved into a multinational bank, quietly, without the turmoil so common in such transitions in India. The legacy he has left behind must have been an important, if unseen, influence in this evolution. This legacy, and the wisdom of successors who have built upon it, is a rare commodity—it must be celebrated. And I choose to do so by basing this memorial lecture on the way in which this city, in which both Mr Arya and I have worked, has also quietly become global. This bank and this city have a quiet unobtrusive growth in common. I hope this exercise in reflection will help us better understand the underlying dynamics of this city, and thus provide us with guidance to facilitate further progressive change for Bangaloreans. This may help the bank as well: that would really be a bonus!

Since I plan to talk about this city, we might as well begin with its name. There is an impression that this city has recently changed its name. It would be more accurate to say that the postal and other authorities have come to spell it the way local people refer to it; it has always been 'Bengaluru' to the Kannada speaker—just as Trivandrum was always Thiruvananthapuram to the Malayalee, or Kolkata to the Bengali. Bangalore was not one of the traditional centres of Kannada culture like Dharwad or Mysore or Mangalore. There are many who refer to this city as 'Bangalore', and they are right too. The dual character of this city, the Bangalore/Bengaluru syndrome, perhaps began with the establishment of the 'Cantonment' in 1800 when this settlement began to grow. The two words refer to two distinct world views. These came into sharp focus when film star Rajkumar was kidnapped by Veerappan. Many in Bengaluru feel that Kannada [which language has won more Jnanpith awards than any other] is being marginalised in its home state, and especially in the capital city. These views are discussed cogently by Janaki Nair in her

scholarly tome *Bangalore's Twentieth Century – The Promise of the Metropolis*, and I will dwell no more on it. I will use both forms of the name in my talk. I leave you to decide if this is a reflection of the Bharat/India divide!

Both views of this city are valid in the sense they reflect reality. They co-exist, and we must remember the physicist's belief that when we have contradicting theories, the truth is all of them taken together—the principle of complementarity of Neils Bohr. This must apply to Bangalore too! It is not an either this or that situation: Bangalore is both. Thus, the growth of luxury apartments is accompanied by the growth of slums in which poor people subsist. The emergence of new categories of well paying jobs has also been accompanied by an increasing casualisation of labour. The city produces a number of very highly educated and competent individuals each year. But it also produces an even larger number of 'post school' persons with almost no employable skills¹. The Garden city of the past has been losing its heritage—old buildings quietly disappear, lakes are dried up, and the state seems to revel in this destruction. These contradictions must be resolved if Bangalore is to become what we all want it to be. And this is true of India too.

In Bengaluru, historical reflection is not unusual. After all, it is our own Ramachandra Guha who has authored the best selling *India After Gandhi*, an eminently readable history of post Independence India. In this book he even examines, as a part of serious historical scholarship, 'a people's entertainment'²—films, so important to Bangalore not many years ago, when the city was reputed to have the largest number of movie halls². A sense of history is essential³ to the making of policy for the future. Bangalore has grown, but I doubt we can say Bangalore has prospered. There is too much chaos in our streets, there is far too much pollution in the air, and there are far too few footpaths, for us to feel comfortable. Why? I hope we can together understand why, and perhaps, even what we must together do about this.

¹ Think of India, which as a country has the third largest stock of highly qualified doctors and professionals in the world, and also the largest number of illiterates in the world. If we are proud of one, are we ashamed of the other? The same historical process has created both.

²I understand - —as I am not knowledgeable in this matter—that Bangalore has contributed to the global music world with home grown bands like *Parikrama*, *Kryptos*, *Galeej Gurus* and *Thermal and a Quarter!* And all of them grew out of city colleges like Christ and St Joseph's. For 'fun' accounts of Bangalore, see Peter Colaco's *Bangalore: A Century of Tales from City and Cantonment*, and Aditi De's *Multiple City*.

³ Unfortunately, history is no longer an essential part of the economist's toolkit.

We must also note that Bangalore is unique, a developed oasis in the desert that is Karnataka. If the Bangalore indices of human development, [literacy, life expectancy or infant mortality, and per capita income] are removed and an average for the rest of Karnataka estimated, then the state has what we call 'bimarou' values—indicating very poor levels of human development. This imbalance is a matter of concern to the state. Further growth of Bangalore, if it is at the cost of the rest of the state, will have serious negative consequences. Standards in the rest of the state must improve for Bengaluru to continue to be its engine of growth.

The buzz today is on *ideas*. Nandan Nilekani, has just published his opus—and I am sure it is not yet his opus *major*—on *Imagining India: Ideas for the 21st Century*. A key idea he pushes for strongly is that of a national market that we must work towards to realize the promise that is India. He also has a great deal to say on the governance of our cities. These ideas merit debate. I hope in part to respond to his invitation—or is it challenge—later in this talk.

If we believe that it is ultimately ideas that change the world, then a discussion of ideas is important. Sunil Khilnani celebrated 50 years of Indian independence with his remarkable book, *The Idea of India*, which discussed the trajectory taken by the country in those 50 years. The miracle was that the *Idea* did become a *nation*. Taking flattery to great heights, I followed on the 60th year of Independence, with a lecture on *The Idea of Karnataka*, trying to understand what makes this state unique. And today, one year later, I feel the time is ripe to examine the Idea of Global Bengaluru in the same spirit: to contribute to positive change. I argue though, that this focus on Bangalore, on one city, is really a microcosm for the country. Understanding Bengaluru will help us better understand India. And we must accept that ideas must be acted on if we are to realise the improvements.

The lecture is organized as follows. I begin with a brief history of this city. Then I discuss the globalization of Bengaluru, and what this means for both the city and the country. Successful globalization has some implications, and after a discussion of these, I turn to the implications for this city. The talk ends with some suggestions for policy action.

Bengaluru-Bangalore: A Historical Sketch

Cities change over time. Bangalore's origins go back to Veera Ballala who is supposed to have given it its name [*Bendakaluru*] after eating boiled beans for

dinner in a poor woman's hut when he was running from his enemies. Later, Kempe Gowda, the Yelahanka Prabhu of the Vijayanagar Empire, set up four towers within which the city was to prosper—and it has long extended beyond them. The British set up the Civil and Military Station early in 1800 after defeating Tipu Sultan, and that marks the beginnings of this modern city.

The Cantonment, as this C and MS was popularly called, brought in not only a new culture—the colonial British one—but a whole new class structure, new economy and so on. The layout too is unique, with South Parade, Brigade Road, Commercial Street, and Langford, Richmond, Cox and Frazer Towns being central to it. Those who had prospered in the courts of Tipu Sultan gave way to a new set of people, many who came from other parts of the country and brought with them their languages and customs. A unique aspect of Bengaluru is the number of languages its residents speak: Tamil, Telugu, Marathi, Urdu, and perhaps others, are all spoken at home [*matrubhashe*] with Kannada as the language of interaction in the street [*janabhashe*]. It is perhaps the only city in the world where films in as many as five or six languages are regularly screened. This medley has made it intrinsically cosmopolitan.

New economic activities like currency transactions became important. This has been described in an essay by Narendar Pani, Tara Anand and I in the 1984 set of *Essays on Bangalore* brought out by the Karnataka State Council of Science and Technology. The same collection also has an essay by H Ramachandran in which he discusses the *Slumming of the Metropolis*—an aspect that is not as seriously studied as it should be. An unfortunate aspect of this city's growth in recent years has been the growth of the slum—'recognised' and unrecognized—because of in migration by people looking for better economic opportunities.

The end of the 19th century saw the setting up of the Binny mills which was an important landmark in the industrialisation of the city. The early 20th century also saw the expansion of the city, with areas like Basavangudi and Malleshwaram being set up in a planned way. Over the years, the Cubbon Park which separated the *pete* from the cantonment was gradually reduced in size, with architectural giants like the Vidhana Soudha coming up opposite the Attara Katchari, which now houses the High Court. In 1949, the two areas were united under the Bangalore City Corporation.

The early years of the 20th century saw the establishment of the *Indian Institute of Science*, in what today would be called the PPP model. The Maharaja of Mysore contributed land; the Tatas provided the ideas and support. Much of what happened later can be seen as a consequence of this development. On this foundation, the IISc, now celebrating its centenary, has achieved a great deal. In this, some visionaries of Mysore had an important role to play. One must acknowledge the contribution of Sir Mokshagundam Vishveshwarayya a former Dewan of Mysore and an early recipient of the Bharat Ratna.

Sir MV has many contributions to his credit. Here, in the context of Bengaluru, I will mention only one. He had a vision of a future industrialized India, and set up many institutions to help reach that goal. He had visited Japan, where he saw how the *zaibatsu* were established. He borrowed the idea of the State—government—setting up industries in an environment in which entrepreneurship and finance were lacking among the people. Thus a whole range of industries came up in Old Mysore ranging from porcelain, chemicals, steel, fertilizer and many more. Mysore was one of the few relatively industrialised areas of India at Independence. As a member of the National Planning Committee in 1930 [of which Nehru was the Chairman] he placed these ideas before a national audience⁴ and convinced them of their practicality. The roots of the Second Five Year Plan lie in the experience of Old Mysore and the ideas of Vishveshwarayya. In saying this I am not denying the contributions of Nehru, Mahalanobis and many others from the Planning Commission and the Indian Statistical Institute, but I am talking of where the key ideas came from.

It will be worth noting also that a close relationship was established between the IISc and these new industries. One of the first Departments to come up in IISc was Inorganic and Physical Chemistry, which worked closely with the new chemical factories that had then been set up in the Mysore kingdom. This was true on a wider scale. I leave it to you to wonder if this excellent tradition has been carried on.

In a true sense, Bengaluru may be described as a ‘Mahalanobis’ city. Mahalanobis is known as the main force—after Nehru—of the Second Five year Plan. This Plan proposed a programme of rapid industrialisation led by the State and consisting of the establishment of the public sector industry

⁴ It is not only economists who should read his 1935 book, *Planned Economy for India*.

which would ‘make machines to make machines’. Major units of this new public sector were located here. HAL was established before Independence by Walchand Hirachand, and it came into public ownership. ITI was set up shortly after. But then came BEL, HMT, BEML and a host of ancillaries. Each of these set up a township, with schools and hospitals around what was then the area outside the main city. When Professor Satish Dhawan became the Chairman of the Space Commission, he brought the Indian Space Research Organisation to Bangalore. Another major research institution was the National Aeronautical Laboratories. And there are others. While some argue that it was the ‘salubrious’ climate of this city that attracted these industries here, it may also be prudent to note the prior existence of modern industry, of a skilled labour force—and there was in migration too of skilled workers, which the city welcomed—and of the existence of higher educational institutions and research labs which would support these new factories. And perhaps one may also note, in these days of tension with Pakistan, that Bangalore was far away [in terms of technology then available] from that new country! That may also account for so many defence labs being here—and they have contributed their mite to the city’s ‘tech’ status.

After the establishment of the public sector giants, growth was modest, and limited to ancillary and small industries around these ‘mother’ plants. Problems resulting from rapid growth had to be dealt with. There was a shortage of power. And once new generating capacity was developed, there was a surplus of power, which led the state to offer what today looks like incredible concessions to the aluminium factory which came up in Belgaum.

The next phase of growth is that most here are familiar with—the IT⁵ and Garments revolution. The hi-tech nature of the city has been well documented by James Heitzman in his *Network City: Planning the Information Society in Bangalore*. The availability of universities, of research institutions, of a work force used to the discipline of the clock—all these supported this new growth. There is also the ‘cluster effect’. Resources in almost any technical domain can be sourced in Bengaluru and this is an important plus factor. People from anywhere seem to be willing to relocate to this city—it has become ‘aspirational’.

⁵ It has become fashionable to say IT along with ‘BT’, for biotechnology. The state Department of IT was made IT-BT. But the BT industry depends on original research that has to be commercialized, and this needs time. To date, there are prominent companies in the field, but the promise is yet to be fully realized.

Despite the growth of other centres, this city still accounts for about 40% of all revenues in this sector; truly an extraordinary position.

But what must be noted about this phase is that this growth was not state driven. In both IT and garments, the growth came from the private sector taking advantage of global markets. The economic policy changes of 1991 helped them and speeded up the process, but in terms of Bengaluru's growth pattern, this is a crucial difference. The city economy was no longer being driven by the public sector.

While the public sector units set up their own townships and supplemented the city's infrastructure, the private sector companies that came up after 1980 depended upon the city's infrastructure. The propensity to spend of the employees of these IT companies, which became increasingly profitable and grew significantly over the years, had a multiplier effect and led to pressures on housing, on schools and city infrastructure like drinking water and electric power. A city that had so far not had to deal with growth—or growth on a modest scale—suddenly had to deal with a population that grew from just over a million in 1971 to over 6 millions in 2001. A city with a road network that offered pedestrians pavements to walk on suddenly had to deal with a deluge of cars. It took time for the problem—or rather, the size of the problem—to sink in. And by then the pace of urbanization led more or less to a breakdown in civic infrastructure. The city groaned under the strain.

The Local Base of the Global: Bengaluru and the World

The recent growth of the city economy is based on the advantage that the new entrepreneurs took of the potential in global markets. They found global markets for locally available resources. What the new industry required, above all, was engineering knowledge, and thanks to the IITs [and many other engineering colleges in Karnataka] we had plenty of it. I remember debates in the late 1970s and early 1980s about the problem of 'the educated unemployed', who were mostly engineers. Not finding work in India, they were moving out in large numbers that was dubbed 'the brain drain'. Clearly, we could not harness this talent; the global market could—and did.

What these new companies really needed was a computer, [which, by the mid 1980s, was not a huge piece of machinery] and later, a phone line; they had

the critical talent. The investment requirements, at that time, by the standards of manufacturing industry, were small. There were, of course, problems in getting both a computer and a phone line, but happily these obstacles proved to be ‘overcomable’. If one had a sound engineering education, one could offer services to the developed world and make an honest profit because of the huge difference in costs. Bangalore had something to offer, a skill set to sell. And it had the organizational knowhow to make it happen. Above all, it is far away from the bureaucratic quagmire that is Delhi. In hindsight, this was indeed a big advantage, and one it still has.

As a student in the US in the early 1970s, I had noticed that the most sought after people in the University Computer Centre were Indians—mostly south Indians who knew what to do with the huge stack of ‘punch cards’ we all carried. They seemed to have an instinctive grasp of what was needed. By the 1980s, this need has been transformed into a market demand that companies were willing to pay for. It is this market that the nascent IT industry tapped. The story of Infosys and Bangalore is now well known⁶. There are, I am sure many other stories like it—perhaps less dramatic, but nevertheless similar in essentials.

The global demand for such services, as modern industry became increasingly automated, grew by leaps and bounds, slowly at first, and then in a rush. It is to the credit of these new companies that they could move up the value chain.

This got a push when, [thanks to the US moving from a B1/B2 visa regime to an H1B visa regime in the early 1990s], there was a shift from the ‘body shopping’ model to the ‘offshore’ model. They also successfully moved from the routine Y2K kind of work that many began with to technical value added services made possible by offshoring. Today India has the largest number of companies certified to ISO 9001, and later to CMM level 5 on a global scale.

Technical developments in microprocessors and electronics led to new ways of organizing work. The change it brought about in the way work was done was dramatic. One thing this technology did was to make irrelevant the location of the activity. It could service the market requirement from anywhere. The US market could be served from anywhere. The fact that our educated people

⁶In no small part, because of the Presidential campaign of John Kerry, who acted as our salesman by painting a picture of Bangalore that was meant to frighten the American voter—the fear of being ‘bangalored’. One tends to respect those who are good enough to take away one’s job. To the US goes the credit for turning a noun into a verb.

spoke English made the task easier; it gave India a strategic business advantage over other low cost economies.

This separation of manufacturing from markets had anyway been happening in many sectors of industry. In 1973, Paul Samuelson, who was awarded the Nobel Prize in economics in 1970, had written in the *Wall Street Journal* that the US was becoming a ‘headquarters economy’, controlling technology and finance, while production was being shifted to places where costs were low—mostly East Asia. This was the time of the Taiwanese and Korean economic miracles. ASEAN was the buzz word. By the 1980s, China had appeared on the scene, and ten years later it was the manufacturing base of the rich world. India, via Bengaluru, joined the party some years later.

There are other reasons for this as well. Apart from costs, there was also an environmental concern. Why risk ecological degradation in the rich countries? Why not keep the air pure and the rivers clean? If Asia wanted industry and discounted the environment, why not locate polluting industries there⁷? The consequences today are clear in China—and perhaps other countries too. This is also a debate in India, though it has other dimensions as well here.

The case of garments is one of good organisation and management making the most of an abundant supply of unskilled labour, and the collapse of the textile industry in its traditional strongholds like Bombay and Ahemdabad which opened a market opportunity. The training that a new worker needed was simple. It could be given in a few days. Apart from low wages, workers could be made to work for long hours. These factories mainly employed women, who were desperate for steady wages to feed their families. They would not join unions; they would not complain. This meant that production could be organized in large sheds under supervision. If the design requirements could be reduced to simple tailoring operations, shirts and other garments could be produced on a large scale and sold to major brands abroad. Thus the large retail stores gave large orders that were fulfilled by these companies. Here in Bangalore, it was the knowledge of the foreign market, the capacity to organize large scale production, to supply large numbers of standardized products, that mattered. The large margins were at the end of the chain. These were under the control of the large companies that placed the orders. But the low

⁷US President Barrack Obama’s White House Economic Adviser, Lawrence Summers, in an earlier avatar in the World Bank, had once prepared an internal memo on these lines. It was later described as an academic exercise, not a policy statement.

wages meant substantial profits for those who controlled this work. The margins were large enough to make the effort worthwhile. Workers were grateful for a steady wage as they had few options. Marxists could scream that this was *absolute* rather than *relative exploitation of labour* that must be resisted. But the exploited were grateful for the money wage which made the difference between survival and starvation. It may be a Dickensian world, but it is reality.

There is clearly a big difference between the IT world and the garments world; but both are global players. Both have made Bengaluru what it is today. How they cope with the current global slowdown will have a big impact on Bengaluru.

Companies in Bangalore leveraged their strengths and took advantage of this global market. In both IT and garments, they took on the challenge of supplying the requirements of the American—and later European—markets from here. It was difficult in the beginning due to the bureaucratic culture of this country. Nehru's public sector strategy, which consisted of new projects in different manufacturing sectors to provide a technological base for the Indian economy, had been reduced to a 'licence raj' by Mrs Gandhi⁸. Under Mrs Gandhi, the public sector grew because of nationalization in banks, in textiles, in coal and not because of new factories⁹. Regulations were passed that left little in the hands of company managements. All key decisions were controlled by bureaucrats—for modernization, for capacity utilization, for technical collaboration and so on. Some liberalization began in the mid 1980s under Rajiv Gandhi. The top bracket of the income tax was reduced from over 90% to a mere 55% by then Finance Minister V.P. Singh. This let up in the bureaucratic gridlock gave these companies the start they needed. The opening up of the economy in 1991 then widened the opportunities. The good news is that this opportunity was realized by many. Bangalore boomed!

There was another reason as well, and this is inherent in a global world. Companies in the US and elsewhere saw the opportunity in Bangalore, and set up their own units—as subsidiaries, as joint ventures, or in some other way. All the global names in the world of IT followed the lead of Texas Instruments which set up shop in Bangalore in the mid 1980s. The demand for skills grew, wages shot up. Bangalore boomed.

⁸ The dangers of this were noted in the late 1960s itself, for example in studies undertaken by Ravi Hazari of Bombay University for the Planning Commission.

⁹ And all kinds of public sector companies were set up in the states. Important politicians—or those who had a nuisance value for the Chief Minister—were accommodated as Chairmen. It was purely petty politics of the worst kind, in which state power was [mis]used for rent extraction. Karnataka, for example, set up the *Karnataka Compost Development Corporation*.

The boom led to huge demands on infrastructure. The solution was sought globally: Bangalore was to be made into a Singapore!

The Obverse of the Global: A Strong Local

As these companies grew, they began to worry about the sustainability of their business model in Bangalore. The crumbling infrastructure, the shortage of skilled people in a number of areas, the uncertainty over power supply—all these were matters of concern. The Union of India may have begun a process of liberalisation, but in the states—and industry is a state subject in the Indian constitution—it was still mindless inspector raj with a vengeance. And there were other problems on the horizon.

The demand for ‘jobs for locals’, the demands for reservation of jobs in the private sector, were sounding the alarm bells in these new industries that are dependent on the availability of highly skilled people. Wages for medium level skills were rising. And for many ordinary people, the stress on the city infrastructure made the immediate past look rosy in comparison to the difficult present, which they saw—rightly or wrongly is not relevant—as benefiting a small and ‘favoured’ group. However, I do not believe we should look back; there is no glorious past to go back to in our history. *Mud mud ke naa dekh!* We have made mixed progress, and the goal should be to push ahead by solving the genuine problems of each group beginning with those who have been bypassed by the growth process.

Some of these firms may have started as small family enterprises meant to provide a livelihood to the ‘otherwise unemployed’ till they found suitable jobs—preferably in government agencies. But, perhaps to their own surprise, they have thrived and prospered. Government jobs may not look so attractive to these people now; and anyway, they are not available any more with government ‘rightsizing’ itself. Therefore the firms must continue to thrive and grow. The change from small family business to capitalist firm is complete. But capitalist firms have to reinvent themselves continuously and grow. For the Bengaluru companies, these changes came when after listing in the local stock exchanges, they moved on to list in the New York Stock Exchange and in the Nasdaq. Now their future would be governed by different dynamics like quarterly results¹⁰. Like big firms everywhere, they would have to plan for the

¹⁰ As the Satyam case shows, this can be drastic pressure in family managed businesses.

long term—and this led to their concern for the basic requirements of continued growth.

Could the economic growth that these companies had enjoyed be sustained if Bangalore did not provide the necessary level of infrastructure to keep the business going? It was on the basis of good infrastructure—of roads, ports, communications, schools, that industry thrived anywhere. This was the basis of China’s phenomenal growth. Could Bengaluru cope? What had to be done? What could they do?

As companies grew, as shortages developed in key areas, they had to move to other places. That is perhaps good for the country. India can hardly claim to be an IT super-power if all it had was located in just one city. But the problem of skills transcended Bengaluru; the shortage was national. India was in the odd position of being a labour abundant country with shortages in all skill categories. And the signs of ‘success’, showcased in modern malls and lifestyles, created expectations among people that they could all benefit from these changes. Yet, many lacked the skills—and often the capacity in English that is so crucial to work in this sector. Perversely, the state insisted on schools teaching the local language, *and in the local language*; English schools ran into problems. The Technology sector is deeply worried that the base on which it has built itself is being eroded. It could, of course move—and it has threatened to do so at times—but where would that leave Bengaluru?

Nilekani argues in his book that much will be achieved if the country moves in the direction of realizing a national market—a point I referred to above. As a student of economics, studying the market is my bread and butter. Yet, what the economist has in mind is a theoretical caricature of a perfect market, not a picture of the real world. It is one without uncertainty. It is one in which no one can influence prices. It is one in which technology is uniform. And there are more such assumptions. Based on this, economists prove theorems about the market clearing function of such a market which is also ‘optimal’ in the sense that no one section can be made better off without making some other section worse off. And—and this is important—this conclusion says nothing about the distribution of income. If at the end of the process, we have a terribly unequal society, the economist will say: “Start again, with a different set of initial conditions”. The economist has no idea that this is not a simple matter. So unless we begin with relative equality, the market will only reproduce inequality—and even aggravate it over time. I think we can all agree that

Bengaluru did not start this growth process with a relatively equal distribution of income. Over time perceived inequality has increased. So those at one unequal end have a legitimate grievance because their rights as citizens and needs as people have been ignored for so long.

These economic theorems are logical propositions from which all empirical content has been carefully removed. This perfect self regulating market exists nowhere. To use this theory as a guide in understand the real bazaar would be risky. The policy maker, if not the economist, has to understand the inter-relationships in the economy, and use policy tools that build on the right linkages. There can be legitimate differences in this understanding, and it is from this debate that policy decisions must emerge. That is why ideas are important. Policy must be based on understood reality, not conceptual abstractions.

One school within this theory argues that the State has no role in the economy. Yet, in all countries the state plays a role in controlling, regulating, coercing...we can use other words—the market. The real question is what that role should be in India. And our experience tells us that the 'licence raj' model is perhaps not the right one. Once again, *mud mud ke naa dekh!*

If a near perfect market exists anywhere, it is in www.ebay.com; it is a virtual market place for buying and selling and millions of transactions have taken place in it. It works. But the point is that ebay is a closely controlled and regulated marketplace. Ebay has put in place—and successfully enforced—a set of rules within which transactions take place. Without these rules, there would be chaos. The lesson is clear. If we are to work with a market, let us first put in place a set of workable and enforceable rules that the players accept and work within. Who is to make and enforce these rules? Only the State can. And in India, the State has been a strong [and ineffective?] player in the market. There may be disagreements about specific items in this programme. But the role of the State cannot be wished away. We have to refashion it.

For example, there has been much talk of labour reforms, and how these have been stalled. [Please note that this stalling has not impacted the growth rate.] Yet, what is meant by labour reforms? Is it a collection of the desires of big companies that seek flexibility—namely a hire and fire policy? Why does the labour reform debate appear as a zero sum one in which industry getting its way means labour must lose? The Indian labour movement has a long history

of struggle in which it has wrested significant gains from a reluctant private sector in the past. They will not co-operate unless convinced that workers will gain from a change. Let me grant, for argument, that the new companies are different. Yet, in the absence of any kind of safety net, in the absence of any kind of social security, at a time when traditional joint families are disappearing, how can any debate on labour reforms ignore the conditions in which that can happen? How is it that employment conditions, job creation and so on do not figure in the demand for labour reforms? Why is there no discussion of wage subsidies of the kind used by the UK after the Second World War in the debate? Are wage subsidies worse than capital subsidies that the government has been so generous with? Does a high growth rate necessarily mean lower employment via increasing labour productivity? Why not explore the possibility of employment maximization in which the growth rate is a derivative? There is a poverty of ideas here. Are there no win-win solutions? Have we looked for them? Today, when the global meltdown is impacting our city, when large numbers of people are losing their jobs, it is more important than ever to face this problem¹¹.

In a global economy, where uncertainty rules, it is essential that each place has something to offer. If globalization means we can buy what we need from where it is cheapest, it also means that to pay for what we need, *there must be something in the making of which we are the best in the world*. Bengaluru began well with two such sectors—IT and garments. But other places followed this lead. For IT there is competition from countries like Ireland, Philippines and so on. Even non English speaking countries are getting into the act. Mexico, which is in the same time zone as Chicago, can invest in English language skills and get a slice of the business. Other countries have begun to invest in English. Apart from China, countries like Cambodia are learning English in a big way. In this situation, what can Bengaluru do to ensure it can earn enough to pay for its needs in a global world? How can it keep—and strengthen—its competitive edge? How can it use its abundant but unskilled labour resources in this process?

It is critical then to ensure that Bangalore has the basic infrastructure to support its comparative and competitive advantage, and change with the times as needed. An educated work force is critical here. We have used up the

¹¹ For one such effort, see S Varadachary: *The Fiscal Stimulus; Is It Enough? Is It in the Right Direction?* Centre for Budget and Policy Studies, Bangalore January 2009.

existing stock; the new comers do not have the same level of skills. There is much lacking in the quality of education¹². There is really no health care to speak of. The efforts of industry to deal with this are small and cannot solve the basic problem of quality education and health care. The state has to play a role; it does not even seem to realize the problem¹³.

Other infrastructure too is equally important. Power is a scarce commodity. With politicians promising free power to win elections, how will this critical issue be solved? When will the state take a long term view of this need? And the same goes for roads, railways and so on. Industry lobbied hard for an international airport, and got its way. But the project has been mired in controversy over the closure of the old airport to guarantee the monopoly granted to the new one. The privately built NICE Corridor to Mysore has been shrouded in controversy for several years, with the Chief Minister who signed the concession agreement now its main detractor. In recent months, many roads are being indiscriminately widened—just look at Seshadri Road! Hundreds of trees have been cut, to deal with the ‘traffic problem’ without any explanation of how this would solve that problem, and while paying no heed to the many voices of protest. In important matters, Bengaluru is in a state of chaos. A few days ago, the Chief Minister himself expressed in his anguish over the quality of work in the city corporation! Nothing could be more pathetic!

What about public transport which alone can reduce congestion in the roads? The *Namma Metro* rail network on which work is currently underway is a curious solution. It has been designed to the 1981 census boundaries of Bangalore. The north–south line connects Yeshwantpur and Jayanagar. There are many kilometres of development beyond these points. The metro as it has been planned does not touch Whitefield, or Electronic City, or Peenya Industrial Area. It does not touch Bannerghatta Road, where so many companies are located. One could go on and list these omissions. The question is: Who made this plan? How did such a plan get approved? Who approved it? Where is the Government, and how does it work? Both *Bangalore* and *Bengaluru* are unhappy with the situation.

Without a strong governance structure in place in Bengaluru, where the citizens of the city take care of themselves, the city cannot maintain its position in

¹² The pathetic state of education and health has come out from research in CBPS.

¹³ I invite you all to see the CBPS film, *A Question of Equity*, which deals with this issue from real hard data.

the global economy. It is no wonder that those concerned with the future are worried.

But what does this involve? To this question I now turn.

Governance of Bengaluru: What Can We do? And Who Should Do It?

In the last section I referred to the problems that may derail the progress made by Bangalore companies in the last decade or more. These are basically problems of governance. Without what is today called ‘good governance’—[is that an oxymoron?], it may not be possible for Bengaluru to retain the position it has built for itself in the global economy. *Mutatis mutandis*, the argument holds for the country as well as the malaise is not limited to this city alone. The question thus has more than Bangalore wide relevance.

In *The Idea of Karnataka*, I had reflected upon the quality of our politicians. There were very few from Old Mysore who were part of the independence movement. While other states had stalwarts of the freedom movement like Nehru, Govind Ballabh Pant, Morarji Desai, Rajaji, Vallabhbhai Patel, Sri Prakasam, B.C. Roy, Biju Patnaik and so on, there is not one in this list from here. Perhaps this was because Mysore was a kingdom under indirect rule. Perhaps there are other reasons. But the result is that when states were reorganized on linguistic lines and democracy came to Mysore, there was no pool of freedom fighters to draw upon. The political void here was filled by ordinary people, not great leaders, who saw in the electoral process an opportunity and filled in the political vacuum. Mysore had a strong tradition in its civil service, and for some time these civil servants provided the guidance so important for governance. Over time, however, the civil service declined here as it did across the country. In the absence of a political leadership schooled in the freedom movement, politicians of small vision came to the fore. And such political masters soon got the civil service they deserve. Equilibrium is at the lowest level.

In our democracy, elections give us political leaders who are served by civil servants. If the leaders have no vision, there is little that the civil servants can do. And over the years, especially after Mrs Gandhi’s ascendance in the late 1960s, institutions in India suffered serious blows. The absence of far sighted leaders—there may be some exceptions—led to a decline in the quality of administration.

Unfortunately, Bengaluru *is a leader in this process of decline*. Elected leaders no longer acted for the people who elected them, but for themselves. A mismatch [which is growing wider] began in the incentive structure of ‘principals’ [the elected representatives] and their ‘agents’ [citizens]. Corruption, rent seeking behaviour and other ills took on an overwhelming importance. We have a situation today where a member of the Legislative Assembly is caught red handed taking a bribe; and one in which other MLAs come unabashedly to his defence. The Lok Ayukta has shown how corrupt the system is, with politicians, civil servants, contractors and others in a ‘nexus’ that has gone crazy. The political environment in the state is abysmal.

The record in implementing projects could do with improvement. Flyovers—even if the decision is correct—routinely take years to be completed. The old Airport Road flyover took more than five years to be built. There is a policeman directing traffic on top of the Richmond Road flyover—a first in the world, I believe. Nothing is ever done on time and within estimated cost. Time over-runs and cost over-runs have become so routine we wonder if any attempt at realistic estimation was at all undertaken. Information is difficult to come by. Our studies have shown that in sectors that are critical to ordinary people—education and health—there is regularly money that remains unspent in the districts. It is not money that is the problem. It is the absorptive capacity of our system. The state government today *cannot deliver*¹⁴. It is a sobering realization.

Industry has tried to make a contribution. There is the well known case of the Bangalore Agenda Task Force. But this attempt tried to get things done in the city by going to the Chief Minister—a completely top down arrangement. It completely ignored the elected representatives of the city corporation¹⁵. Naturally, they resented this effort, and when the Chief Minister changed got it dropped—and the city was starved of funds to make a point to the ex-CM. The lesson is clear: respect democracy. Work with the constitutional structures of local government.

Realising this need, the reformers of the 1990s¹⁶, passed two constitutional

¹⁴ There is also evidence that the better off citizens are ‘opting out’, through gated communities, and private schools and hospitals. That leaves the poor and those with no influence at the mercy of poor quality government institutions, which are effectively not accountable to anyone now.

¹⁵ I refer to the unpublished research on this subject by V. Vijaylakshmi, now with the United Nations in New York.

¹⁶ Discussed in my monograph, *Crisis and Response, An Assessment of Economic Reforms*, Madhyam Books, Delhi, 1996.

amendments—the 73rd and the 74th, to give constitutional status to local governments in India and to ‘unbundle’ the State governments. To implement projects with ‘people’s participation’, democracy was taken to the grassroots.

These amendments changed India from a federal structure of two tiers of governance—the Union and the State—to three tiers, with a number of responsibilities given to the local tiers. The State [provincial] level now was to focus on policy, on resources, on technology, on law and so on for the subjects in the State list in the Constitution, and leave implementation to local governments, panchayats in rural areas, and municipalities and corporations in urban ones. But the exact details of this were left to the State legislatures. The spirit of the amendments is to create local governments, but in the current transition to a system of local governance, there is a long way to go. Many who feel they will lose power and influence oppose the transfer of power systematically. Many who are educated prefer a centralised system in India—witness the knee jerk reactions that ask the union government to ‘act’ on all kinds of things! While elections are held, the resulting local governments have no functions, no funds and no functionaries to do what has to be done. It is easy to meet the requirements of the *letter* of the law while defeating the *spirit* of the law.

Karnataka has given no freedom to its local bodies—they are bodies, not governments. The percentage of total expenditure devolved to all local bodies in the State from 2000-01 to 2006-07 was 3.72%. The claim that they are inefficient or worse can hardly be sustained when this is the level of expenditure in these bodies, taken together. In fact the Municipalities Act of 1994 gives less freedom to municipalities than the 1961 Act it replaced. The far reaching rural reforms of Hegde and Nasir Sab in the mid 1980s have been successfully reversed even before they could show results. They are a great case study in how vested interests in the State can hit back when good reforms are given as a gift by leaders to the people. That explains why there was no backlash when these reforms were reversed in Karnataka. To make local government a reality, many of us have to fight a long and hard battle.

The state emasculated the City Corporation by setting up a number of agencies to perform civic functions, like the BWSSB for water supply, the BDA for planning and so on. These agencies are not accountable to locally elected representatives. For several years now, Bangalore city has had no elected

government¹⁷. It is no wonder that the emasculated corporation then become a forum of petty politics, of people who saw a stint in it as no more than a stepping stone to the real thing. Bengaluru is a political vacuum in Indian democracy. It remains a vacuum since the laws of physics do not seem to apply here.

Some years ago, after the 74th amendment had begun to be implemented, seven city municipal councils were formed around the Corporation area. Elections were held, but no delegation of powers and funds took place. The CMCs remained under the control of state civil servants who listened to the state government and did what it wanted, including getting resolutions passed to provide a fig leaf of respectability to their decisions. A good example is the way in which the Greater Bangalore Water Supply and Sanitation project was planned¹⁸. Not very surprisingly the elected councillors had no say, and no interest, in what happened.

A fraud of 240 crores was detected by the Lok Ayukta. These councils were then emasculated. No effort was made to make them work better on the basis of experience gained. They were then merged into the Bangalore Mahanagar Palike which had been superseded, and the whole entity was renamed the Bruhat Bengaluru Mahanagar Palike. An inefficient BMP was morphed into a bigger BBMP overnight, with no study of why it was being done, and no study to guide what was being done.

We all know how dysfunctional the old BMP was. It has now been enlarged and is still, to be fair, just as dysfunctional. The new BBMP is under the control of a civil servant called an Administrator. In 2008-09, till February [the financial year ends in March] the BBMP could not even collect property tax! There is very little to be said about civic services. More than two years have passed since it was formed and there are no signs of an election being held. There are signs that elections may be delayed even more. The vested interests, which are state level political leaders afraid of competition, and bureaucrats afraid of accountability to elected representatives locally, have so far prevailed. Where then is democracy—local democracy? Where are the Bangalorean's voices to be heard? By whom?

¹⁷ A former Mayor of Bangalore, P.R. Ramesh, has filed a case in the High court demanding the elections be held. The court has ordered that elections be held within a defined time frame. This has not been done. He has now filed a Contempt of Court petition. We have to see what follows. That it had to reach such a pass is shameful enough.

¹⁸ See the CBPS report on this project. Copies available on request.

Meanwhile, there have been suggestions on how the new BBMP should be set up. An interesting study for the Public Affairs Centre by S Krishna Kumar has made detailed suggestions for eight small towns under the BBMP, which should have a directly elected Mayor. An important part of this suggestion is that the State government must get off the back of the BBMP. There should then be no Bangalore city minister. Para statal agencies like the BDA, the BWSSB, and others must be wound up, and the tasks given to the elected BBMP. To rebuild, one must get rid of the old rubbish. Decisions have to be taken at the right level—a simple management principle.

I must not be misunderstood. I am not claiming that holding elections to the BBMP will solve our problems. The BBMP has to be given time to get into its role. It needs nurturing for a while. Others who have been working on different aspects of city management have to adjust to a role under the BBMP. It must get its own staff, replacing the civil servants on deputation from the state government. It must have its own finances and financial systems. The state government will need to make corresponding structural changes.

Some progress in this direction has been made in recent years. The citizen report cards for government accountability originated here. A double entry accrual based accounting system has been developed for the Bangalore Corporation; it has even begun to be used, as the PROOF campaign of a few years ago demonstrated¹⁹. The *jago re* campaign to encourage voter registration was initiated here. The Right to Information law has provided citizens with a powerful weapon they can use. But unfortunately, it has not yet been used² as it should be.

Economists, when talking of such changes, refer to a “J” curve. Things often get worse before they get better. The change to local governance in India is of this type. It is hard to think of things being worse than they are today, but I suppose it is possible. The new structures of local governance have to go through the learning curve and then we can hope for better things. We have to invest in them. Karnataka has been particularly poor in this. The local structures have not been given time to adjust. Laws are constantly being changed before they have begun to work. Patience with a well designed structure is a pre-requisite for improvements.

¹⁹ Seema Darger: City government, Budget analysis and People’s participation in India: The Experience of Bangalore, CBPS, June 2003.

²⁰ Documented by Shashikala Sitaram in *Citizen’s Participation, Urban Governance and Right to Information*, CBPS, Bangalore October 2008.

The constitution has provided the framework within which Bengaluru can look after its needs and provide for the future. This requires more democracy. It requires a deeper democracy. It requires that elected governments in a federal structure respect their jurisdictions. If all this done, then perhaps the necessary conditions for Bengaluru solving its own problems will be in place. Whether they are sufficient, time will tell.

The Constitutional amendments have provided the framework within which the problems of Bangalore—and much of India as well—can be dealt with in a democratic and rational framework. The state government has shown no inclination to strengthen such local governments based on democracy. They have preferred to work through state bodies manned by bureaucrats and outside of local democratic control. This is the problem. It is the gridlock. The crisis is clear in Bangalore. Perhaps it has to get much worse before the state government reacts. We have all to raise our voices to demand that the constitution be worked properly. It is for the Bengaluru citizen, for the Karnatakan voter, to act and bring about this necessary political change and make local government a reality. *Naavu kalakke thakkanthe nedaya beku.*

Or perhaps it is our fate to succumb to petty forces and give some other place a chance for its place under the sun. The early signs are visible. Bangaloreans do not take the trouble to vote: in the last local elections, the turnover was less than 50%. Eternal vigilance, we are told, is the price of liberty—and democracy. Voting is the first step in exercising such vigilance; holding those elected responsible is a continuing process after elections. By abdicating this responsibility, the Bangalorean has effectively given the local representatives the licence to irresponsibility. It is no wonder we see the kind of inefficiency I have discussed above. Democracy has to be earned and nurtured—and we have been remiss. After all, decline is a commonplace in history. Greater stories than Bengaluru's have disappeared in history—think, for example, of the Vijaynagar Empire, to name only one.

By Way of Conclusion

In sum, I argue that where we go depends on what we decide to do now, as citizens, and as a local government. This is new to many of us, used to thinking of government as a *mai-baap* surrogate. Having changed so much in the last twenty years, Bengaluru can probably make this change too. Time will tell.

This talk has been about Global Bengaluru. I have used songs from our film industry to reinforce my points. It is only fitting that a talk about the global city end with a reference to a saying from afar, to reinforce the global-local link.

As an old Spanish proverb says: “Caminante, no hay camino, se hace el camino al andar”. Pedestrian, there is no path. A path is made by walking. Is Bangalore ready to walk its path? I remain irrationally optimistic.

I thank you for your kind attention.

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