Empowering Local Governments for Growth and Innovation in India

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Empowering Local Governments Latest News

- India's local bodies continue to suffer from poor performance and limited effectiveness. Quoting Jawaharlal Nehru's 1925 criticism of municipal governance, analysts suggest that little has changed over time.
- They highlight that the third tier of government—rural and urban local bodies—remains largely ignored in debates on Indian federalism, which focus mainly on the Centre and states.
- They describe local governments as the **"stepchild" of Indian federalism**, with state governments acting as controlling intermediaries that restrict their autonomy and functioning.

Dependence of Local Governments on States

- **Weak Administrative Capacity** – India's urban local bodies (ULBs) suffer from severe neglect in terms of manpower and institutional capacity.

- **Low Share of Government Employees** – In countries such as the United States and China, nearly two-thirds of government employees work under local governments, enabling them to deliver most public services directly.
  - In contrast, in India, just over 10% of government employees work for local governments, significantly weakening their service delivery capacity.
- **Poor Financial Autonomy** – Financial independence is essential for effective governance, but India's urban local bodies remain heavily constrained.

Stagnant Revenue Generation

- While the Centre and states have significantly increased their self-generated revenues over the past six decades:
  - Centre: around 2 times increase
  - States: around 2.5 times increase
- The urban third tier's own tax revenue has stagnated at just 0.3% of GDP.
- Due to weak revenue generation, expenditure by local governments remains extremely low.
  - ULB expenditure is less than 1% of GDP
  - State governments spend roughly 15 times more
  - The Centre spends nearly 20 times more

Dependence on State Governments

- Because local bodies generate very little of their own revenue, even their limited spending depends heavily on external transfers, primarily from state governments.
- This dependence undermines their autonomy, decision-making power, and governance effectiveness.

Missed Opportunity Despite Constitutional Status

- This continued weakness is particularly striking given:
  - Rapid urbanisation in India
  - The 73rd and 74th Constitutional Amendments (1993), which granted constitutional status to local governments with the aim of strengthening decentralised governance.

Land Monetisation and the Weakness of Local Governments

- The weaknesses of India's local governments are linked to a deeper structural issue: the inability to effectively **monetise land**, despite rapid economic growth increasing land and property values.
- In land-scarce economies, rising land values can become a major source of public revenue.

India vs China: A Sharp Contrast

- China successfully converted rising land values into public revenue, largely through land sales and taxation.
  - Land revenue rose from less than 1% of GDP to over 10% at its peak
  - Per urban resident, China's land revenue was:

    - 15 times higher than India's in 1999
    - 225 times higher at its 2020 peak
- This significantly expanded China's fiscal capacity for urban development.
- India's land-related revenues remained stagnant at around 1% of GDP, despite similar economic growth and rising urban land values.

Reasons for India's Failure

- **Legacy of Socialist Policies** – Socialist-era laws such as the Urban Land Ceiling Act, 1976 fragmented land ownership without meaningfully enabling public land acquisition or monetisation.
- **Failure to Monetise Public Land –** Large tracts of land held by: Public sector enterprises; Ports; Defence establishments; State-managed temples. It remained vacant, encroached upon, or underutilised, without being monetised.
- **Distorted Land Markets and Black Money –** Restrictive land use regulations, building by-laws, and flawed policies created severe distortions in land and rental markets. This contributed to – Rent-seeking; Informal transactions; Massive generation of **black money**, especially in the real estate sector.

Low-Equilibrium Trap for Urban Local Bodies

- Urban Local Bodies (ULBs) are stuck in a weak political economy cycle:
    - Higher tiers (Centre and states) control fiscal devolution
    - Local bodies lack independent revenue sources
    - They are reluctant or unable to tax local citizens
    - This creates chronic resource shortages and dependency

Administrative Dependence on States

- The problem is worsened by weak institutional autonomy.
- City governments often lack authority over:
    - Appointment of municipal commissioners
    - Senior administrative staff
    - Promotions, transfers, and disciplinary control
- Even when functions are formally transferred to local bodies, the personnel remain accountable to **state governments**, severely limiting local autonomy and governance effectiveness.

The Way Forward for Empowering Local Governments

- Beyond competitive federalism between Centre and states, competition among cities and local governments (competitive sub-federalism) could become a major driver of reform, efficiency, and innovation.
- Growing urban populations may strengthen local governance politically.
- The upcoming Census and intra-state delimitation could increase the electoral weight of urban voters, creating stronger incentives for better urban governance.

Conclusion

- Debates on Indian federalism must move beyond Centre-state relations to include the third tier of governance.
- Empowering cities with greater autonomy, accountability, and resources is essential for India’s future growth, innovation, and livability—as reflected in chronic urban crises such as Delhi’s pollution and Bengaluru’s congestion.

Source: IE | PIB
