The State of Indian Cities

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Abstract: It is now well established that India is urbanizing at a fast pace and Indian urban governance is severely lagging behind, causing a breakdown in urban service delivery. This paper argues that the main reason for urban dysfunction in India is that urban local governments, despite having constitutional recognition, do not have federal or fiscal autonomy. The Indian constitutional structure does not reflect genuine federalism, only decentralization of functions without any devolution of power. This is particularly true in the context of fiscal federalism because urban governments have very little revenue raising authority, unless devolved by state legislatures, making them largely reliant on intergovernmental transfers. Implications of this structure are that policies will not be designed to compete for urban citizens' taxes, and expenditures do not align with the preferences of urban citizens.

Keywords: Fiscal Federalism, decentralization, urban governance, India, constitution

I. INTRODUCTION

The world is in the midst of a great migration, within national boundaries—from rural to urban areas. For the first time in history, more than half the world population lives in cities. The trend towards urbanization is only growing, and by 2050 over 70% of the world's population will be urban. This trend is projected to have a greater impact in developing countries. The urban population of India has increased from 286 million in 2001 to 377 million in 2011. This trend is expected to continue; and urban population in India is estimated to reach 600 million by 2030. This will require over a trillion US dollars in capital investment including 700-900 million square metres of new commercial and residential space each year to serve existing and new urban citizens (McKinsey 2010).

In addressing these needs, the key problem is not that of the resources and expense required for expansion and maintenance of these cities in India. Increases in the urban population, which foster more productivity than rural areas, will generate enough wealth to support the expansion (see Jacobs 1984; Ikeda 2012). Indian cities currently account for 66% of GDP in India and by 2030 they will account for nearly 75% of GDP (Ministry of Urban Development 2015). The relevant problem is institutional—one of urban planning, and more importantly, of the political system within which urban plans are developed and executed (Rajagopalan and Tabarrok 2014).

In India, despite the increasing productivity of urban areas, service delivery in urban areas is extremely poor. Indian cities are drowning in waste with a high degree of air and water pollution, creating public health crises (Narain 2012). Most Indian cities do not have basic infrastructure—such as a fully functioning sewage system, garbage disposal system, fully connected piped water delivery, electricity, fire safety measures, mass transportation system, or roads—in line with citizens' needs (Ahluwalia 2011).

Walking through any city, there is a visible, and an invisible aspect to urban design and governance. The visible or spatial aspect is planning and reserving space for future streets, sewage, garbage disposal, electricity, mass transit or underground access, parks, etc. The invisible aspect is the structure of governance of the city. This paper mainly deals with the question of structural or constitutional design within which urban local governments operate. Problems in the visible aspects of the city, like the ones plaguing Indian cities, reflect deeper problems in the structural design of governance structures.

The problems of poor urban services can be traced back to a long and complicated history of undermining local government in India. Since the early twentieth century under the colonial government, local governments have always fallen under the control of provincial governments.[1] This trend has continued in post-colonial India.[2] In 1950, the Constitution of India had no provision or structure for *urban* local government—forming these governments was left to the states. It was the constitutional reform in 1993 (through the 73rd and 74th Constitutional Amendments) led to the establishment of rural and urban local governments in the constitutional framework.

This paper details the reasons for poor urban governance, despite formal recognition of urban government in India since 1993. It argues that one of the reasons for urban dysfunction is that urban local governments, despite having constitutional recognition, do not have fiscal autonomy. The Indian constitutional structure does not reflect genuine federalism, merely decentralization of functions without any devolution of power. This is particularly true in the context of fiscal federalism because urban governments have very little revenue raising authority, unless devolved by state legislatures, making them largely reliant on intergovernmental transfers for revenues. Consequently, policies are not designed to compete for urban citizens' taxes, and expenditures do not align with the preferences of urban citizens. While political federalism has various weaknesses within the Indian system, fiscal autonomy is the worst casualty of the centripetal nature of Indian federalism.

It is important to analyze the constitutional and federal structure of India, to better understand the problems with urban governance in India. PK Tripathy (1974) famously said that India is a quasi-federal republic—which means that it is not federal. Parikh and Weingast (1997) have criticized India for being federal in its political structure, but failing to meet additional conditions of market preserving federalism. The political and the economic critique of the federal (or lack thereof) structures, show that federal arrangements have a very clear impact on urban governance. As Sivaramakrishnan (2013) revisits the reforms of 1992 to create urban local governments, he recognizes the tremendous failure of the constitutional amendments in creating a genuine devolution of power. Mohanty (2016) focuses more specifically on finances of municipal governments and analyzes the imbalances in fiscal federalism, leading to low investment in urban public goods. Continuing this literature, this paper emphasizes that to understand these problems of local governance, it is imperative to look at the structure of federalism and fiscal federalism in India. It argues that the fiscal autonomy of local urban governments is the key to unlocking the governance reforms in cities in India.

In section 2, I describe the general state of urban governance in Indian cities. In section 3, I revisit the political economy literature on fiscal federalism, in particular the difference between federalism and decentralization. And in Section 4, I first describe the federal structure of India and argue that Indian local governments do not reflect federalism, and fiscal autonomy, merely decentralization. In Section 5, I conclude, mainly by calling for structural reform of the fiscal structure to improve urban governance in India.

II. THE PROBLEM: GOVERNANCE AND SERVICE DELIVERY IN INDIAN CITIES

Existing and emerging Indian cities have failed to provide appropriate and safe infrastructure to meet the demands of its urban citizens. This is true across regions, across states, across rich and poor areas, and across political parties governing these areas. Services such as sewage disposal, garbage disposal, roads, electricity, and clean water are either unavailable to fulfill the demand, or are of very poor quality.

In a City Sanitation Study conducted by the Ministry of Urban Development (2010), not one of the 423 cities studied was found to be 'healthy' and 'clean' by public health and sanitation standards. Nearly 190 cities were rated to be in a state of emergency with respect to public health and the environment degradation. The Center for Science and Environment, in its report analyzing the wastewater management of 71 Indian cities, demonstrates that Indian cities are drowning in their own excreta, because of inadequate provision to treat sewage (Narain 2012). Only a handful of Indian cities can boast a 100% sewage network within the city. 4,861 of the 5,161 towns/cities in India (approximately 94%) do not have even a partial sewage network. About 18% of urban Indian households defecate in the open because of lack of access to toilets. Only a fifth of the waste generated is treated before disposal (Ahluwalia 2011).

Existing sewage treatment facilities cannot handle even two-thirds of the demand and less than half of these state sewage treatment plans are in working condition. As a result, most of the sewage water waste is dumped in rivers untreated (Ahluwalia 2011, pp. 50-53). The situation is not much better for solid waste. Solid waste is either left untreated or illegally dumped on public land or water bodies, leading to contamination of groundwater and surface water, or burnt, leading to pollution of air through unregulated burning of waste (Ahluwalia 2011, pp. 53-56). It is estimated that the lack of wastewater treatment leads to over $15 billion spent in treating water-borne diseases in India (CII and CEEW 2010).

The situation regarding garbage collection and disposal is only marginally better. Garbage is dumped in public dumpsites either directly by households, or by private garbage collectors, who go door to door for a fee. Once dumped, the collection of the garbage from dumpsites is infrequent; the garbage is not properly processed, and disposal rules are rarely followed. Neither households nor municipalities in India practice segregation of biodegradable waste from the rest. Private scavengers, who hunt for plastic, metal, and glass, to sell them for recycling, are the only members segregating garbage—and are treated poorly by the state authorities and within the social structure of Indian society. Public awareness on the costs and benefits of garbage segregation and disposal practices is quite low, and it is commonplace to see large public garbage dumpsites in the middle of cities.

In addition to land and water pollution, air pollution has also gone unchecked. The motor vehicle population in India has increased a 100-fold from 1951 to 2004, while the road network has expanded only eight times (Uddin 2009). Only a handful of Indian cities have a mass transit system. Public transport accounts for only 22% of urban transport in India. The share of public vehicles in the overall mass transit fleet in India has decreased from 11% in 1951 to 1.1% in 2001. In 2009, only 20 out of India's 85 cities with a population of 500,000+ had a city bus service. This problem is caused by inadequate investment and a tax structure that is biased against public transport. The total tax burden for public transport vehicles per vehicle km is 2.6 times higher than the tax burden for private vehicles, making public transport cost ineffective and uncompetitive (Ahluwalia 2011, p. 56).[3] As a result of poor roads and burgeoning numbers of motor vehicles, congestion is a massive problem in most urban areas. Of India's two million kilometres of roads, only 0.96 million are surfaced and about one million kilometers are poorly constructed. India's 53 national highways carry about 40% of the total road traffic. Along with cities, approach roads connecting cities to villages and other urban areas are dysfunctional or congested.

Indian cities and rural areas are also weak on fire safety. The Standing Fire Advisory Council has recommended setting up fire stations based on response time—five to seven minutes in urban areas. The current infrastructure exceeds the recommended response time by an order of 10 or more. The main reason is a severe shortage of fire stations. India has 2,987 fire stations against the requirement of 8,559—a deficiency of 65%. The maintenance of fire service is a municipal function, but funds to improve the infrastructure and quality of manpower needed to tackle fire incidents are provided by the federal government (The Quint 2016). Unfortunately, this has proved inadequate and fire safety infrastructure is typically very poor across urban India.

Finally, one of the most pressing shortages in India, even in urban areas, is provisioning of electricity. At least 300 million of India's 1.25 billion people live without electricity and most of these people are in rural areas. Many living in urban slums are also without electricity, either because they cannot afford to connect to the grid, or such connections are unavailable. The Power Grid Corporation of India operates more than 70,000 miles of transmission lines. The grid's transmission connections between regions remain inadequate—this was the primary cause of the 2012 blackout, the largest blackout in the world in terms of number of people affected. India's switching and control technology has hardly been upgraded in the last two decades (Martin 2015). Power losses in transmission and distribution across India average around 25%, and in some areas they can reach 50%. This means that half of the electricity being generated either never reaches an end user or is used but never paid for by the end user.

In short, the urban Indian citizen is faced with a fairly dismal state of affairs, when an average day is a struggle for electricity, clean water, modern toilets, transport, and safety. In each of these areas, public provisioning is so inadequate and poor that citizens rely heavily on private providers for public goods (Rajagopalan and Tabarrok 2014). The problem is not just in a single sector, but also across all divisions of public goods provisioning. Goods and services provisioned or regulated by the federal, state, or local government have one thing in common—poor service delivery in urban areas. This is also true across state lines, irrespective of political party affiliation, and of the presence or absence of natural resources in the region. The problem is one of institutionally weak local government. It is useful to analyze the structure and functioning of local governments in India to understand these chronic problems of urban governance.

III. FEDERALISM

Federalism is defined as a hierarchy of governments in which: (1) two or more levels of government govern the same jurisdiction and citizens; (2) each level of government has a well-defined scope of authority; and (3) each level of government possesses a guarantee of autonomy within its own sphere of authority (Riker 1964). This arrangement of governments typically has central, provincial, and local governments within the same national territory. There are many reasons, political and/or social and/or economic, that nations have a federal structure of governance. I mainly on the economic arguments.

3.1 Fiscal Federalism

There is a rich literature in political economy on the economic benefits of federalism and decentralized decision-making. John Stuart Mill (1977, p. 541) wrote:

> It is obvious to begin with, that all business purely local, all which concerns a single locality, should devolve upon the local authorities. The paving, lighting, and cleaning of the streets of a town, and in ordinary circumstances the draining of its houses, are of little consequence to any but to its inhabitants. But among the duties classed as local or performed by local functionaries, there are many which might with equal propriety be termed national, being the share, belonging to the locality, of some branch of the public administration in the efficiency of which the whole nation is alike interested: the goals, for instance—the local police—the local administration of justice.

There are many different economic arguments hidden in Mill's insights that seem to be largely based on common sense. But it is useful to separate the different economic arguments in favor of federalism.

First, is that the central government can never possess enough information to tailor policies to specific local circumstances. This argument is essentially an extension of Hayek's scholarship on the knowledge problems associated with central planning (Hayek 1937). Hayek's argument on federalism does not compare governments with markets, but more centralized state authorities with their decentralized, local counterpart. Because local governments are more likely to have better information about preferences of citizens, impacts of policies, and relevance of projects, local governments will make better governance decisions (Hayek 1948).

A related, but distinctive argument, is about competition of local governments within a federation. Tiebout (1956) argued that federalism would pressure local governments to compete for revenue, providing a tight feedback mechanism of citizen preferences. Tiebout argued that citizens could 'vote with their feet' and choose between services of competing local governments leading to two consequences. The first is that where the preferences of citizens vary, competition among jurisdictions leads to an optimal mix of policies across jurisdictions. The second, and key to Tiebout's argument, is that competition among jurisdictions will force local government officials to directly face the consequences of their policy choices.

The third, and in an operational sense the most common, argument is found in Oates (1972) where he argues that federalism is the optimal form of government, and in particular, focuses on the optimal assignment of policies and taxes across levels of government. Oates states that the main principle for provisioning public goods is that the lowest level of government that is *capable* of producing a particular public good should be assigned the authority to produce that good. Oates argues that there are economies of scale at higher levels of government, and arguments in favor of greater centralization. And there is greater knowledge of citizen preferences at lower levels of government, an argument in favor of greater decentralization. Therefore, a federally structured government can enjoy benefits of centralization while avoiding its problems, if the structure is set up for the optimal provisioning of public goods.

While Hayek and Tiebout's arguments focus on the institutional structure within which federalism would create a process that leads to efficient outcomes, Oates' arguments are essentially one of optimality as echoed in the decentralization theorem. The decentralization theorem states—in the absence of cost-savings from the centralized provision of a [local public] good and of inter-jurisdictional externalities, the level of welfare will always be at least as high (and typically higher) if Pareto-efficient levels of consumption are provided in each jurisdiction than if any single, uniform level of consumption is maintained across all jurisdictions (Oates 1972, p. 54).

Bish and Ostrom (1973) provide an extension to the decentralization theorem, by making a compelling case for further decentralization and autonomy. They argue in favor of small and local governments, notwithstanding the theoretical capability of producing the "optimal" level of public goods and services. They provide evidence of how smaller jurisdictions can contract with other jurisdictions to provide services, thus allowing the capture of economies of joint production. They demonstrate that there is no need for governments to consolidate to achieve economies of scales described by Oates, when contracting is an alternate option to achieve the same outcome. In other words, they argue for even greater level of local decision-making than Oates.

These arguments are not just echoed within the public finance literature, but are also mirrored in urban planning literature. These broader concepts of federalism have also been applied to urban governance, most notably in the work of Elinor Ostrom. These ideas are perhaps best reflected in the work of Jane Jacobs. Though Jacobs is not interested in federalism or political structures *per se*, her views on local government have imbibed these arguments on economic benefits of federalism. She considers three levels of local urban government (or levels of decision-making): (1) the city as a whole; (2) in case of larger cities, districts composed of one hundred thousand citizens or more; and (3) street neighborhoods. Jacobs argues "city administration needs to be more complex so that it can work more simply" (Jacobs 1961, p. 434).

3.1 Federalism versus Decentralization

At this point it is useful to understand the differences between federalism and decentralization; an important distinction in the context of Indian local governments. All federal systems involve decentralized political authority, though not all forms of decentralization constitute federal systems.

Parikh and Weingast (1997) argue that the defining characteristic of any federal system is that a hierarchy of governments with a delineated scope of authority (for example, between the national and subnational governments) exists such that each government is *autonomous* within its own sphere of authority. Decentralization, on the other hand, means that there is a hierarchy of governments, with delineated functions and scope, but autonomy is not a necessary condition.

Many of the arguments forwarded by economists in favor of federalism, while couched in federal terms, are really arguments in favor of decentralization. These arguments are variations of the main argument in Oates (1972, p. 55). As discussed above, Oates decentralization theorem merely requires each public service should be provided by the jurisdiction having control over the minimum geographic area that would internalize benefits and costs of such provision. The decentralization theorem does not carry the requirement of autonomy of the local government; simply that the local government must be in charge of provisioning the relevant public good.

Eusepi and Wagner (2010) critique the Oates (1972) decentralization model as an institutionally sterile understanding of federalism. This is an important criticism because within Oates's analytical framework, he leads almost directly to a treatment of federalism as decentralization, because he presumes that the knowledge necessary to secure allocative efficiency is possessed at the central level. In other words, if one were to merely look at the decentralization theorem, it would seem that allocative efficiency is not a working property of an institutional framework, which is openly competitive, but rather is something that can be determined independently of any institutional framework. And further that such an independent determination would mimic the results of the competitive institutional framework of federalism.

Eusepi and Wagner (2010) make a distinction between genuine or spurious federalism. They argue that genuine federalism entails competition among governments, which can create a framework wherein governmental power at one level restrains government at the other level. This form of federalism operates on polycentric principles of open competition where the pattern of activities among governments is an emergent product of that competitive process. A system of competitive federalism requires independent, competitive action among governments for votes, and for revenues from the citizens. Spurious federalism, on the other hand, is merely a decentralization of power; it does not require genuine autonomy. Furthermore, decentralization implies that the power devolved by the higher-level government may be taken away, whereas genuine federalism requires that that power cannot be "given" to sub-national government by another higher level.

The Hayek/Tiebout/Eusepi-Wagner conception requires genuine federalism where local governments have authority, specifically revenue raising authority, and are not mere extensions of higher levels of government. On the other hand, Oates's conception is compatible with both federalism and decentralization. Another important distinction is that Oates' focus is much more on specific policies and taxes and public goods, whereas Hayek and Tiebout's conception of federalism is about the optimality of the system—with applications beyond fiscal matters. Within the urban governance literature, the scholarship of Ostrom, and of Jane Jacobs echoes much of the Hayek-Tiebout idea of federalism and local government.

3.2 Fiscal Autonomy

Perhaps the most important part of federalism is fiscal autonomy. i.e. the local government is not only autonomous in its function, responsibilities, and decision-making; but also autonomous in raising revenues and determining expenditures.

In standard public finance theory, the various levels of government require specific fiscal instruments. On the revenue side, governments will typically have access to tax and debt instruments (Oates 1999). However, in a federal system, in addition to the revenue and debt instruments, there is another method of acquiring funds—through intergovernmental transfers or grants. In theory, one level of government may generate tax revenues in excess of its expenditures and then transfer the surplus to another level of government to finance part of the latter's budget. Intergovernmental transfers constitute a distinctive and important policy instrument in fiscal federalism that can serve a number of different functions. Such transfers can, in theory, be used to improve allocative efficiency by internalization of spillover benefits to other jurisdictions.

They are also used as a tool to aim at specific distributive goals, such as fiscal equalization. Intergovernmental transfers are of two different forms, in pursuance of the above goals. Conditional grants place various kinds of restrictions on their use by the recipient government, while unconditional grants may be used for any purpose the recipient government chooses. Theory prescribes that conditional grants should be only employed where the provision of local services generates benefits for residents of other jurisdictions; where spillover benefits to others need to be incorporated into the decision-making calculus. Unconditional grants are typically the appropriate vehicle for purposes of fiscal equalization, i.e. to channel funds from relatively wealthy jurisdictions to poorer ones. Such transfers balance the fiscal need versus fiscal capacity of the local government. These formulae result in a larger share of the transfers going to those jurisdictions with the greatest fiscal need and the least fiscal capacity.

Much of the theory on intergovernmental transfers in the standard public finance literature has come under criticism by public choice scholars (Buchanan 1950; Buchanan and Wagner 1970; Brennan and Buchanan 1980). In theory, under the assumption of benevolent actors, intergovernmental transfers can be efficient. However, if the assumption is relaxed and self-interested political actors are placed at national and sub-national levels of government, intergovernmental transfers can actually undermine the benefits of federalism.

It is imperative for local governments to solve their own budgetary problems. It is also imperative for local governments to link local revenue to local economic prosperity. This condition provides important incentives for local officials, as their government's fiscal health is directly related to local economic prosperity. If, in contrast, local governments are given additional sources of revenue through intergovernmental transfers—their incentives are no longer tightly linked to their citizens. This undermines the benefits that are generated by competitive federalism, as predicted by Tiebout (1956) and Buchanan (1995), through the pressures of potential exit by citizens.

The most important aspect of fiscal autonomy is that governments within the federal system face hard budget constraints. There are three ways to impose hard budget constraints on sub-national governments. The first is to limit the borrowing ability of the sub-national governments (including open-ended access to capital markets, and borrowing from the central bank). The second is to limit or constrain ways by which local governments can access revenue from other jurisdictions through intergovernmental transfers. Particularly, 'fiscal equalization' transfers must be strictly limited, to prevent sub-national governments that perform poorly from getting larger subsidies. The third is to ensure that local government can, and is allowed to, go bankrupt within the system. Parikh and Weingast (1997) argue that some of these conditions for fiscal autonomy are also instrumental in market preserving federalism.

There are two fiscal links for local governments; one with the citizens, the other with higher-level governments. If local governments face hard budget constraints, and have genuine fiscal autonomy; then the link between the local government and citizens is strengthened. Incentives of government officials must align with the preferences of the citizens, or at least a section of the citizens in a democratically elected sub-national government. On the other hand, if intergovernmental transfers are used to either: (1) increase the dependency of local governments on higher level governments; or (2) to soften the budget constraint faced by local governments; then the link between local government officials and higher government officials is strengthened. Incentives of local government officials will then align with the preferences of higher-level officials from the bureaucracy and the legislature. Therefore, the very purpose of local governments, to mirror the preferences of citizens, will be undermined.

Federalism without fiscal autonomy will not result in the many economic benefits of federalism. Systems that are structured as federal, but lack provisions for fiscal autonomy, are what Eusepi and Wagner (2010) would dub spurious federalism. If local governments are not responsible for their own budgets, and these budgets are not linked tightly between the local government and the citizens; then this is merely decentralization of authority and decision-making. This is an important distinction for the efficacy and accountability of local governments.

IV. FEDERALISM IN INDIA

This section evaluates the Indian federal system on the principles discussed above—federalism, decentralization, and fiscal autonomy to sub-national governments in India. A number of scholars have commented on the structural and fiscal problems of Indian urban local governments (see Ahluwalia et. al. 2014 and Sivaramakrishnan 2011). The section seeks to evaluate whether the structure of local governments in India has the features of federal and autonomous decision-making described in section 3. Or if the constitutional structure contributes to these fiscal problems.

4.1 The Constitutional Framework for Urban Local Government

India is a federation with 29 states and 7 union territories. The Constitution of India establishes dual centers of government (the Union at the Centre and the States), each assigned with powers to be exercised within its jurisdiction. It outlines various provisions for both vertical and horizontal power sharing.[4] The Constitution divides legislative power between the Union and state legislatures; these powers are assigned in three lists in Schedule VII. The Union List details the subjects on which Parliament may make laws (Schedule VII, List 1); the State List details those under the purview of state legislatures (Schedule VII, List 2); and, the Concurrent List has subjects in which both Parliament and state legislatures have jurisdiction (Schedule VII, List 3).

The Constitution, however, provides primacy to the Union on concurrent list items: i.e. if there is a conflict between a central and state legislation, the central legislation will prevail. The Union also enjoys residual power, i.e. power over matters not enumerated in the State or Concurrent Lists are reserved to the Union (Schedule VII, List 1, Entry 97). Several relatively broad provisions exist, which give the Union the ability to override the states' authority in special circumstances (for a detailed description of these clauses see Section 4.2 below). When conflicts over legislation arise between the Union and the states, the Supreme Court determines the competence over a jurisdiction.

Similar to the provisions for legislation, at its inception, the Indian Constitution also clearly lays out expenditure authority, revenue-raising instruments, and legislation required to implement expenditure and revenue policy, between the Union and states. In addition to legislative competence, the Constitution also specifies expenditure responsibilities of the Union and State Lists, with a Concurrent List covering areas of joint authority (see Schedule VII).

Like legislative power, in taxation power also, the Union has residual power over any tax not mentioned in the State list. The details on allocation of tax power, as well as tax revenue between the Union and states are specified in various provisions in Part XII of the Constitution (Articles 268-79).

The Planning Commission and the Finance Commission are the two main central authorities responsible for distributing the revenue between the Union and states. The Planning Commission was set up to implement the Five Year Plans, the main authority for implementing socialist development goals in India. The Planning Commission is not a constitutional body but was created by a cabinet resolution in 1950 to implement central planning in India.[5] The Finance Commission is a constitutional authority, constituted by the President once in five years (Article 280). It makes recommendations on the distribution of the total revenue between Union and states, and also between states. While the Planning Commission determines Plan expenditures, the Finance Commission has authority over all non-Plan expenditures. Usually about two-thirds of the expenditures were allocated through Finance Commission and one-third was allocated through the Planning Commission (Singh 2003).

The Finance Commission can only recommend; it is up to the central government to accept the recommendations and devolve revenue to the state governments. Historically, the central government has had more and better sources of revenue than state governments. Therefore, the Finance Commission is merely an instrument that recommends decentralization, but it is up to the central government to devolve power to the states. One of the main functions of the

Finance Commission is to fill the gap between committed expenditures and expected revenues for state governments. It is in charge of making recommendations for intergovernmental transfers, and also comes up with a fiscal allocation plan, which is based on principles of fiscal equalization.

In 1950, at the time of ratification of the Constitution, the power to constitute local governments was vested with State Legislatures. "Local Government, that is to say, the constitution and powers of municipal corporations, improvement trusts, district boards, mining settlement authorities and other local authorities for the purpose of local self-government or village administration" (Schedule VII, List 2, Entry 5). Therefore, there was no constitutional position for urban local governments, except to vest the authority with the state. State Legislatures could, if they saw fit, devolve the power further by constituting and empowering municipal governments.

Within this framework, a number of municipal bodies were constituted through different state legislation. The constitutional position of these local governments remained subordinate for the first few decades of the Indian Republic. Consequently, they were subjected to interference, supersession, and most importantly, were financially dependent on their state governments. Urban local bodies like Municipal Corporation of Calcutta or Madras; that were set up and had functioned for decades in colonial India, fared poorly post-independence, as they were superseded or suspended.

Due to the pace of urbanization, and the very poor state of urban local governments, the Constitution was amended in 1992 to include local governments in urban as well as rural areas. The 74th constitutional amendment [hereinafter 74th CAA] introduced a new section "Part IXA—The Municipalities" to the Constitution, comprising newly introduced Articles 243P – 243ZG. The 74th CAA's passage marked the first time that urban local bodies received constitutional authority. It defined urban local bodies, and created a democratically elected vehicle for devolving administrative powers, functions, and sources of revenue to local governments. These local governments were elected every five years (Article 243U).

The 74th CAA created three tiers of local bodies (based on the size of urban areas) constituted by democratically elected officials (Article 243Q): (1) municipal corporations for large urban areas; (2) municipal council for smaller urban areas; and (3) nagar panchayats for areas transitioning from rural to urban. Administratively, each urban local body is divided into wards, a territorial area with a population of 300,000 residents (Article 243S). Much of the 74th CAA is devoted to creating this democratic framework.

The 74th CAA also laid down requirements for the regular conduct of municipal elections and the reservation of electoral seats for scheduled castes, scheduled tribes, backward classes, and women (Article 243T). These newly introduced constitutional provisions also created potential for devolving greater functional responsibilities to municipalities and required the creation of several administrative bodies such as Wards Committees, District Planning Committees, and Metropolitan Planning Finance Commissions.

State Legislatures may endow local governments with the authority to perform functions listed in the Twelfth Schedule (Article 243W). These functions listed in the Twelfth Schedule include urban planning, regulating land-use, planning for economic and social development, building roads and bridges, supplying water, and managing solid waste, public health services, fire services, urban forestry management, alleviating urban poverty and upgrading slums etc. However, there is no requirement for state legislatures to devolve these powers. Therefore, despite the setting up of the three different types of urban local governments, the constitutional provisions left open the possibility that these governments would have no functions to perform.

The financing of urban local bodies is to be provided by State Finance Commissions. These State Finance Commissions can only recommend the allocation of funds between the state government and local government bodies to the State government, with the State government in turn determining the allocation of funds to urban local bodies (Article 243Y). In other words, like the Central Finance Commission, the State Finance Commission is also merely an instrument that recommends decentralization, but it is up to the state government to devolve power, and functions to the urban bodies.

4.2 Federal or De-centralized?

There are two aspects to Indian federalism. The first is the relationship between the Union and States and the second is the post-1992 relationship of urban local bodies with the state and Union.

A. Union—State

A number of constitutional provisions create a singularity or monocentric power in the hands of the central government, instead of the duality or polycentric power required by federalism. While there is a structure where states have decision-making authority; in a number of areas the national government (1) determines if it will devolve the power to the states; or (2) can override the state decision-making authority. Such areas of state government decision-making, which can be circumscribed by the national government, limit states to decisions that will be taken on terms set by the national government. Some of the relevant constitutional provisions are detailed below.

Despite a separation of legislative power between the Union and states through the lists in Schedule VII, there are a number of clauses where the Union can overrule or undermine the states' legislative competence and authority. If there is any repugnancy or conflict between legislation by Parliament and legislation by a state on a topic in the concurrent list, then the Parliament will prevail (Article 254(1)).[6]

Legislative powers of the Union are further strengthened because the Union has the residuary power for legislation. The lists in Schedule VII, which document the areas of legislative competence for the Union, states, and both, are not exhaustive. In such cases, Parliament has exclusive power to make any law with respect to any matter not enumerated in the Concurrent List or State List (Article 248 and Schedule VII, List 1, Entry 97).

The State List is not completely off limits to the Union. If the Council of States (Upper House of the Parliament) passes a motion that it is necessary or expedient in the national interest that Parliament should make laws with respect to any matter enumerated in the State List, then Parliament may legislate on that subject (Article 249). This power is further expanded if there is declaration of a state of emergency, where Parliament can make law on any matter in the State List (Article 250).

Parliament can also make laws on any subject in any jurisdiction if such laws are enacted part of implementing any treaty, agreement or convention with any other country or countries or any decision made at any international conference, association or other body (Article 253).

The emergency powers given to the Union can undermine state legislature and executive authority. Article 356 of the Constitution allows the central government to take over the state when the government of the state is not "in accordance with the provisions of this Constitution." Under this emergency provision, also known as President's Rule, the Union can remove the Chief Minister and the Cabinet of that state and also dissolve or suspend the Legislative Assembly of the state. Each proclamation in this regard has to be confirmed by both Houses of the Union's Parliament. [7] Proclamations of President's Rule have been imposed for the flimsiest of reasons like the breakdown of law and order, alleged corruption, lack of political stability in a coalition, etc. Over the years, the provision has been invoked numerous times, mainly to penalize state governments formed by opposition parties (Tummala 2002).

Finally, most of the provisions in the Constitution can be unilaterally amended by Parliament, without the requirement of ratification by the states. Of the 395 Articles and 12 schedules in the Constitution of India, only 30 Articles and one schedule requires state ratification for amendment. Primarily, amendments to provisions pertaining to separation of powers and federalism, also called 'entrenched clauses' of the Constitution, requires ratification by at least half the State legislatures; in addition being passed by Parliament, and Presidential approval.[8]

According to Weingast and Parikh (1997), in the context of market preserving federalism, India fails to meet the following criteria. First, states do not have primary authority over the economy within their jurisdictions. Second, revenue sharing among governments should be limited and all governments should face hard budget constraints, which is not the case in India. Third, the allocation of authority and responsibility should not be altered by the national government unilaterally, which is also not the case in India.

Given the centripetal nature of the Indian constitutional structure, and from the provisions detailed above, it seems that Indian federalism does not display polycentricism and autonomy of state governments. Instead it describes decentralization of power within a monocentric structure. It can at best be characterized as quasi-federal.

B. Urban Local Government—Union/State

Unlike the relationship between the Union and state governments, which has some elements of federalism although severely weakened by the provisions detailed above, the relationship between states and urban local bodies is entirely one of decentralization, and not federalism.

While the 74th CAA provides a platform for empowering municipalities, it is important not to overstate their revised constitutional powers. The 74th CAA did not automatically give local bodies autonomy. Rather, Article 243W of the Constitution gave states the discretion to devolve political, administrative, and fiscal power to municipalities.

"The Legislature of a State may, by law, *endow*" [emphasis added] a municipality with any of the eighteen functions listed in the Twelfth Schedule of the Constitution. This provision defines the limits on what powers may be devolved, stating that the municipalities should have "such powers and authority as may be necessary to enable them to function as institutions of self- government," but that their power may be restricted to "the preparation of plans for economic development and social justice" and "the performance of functions and the implementation of schemes as may be entrusted to them including those in relation to the matters listed in the Twelfth Schedule" (Article 243W).

The 74th CAA did not mandate implementation of self-government at the local levels. Instead, it mandated the creation of self-governing bodies, but left the question of delegating powers and functions to the state legislatures (Murthy and Mahin 2015). In other words, the amendment created the *potential for further decentralization*, without mandating decentralization. Further, because the choice to devolve power vests with the state legislature, urban local bodies do not fulfill the requirement of "autonomy" under Riker's definition of federalism.

Most of the provisions introduced in Part IXA deal with details on the structure of local bodies, elections to these bodies, and representation of different groups. If the goal of these provisions was to create representative government at local levels in urban areas, then the provisions merely succeeded in the representative part, but not in any actual governance. While the formation of and elections to these urban bodies is detailed in the constitution, the state legislatures still have the power to frame laws on how these bodies actually function. In this sense, the 74th CAA did not change much—the power still remains vested with the state legislature, which it may choose to devolve.

Though the results are dismal so far, the 74th CAA may, through the existing federal structure between states, create a dynamic of competition among states in the future and indirectly help empower the local governments. Where more states devolve power, it may put more pressure on other states to also devolve power to local governments. If important political, administrative, and fiscal functions are actually devolved by states, then municipalities could realize the perceived benefits of decentralization, including the promotion of grassroots democracy and improved delivery of public services in urban areas. In other words, the decentralization in the 74th CAA creates a *potential* for gain from future Tiebout style competition.

4.3 Fiscal Autonomy of States

While political federalism has various weaknesses within the Indian system, fiscal autonomy of sub-national governments is the worst casualty of the centripetal nature of Indian federalism. There are multiple aspects that undermine Indian states and urban local bodies' fiscal autonomy.

First, according to the principle of separation, taxes are exclusively assigned to the Union or the states. The Constitution has assigned the broad based taxes to the Union. And though a large number of tax categories have been assigned to the states, their revenue base is smaller, and most of the revenue is raised from sale of goods.

This division of tax categories has resulted in significant fiscal imbalance vertically and over a third of the state expenditure is covered by intergovernmental transfers from the Union. This is not an accident, since the framers created a fiscal structure that was centripetal. The constitution created a provision for intergovernmental transfers from the Union to the states, and also created an authority in the Finance Commission to recommend the appropriate allocation of funds through intergovernmental transfer. But the numbers are not promising.

Rao and Singh (2007) find that the ability of the states to finance their current expenditures from their own sources of revenue has seen a long-run decline, from 69% in 1955-1956 to 52% in 2002-2003. In 2002- 2003, the states raised about 38% of government revenues while they incurred 58% of expenditures (Ibid). This trend has continued. The Fourteenth Finance Commission reports that for 2012-13 the states raised 41.11% of the revenues and incurred 53.84% of total expenditures. Transfers from the Union make up the difference. Further, the Commission also reports an increase in Union Transfers to states as a percentage of GDP. Between 2004-05 and 2012-13 there is an increase of about 0.7% in the aggregate Union transfers to States as a percentage of GDP.

Table 1 shows the trend of all transfers from the Union to States from 1984-2015. The Thirteenth Finance Commission had noted revenue transfers over the years had exceeded the indicative ceiling of 38% of the gross revenues of the Union Government. This ceiling was previously set by the Twelfth Finance Commission for its term. The Thirteenth Finance Commission suggested raising the ceiling to 39.5%. According to the report of the Fourteenth Finance Commission, the shares of revenue transfers from the Union Government to State Governments was 41% total revenue transfers and had surpassed the revised ceiling. This trend of transfers from Union to States confirms: (1) the centripetal nature of the Indian fiscal system, where the Union determines a lot of the projects and plans for state expenditures; followed by (2) a high degree of state dependency on the Union to meet its expenditures.

Finance Commission (FC)	Finance Commission Transfers			Other Transfers			Total Transfers
	Share in Central Taxes	Grants	Total Finance Commission Transfers	Plan Grants	Non Plan Grants	Total Other Transfers	
VIII FC 1984-89	20.25	2.52	**22.77**	13.56	1.54	**15.1**	**37.86**
IX FC 1989-95	21.37	3.42	**24.79**	14.49	1.06	**15.55**	**40.33**
X FC 1995-2000	22.22	2.34	**24.56**	10.57	0.67	**11.24**	**35.79**
XI FC 2000-05	20.59	3.88	**24.47**	10.10	0.70	**10.80**	**35.27**
XII FC 2005-10	22.03	4.70	**26.73**	10.99	1.07	**12.06**	**38.79**
XIII FC 2010-15	23.95	3.93	**27.87**	12.87	0.59	**13.45**	**41.33**

Table 1: Transfers from the Union to States as Percentage of Gross Revenue Receipts
Source: Fourteenth Finance Commission Report (2015)

The most important aspect of these intergovernmental transfers is the high level of discretion involved in determining allocation. Though the trend of aggregate transfers has remained stable, the actual amount received by each state government varies over the years. The allocations are formally based on fiscal need and capacity, there are a host of other variables that come into play. Rao and Singh (2007) and Khemani (2009) demonstrate that, an important variable determining state allocation of revenues was political alignment of the party in power at the Union and the party in power in the state.

Through this system of revenue allocation to create the vertical fiscal imbalance, the central government, through the institutions of Planning Commission and Finance Commission, historically exerted a lot of control over the economy, and not just on the issue of macroeconomics stability. The dual transfer mechanism through the two commissions created a lot of room for discretion. Further, the lack of coordination between the Finance and Planning Commissions, both given quite different tasks, consequently created a soft budget constraint for the state, and an excuse to run deficits. Because the Finance Commission allocates transfers, in large part to cover the shortfall between expenditures and revenues, states have an incentive to commit to expenditures beyond their means in order to receive those transfers.

But the problem is not simply one of incurring a deficit; there is also the question of the ways by which states run up deficits without incurring any penalty. This is particularly true for states that are politically aligned with the Union. Khemani (2007) finds state governments that are formed by the same party as the Union government run higher than average deficits; and correspondingly, states governed by rival political parties have lower deficits, even if these parties are members of a coalition government at the Union. In other words, if the Union government is friendly, then state governments are less likely to be penalized for running up deficits. This essentially strengthens the relationship between sub-national governments with higher level governments, and simultaneously compromises the relationship between sub-national governments and its voters and tax payers. Because the strong link between citizens and state governments is broken due to the lack of fiscal balance and autonomy—the penalty and reward for actions is now linked with federal bureaucrats and politicians. Consequently, the reality does not mirror the predictions of decentralization models and theorems.

4.4 Fiscal Dependence of Urban Local Bodies

The problem of the lack of fiscal autonomy is even more severe at urban local bodies. The main reason is that the 74th CAA only created a list of policy areas that may be devolved to urban local governments by the state legislatures (Twelfth Schedule), but did not create a list of taxes that could only be levied by municipal governments.

The 74th CAA created two main provisions addressing the issue of finances of urban local governments. The first provision is to devolve powers to local governments to raise its own revenue. It left the authorization of taxes, tolls, charges and fees, assigned revenues, grants-in-aid and so on to state legislatures (Article 243X). A few states have devolved certain sources of revenue to fund municipal expenditures. While others have curtailed the powers of urban local governments to levy taxes.

The second provision is for intergovernmental transfers to make up the shortfall between own revenues and expenditures of local governments. Like the Central Finance Commission, state finance commissions are merely advisory and it is incumbent upon the state government to determine the allocation of funds to urban local bodies. Article 243Y provision mandates the State Finance Commission to review and recommend the 'principles' of devolution of state revenues to municipalities, determination of revenue sources to be assigned to or appropriated by municipalities, provision of grants-in-aid to municipalities and 'measures' needed to improve their finances. Just as the Central Finance Commission impedes the fiscal autonomy of the states through transfers, the State Finance Commissions undermine the fiscal autonomy of local governments through transfers.

The administrative units formed by the 74th CAA were created as vehicles for channeling money to local government authorities, with the goal of creating a more representative government at the local level. However, the local governments had little or no autonomy in their fiscal decisions. State Finance Commissions often do not function properly, which negatively impacts the financial revenues of a municipality. The quality of state finance commission reports is inconsistent, due in part to the lack of data from urban and local bodies, limited capacity, and lack of ownership by state governments. And even when the state finance commissions are functional, the state legislature may not operationalize the recommendations.

Urban Local governments have an additional source for intergovernmental transfers with the 74th CAA—the Union government. The Constitution mandates the Central Finance Commission to recommend, "measures needed to augment the Consolidated Fund of a State to supplement the resources of its Municipalities on the basis of the recommendations made by the Finance Commission of the State." (Article 280(3)(c)).

Despite these constitutional provisions to raise municipal finance, local governments face challenges. The Fourteenth Finance Commission of India recognized that governing cities is becoming a challenge due to issues of insufficient finances, weak institutional framework and lack of capacity for service delivery. India's municipal tax to GDP ratio is low. The Commission reported that the municipal tax—GDP ratio was 0.39% in 2002-03 and 0.40% in 2007-08 and has declined even further to 0.33% in 2012-13. This is low compared to Union tax—GDP ratio of 10.3% and state tax—GDP ratio of 6.8 % for the same period. The ratio of municipal tax to GDP is also low compared to other countries. For instance, the municipal tax—GDP ratio was more than 2% in 22 out of 34 OECD countries in 2010 (Mohanty 2016).

The ratio of all municipal revenue to GDP in India was estimated at 1.03% for 2012-13. This is quite low when compared to international standards for municipal finances. Mohanty (2016) compares the municipal revenue to GDP in India with: Poland (4.5%), South Africa (6.0%), Germany (7.3%), Brazil (7.4%), Austria (7.8%), United Kingdom (13.9%), Norway (14.2%), Italy (15.3%), Finland (22.4%) and Denmark (37.1%). India has a very long way before it can catch up with OECD countries' fiscal policies towards urbanization.

The low share of municipal revenue in the period is despite a consistent increase in the urban share of GDP. The Central Statistical Organization reported that the share of the urban sector in Indian GDP increased from 38% in 1970–71 to 52% in 2004–05. This number is currently at 66% and projected to reach 75% by 2031. The reason that this urban growth in population and in productivity does not translate well for municipal finance is that local bodies in India suffer from a lack of an independent tax base. The sources of municipal revenues in India—taxes, user charges and fees, transfers, and loans—are relatively narrow compared to other federal countries. The shortfall in finances is made up through transfers.

One of the most important aspects of long term urban planning, is stability in the sources of municipal finance. In particular, local governments' reliance on its own revenues, instead of intergovernmental transfers. Indian municipal finance performs poorly on this count. In 2002-03, 'own revenues' accounted for 63% of total municipal revenues in India (Mohanty 2016). Table 2 compares the source of revenues between 2007-08 and 2012-13. The share of own revenues for has decreased from 55.7% to 51.6 % and, therefore, the share of intergovernmental transfers has increased from 44.3% to 48.4%. The transfers, from both the State and Union, have increased. While the financing of local governments from states level governments has increased, it is important to note that this revenue increase is not because of greater devolution of authority (as conceived by the 74th CAA), but simply an increase in intergovernmental transfers. In other words, it does not improve the fiscal autonomy of local governments, and instead increases the fiscal dependence on state level governments.

	Sources of Revenue	Percentage of Total Municipal Revenue (2007-08)	Percentage of Total Municipal Revenue (2012-13)
A.	Own Sources		
1.	Total Taxes	37.20	32.00
	Property Taxes	16.53	15.64
	Other Taxes	20.68	16.35
2.	Non Taxes	18.50	19.70
	Total Own Source Revenue	**55.70**	**51.60**
B.	Other Sources		
	GOI Transfers	7.10	5.60
	Central Finance Commission Transfers	2.00	3.90
	State Assignment/ Devolution	18.90	19.20
	State Grant-in-aid	13.50	15.30
	Others	2.70	4.40
	Total Other Source Revenues	**44.30**	**48.40**
C.	Total Revenues	100.00	100.00

Table 2: Trends in Municipal Revenues in India by Source
Source: Mohanty (2016)

Table 2 also shows that while transfers for Union government are consistent for the two periods, the transfers from state governments have increased. This type of reliance on transfers is problematic. There is a high variation among state commissions in understanding and financing local expenditures. Even where state finance commissions are functioning well, state governments often do not follow their recommendations and, as a result, do not commit the required resources to local governments. In contrast, the central government of India generally accepts the recommendations of the Central Finance Commission, even though they are not mandatory. When states do not implement the recommendations of state finance commissions, the transmission of funds to local bodies is delayed despite the fact that states have to pay interest to the local bodies. Resultantly, many municipalities have unpredictable funds transfers from state governments, which compromise their ability to discharge their functions. The reluctance of states to follow the recommendations of state finance commissions that are working well is yet another barrier to improvements in municipal finance in India.

As mentioned in section 4.1, the 74th CAA created three types of urban local governments: (1) municipal corporations for large urban areas; (2) municipal council for smaller urban areas; and (3) nagar panchayats for areas transitioning from rural to urban. Table 3 compares own revenues and intergovernmental transfers for all three types of local government for 2007-08 and 2012-13.

Two important trends emerge from the data in Table 3. First, for all three types of urban local governments, the 'own sources' of revenue have decreased, and the intergovernmental transfers from the Union and States have increased. The second is that the smaller the size of the urban local government, the greater its reliance on intergovernmental transfers.

	Sources of Revenue	Municipal Corporation		Municipalities		Nagar Panchayat	
		2007-08	2012-13	2007-08	2012-13	2007-08	2012-13
A.	Own Sources						
1.	Total Taxes	45.5	40.9	18.6	14.7	10.8	8.2
2.	Non Taxes	22.2	23.9	9.3	10.5	11.3	11.8
	Total Own Source Revenue	**67.6**	**64.8**	**27.9**	**25.2**	**22.1**	**20.1**
B.	Other Sources						
	GOI Transfers	7.0	4.6	8.4	7.3	3.0	2.2
	Central Finance Commission Transfers	0.8	2.1	5.3	8.8	2.8	8.8
	State Assignment/ Devolution	11.4	12.6	31.2	29.0	63.1	49.9
	State Grant-in-aid	10.4	12.2	24.2	23.8	6.9	14.0
	Others	2.7	3.8	3.0	5.8	2.1	5.2
	Total Other Source Revenues	**32.4**	**35.2**	**72.1**	**74.8**	**77.9**	**79.9**
C.	Total Revenues	100.0	100.0	100.0	100.0	100.0	100.0

Table 3: Distribution of Municipal Revenues by Category of Urban Local Bodies
Source: Mohanty (2016)

This prevents smaller urban areas from planning for the future and expanding per the needs of their citizens. It essentially requires state level and union level governments to have the knowledge and foresight to plan for the growth of urban areas. An important implication of the fiscal dependence of smaller urban areas is this may put greater pressure on large metropolitan areas. This is because the migrants from rural to urban areas are attracted to the existing infrastructure and opportunity in the larger established metropolitan areas, instead moving to closer nagar panchayats where urban services and governance is inadequate.

With an increasing urban population, the per capita total municipal revenues is estimated at $50 and the per capita *own* municipal revenues is estimated at $27 for 2012-13. This, consequently, has an impact on per capita municipal expenditure, which is one of the lowest in India. According to the McKinsey Report (2010) India's annual per capita spending on cities is $50, including capital and operational expenditures. This is only 14% of the per capita spending on cities by China (at $362) and less than 10% of the per capita spending on cities by South Africa ($508). An important implication of such low expenditure is on infrastructure building. India's per capita annual urban spending on capital expenditure is $17. This is only 14.6% of the per capita capital expenditure by China (at $116) and only 13.3% of the per capita capital expenditure by South Africa (at $127). The report recommends that India increase the per capita capital expenditure eightfold, to keep up with urbanization over the next few decades.

Mohanty (2016) compares the trends of municipal expenditures in OECD countries and finds India severely lagging. The municipal expenditure to GDP ratio in India was 1% for 2012-13. Mohanty draws a dramatic contrast compared to the municipal expenditure to GDP ratios of: Belgium (7.0%), Germany (7.9%), Austria (8.2%), France (11.8%), United Kingdom (14.0%), Italy (15.9%), Finland (22.6%), Sweden (25.1%) and Denmark (37.3%).

One reason for such low expenditures is that most urban local governments in India do not spend all of the resources allotted. The reason is the unpredictability of future revenues, since most of the revenues are not raised through taxation but received through intergovernmental grants. These grants depend on the preferences of high level government, as well as political considerations (such as parties in power at higher level governments, religious and caste politics, linguistic fractions, etc.). A temporary resolution to this this problem, other than devolution of fiscal power to local governments, is institutionalizing a minimum share of inter-governmental grants. However, that will further increase the reliance of local governments on higher level governments and sever the right relationship between local governments and its citizens. The only permanent solution is to give greater fiscal autonomy to local governments and reduce the reliance on state government transfers.

On the other end of the spectrum some urban local governments overspend without any penalties imposed by higher level governments. Local governments in India are only partially to blame for incurring expenditures beyond their estimated revenues. They do not have sufficient sources of revenue generation because the state governments have not devolved the power in most cases. At the same time, they are democratically elected officials who need cater to the demands of citizens. In the absence of such devolution, their only option is to rely on intergovernmental grants from the Union and State.

The trends in the fiscal health of municipal governments is a direct consequence of the constitutional position of these governments. Constitutionally, they have been given a lot of functions and responsibility, and the appropriate democratically elected manpower. However, the constitutional structure has not created a system to support the fiscal needs of these governments. The democratically elected officials of urban local governments are trapped between appeasing the higher level state governments for resources, and appeasing their vote base within the urban area. Their incentives are better aligned with higher level governments because the citizens are merely voters, and not taxpayers. The main source of revenue comes from higher level politicians and bureaucrats.

The current constitutional structure that favors decentralization has many problems—mainly low municipal revenues, low municipal expenditures, and high dependence on intergovernmental transfers. These problems can only be resolved by moving from a system of decentralization to federalism. i.e. creating greater institutional and fiscal autonomy for urban local governments and in the process reducing the fiscal reliance on higher level governments.

V. CONCLUSION

The poor state of cities in India is quite easily discernable to citizens, visitors, and experts. The dysfunction can be mild, as is the case with large metropolitan areas attracting a lot of resources and attention, or severe, in the case of most emerging cities in India. But there is no question that the problem is systemic, and not restricted to a type of city, region, or political organization. That is the impetus to look at the constitutional structure to understand urban governance in India.

The first insight from analyzing the constitutional structure is that the Indian system does not reflect genuine federalism, but merely decentralization by the Union. And that this decentralization may or may not cascade down to urban local bodies. Second, that this constitutional structure has created a tremendous imbalance in the fiscal structure in India, undermining the fiscal autonomy of sub-national governments. Consequently, democratically elected officials at sub-national levels do not reflect the preferences of their citizens, but the preferences of higher-level government actors in order to attract funds. Therefore, and finally, this problem cannot be resolved by simply increasing the resources available to urban local bodies in a top-down manner, but requires genuine reform of the federal structure of India—mainly to create greater fiscal autonomy of local governments.

NOTES

1 Reforms in 1919 by Montagu and Chelmsford, which resulted in local self-governments falling under the control of provincial governments. This was replicated in the Government of India Act, 1935, where once again local governments came under the control of provincial governments, and the powers, function, and revenues were limited by provincial and state legislatures. The 1935 Act was also largely the basis for the administrative structure of the Constitution of India (see Sivaramakrishnan 2016, pp. 560-63).

2 During the Constituent Assembly Debates, the assembly's views on local government were divided into two camps. Members like K.T. Shah and R.K. Sidhwa, who believed in the Gandhian vision of self-sufficient village republics, advocated structuring local government at the village level. The Drafting Committee Chairman, B.R. Ambedkar, argued that village local self-governments did not really merit the stature of separate entities (Ibid.). Eventually a compromise was found, though tilted more towards Ambedkar's vision. The Constitution of India did not mandate creation of local governments, but suggested, under Directive Principles of State Policy, that State Legislatures may to take steps to organize village local government (Article 40).

3 In some cases it is much worse. For instance in Delhi, the tax per annum on a personal vehicle priced at 400,000 rupees is 533 rupees. The tax on a vehicle serving as a public transport bus is 13,675 rupees (Ahluwalia 2011, p. 58).

4 Vertical power sharing is the allocation of areas in decision making to be handled by the various levels of government. Horizontal power sharing is the sharing of authority between the branches of government at the central and the sub-national levels. This paper largely focuses on vertical power sharing.

5 NITI Ayog recently replaced the Planning Commission.

6 Article 254(2) provides an exception to the above rule where the state law will prevail over the Parliamentary law if the President saves the repugnant provision.

7 The Supreme Court placed additional limitations on the President's ability to use Article 356 of the Indian Constitution to dismiss state governments in *SR Bommai v Union of India* (1994) 3 SCC.

8 These are Articles 54, 55, 73, 162, 124-47, 214-31, 241, 245-55, 368; and any of the Lists in the Seventh Schedule.

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