



THEIR VIEW

MINT CURATOR

Development distances among states should drive reforms now

Large development gaps among states present challenges but also opportunities to learn from others and address weaknesses



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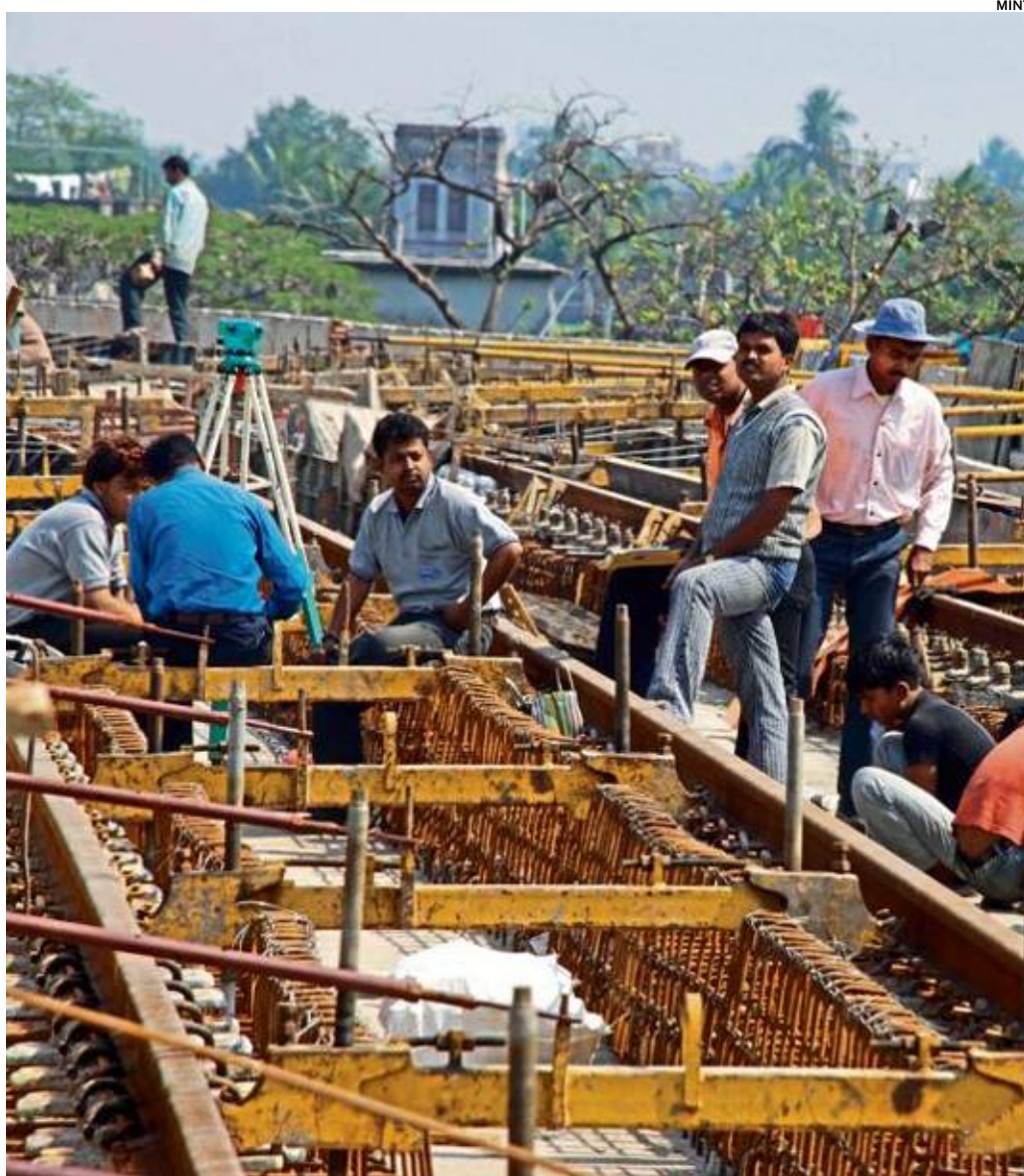
The 1991 structural reforms, designed to transform India's economic policy framework from a highly dirigiste system to a more liberalized, market-oriented system, mainly addressed the policy and regulatory framework at the national level. Much still remains to be done at that level. However, the next phase of reforms will have to be directed at reforms in the states. Structural reforms at this level have hardly been addressed, barring some piecemeal efforts in a few states.

It is important to note in this context that there are very large differences in levels of development across Indian states, in some ways larger differences than those among different countries of Europe. To illustrate, the per capita income in Goa is seven times higher than in Bihar. Even if we exclude small states like Goa and Delhi as 'special cases', huge gaps remain. Haryana's per capita income is five times that of Bihar.

Per capita income by itself is an inadequate measure of development, but similar large differences are seen in levels of social development and infrastructure services as well. At 75 years, the life-expectancy in Kerala is ten years longer than 65 years in Uttar Pradesh (UP). In education, primary level enrolment rates are 90-100% in most states, but large differences appear at higher levels. Enrolment in higher education is over 51% in Tamil Nadu, compared to less than 15% in Bihar. Power consumption in Gujarat is seven times higher than in Bihar, while road density (state highways and district roads) is again seven times higher in Kerala than in Jharkhand.

These large inter-state differences in levels of social and economic development are both a challenge and an opportunity. They are a challenge because they point to the huge distance which some of these states have to travel, especially the so-called BIMARU states of Bihar, Jharkhand, Madhya Pradesh, Chhattisgarh, Rajasthan, UP and Uttarakhand, for India to achieve its aspirational goal of becoming a developed country by 2050, i.e., within a hundred years after independence from colonial rule.

These large differences are also a challenge because the states are diverging, not converging. In particular, the southern and western states of Tamil Nadu, Karnataka, Kerala, Andhra Pradesh, Telangana, Maharashtra and Gujarat are pulling away from the other states, especially the BIMARU cluster. However, BIMARU states remain demographically dominant. Their share of India's population is well over 40% and rising. This translates politically into a very large share of Members of Parliament (MP) in the Lok Sabha. This growing geographic cleavage between economic power and political heft may worsen after the expected delimitation exercise. It is likely to make India's



politics even more fractious than it already is.

However, as stated, apart from challenges, these large inter-state differences also present opportunities. It is a long-established tradition in development economics, led by the pioneering work of Colin Clark and Simon Kuznets, to test theories and identify robust regularities in development processes from inter-country comparisons. It was evocatively captured by the Japanese economist Akamatsu in his pre-World War II 'flying geese' paradigm, where the geese following in line learn lessons from the geese ahead in line, culminating in a single leading goose—which, of course, was Japan in his thinking. Multilateral development institutions often advise less developed countries on strengthening policies, processes and institutions based on the 'best practices' observed in more developed countries.

The difficulty with this approach in the international context is that often there are large differences in historical legacy or the prevailing developmental ecosystems across countries which make lessons from such inter-country comparisons inapplicable. Policies and processes that work well in one country may not work in another.

However, these legacy or ecosystem differences mostly disappear in inter-state comparisons within a country. States have a shared historical legacy, the same administrative and judicial system, the same tax system and a common market. These natural controls provide a much more robust basis for learning development lessons.

It must be emphasized that these lessons are to be learnt and reforms prioritized not in some overarching sense, but at the level of individual sectors or services. This is because a state which may be leading in some sectors or services may be lagging behind in others. Reform priorities will not be the same for all states. Thus, Gujarat is a leading state in power supply, other infrastructure and industrial development, but it lags on social development. Maharashtra, a leading state in life expectancy and road density, lags in power consumption and per capita government spending. A state needs to prioritize reforms in areas where it is lagging.

That said, no single state can aspire to excel in everything. In some key areas like education, health and infrastructure, all states should aspire to catch up with the best. Beyond that, the principal of comparative advantage should apply, and every state should leverage its relative strengths compared to others. Even states which are lagging behind in many fields will be lagging more in some fields than others. Those should point to their reform priorities, especially in education, health and infrastructure.

To conclude, large development differences across Indian states pose challenges as well as opportunities. The opportunities can be leveraged to overcome the challenges. But whether state-level political leaderships have the necessary vision and humility to learn reform lessons from other states is a key question.

These are the author's personal views.

A 'killer app' could help crypto evolve past its current troubles

A chastened Binance will not be enough to revive a crypto boom



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Here's a question few of us will ever have to answer. Would you rather have \$23 billion living in the UAE with no US extradition treaty, or sacrifice a chunk of your wealth and perhaps spend 18 months behind bars to resolve all your issues with the US Department of Justice and Securities and Exchange Commission?

Binance Holdings chief executive officer Changpeng Zhao appears to have chosen the latter. We don't know all the details of the deal—most importantly the length of time, if any, Zhao must spend in prison—but it appears to clear the way for Binance to continue as the world's largest crypto exchange and for Zhao to keep his top-100 status on the Bloomberg Billionaires Index.

I see a major risk that the deal itself, and the strengthened controls it will require, will taint Binance among many of its customers, especially outside the US. People who want US-compliant crypto exchanges have established alternatives such as Coinbase Global.

The larger issue is the relationship between the traditional and crypto financial systems. Nearly all the news coverage of crypto focuses on the frontier, where people exchange fiat money for crypto currencies, or trade crypto assets to earn fiat currency profits, or raise fiat cash for crypto projects, or use crypto to buy conventional goods and services. This is no doubt due to all the public excitement [over all the conflict] and crime and punishment and fortunes won and lost [in the cryptosphere].

But it's a skewed perspective, since it misses the much bigger story of relatively peaceful and steady development of crypto protocols that do not require any interaction with the traditional financial or legal system. Hot areas are projects in the Metaverse, Web 3.0, Layer 2 and Layer 3, and don't count out DeFi despite the setbacks of 2022. While all of those things have technical definitions, they're thrown around loosely as buzzwords, more useful for marketing and hype than categorizing and tracking actual projects. But there is real progress in all those things, and more.

Binance grew up on the frontier, navigating murky and inconsistent regulations in multiple jurisdictions, satisfying customers and angering regulators. It appears to have now chosen to reconstitute itself in civilized and known territory on the legal side of the border. US regulators appear to be ready to accept it as a legal immigrant.

Along with other settlements this year and expected developments such as SEC approval of a spot Bitcoin ETF, this sug-



Binance founder Changpeng Zhao is under trial for money laundering

gests a negotiated truce between regulators and people who want to move fiat currencies in and out of crypto. Financial sector watchdogs seem ready to allow transfers if effective safeguards against fraud, money laundering, tax evasion and sanctions violations can be put in place.

Many old-time crypto purists—and I lean in this direction—are sceptical of this. We think the future of crypto is divorced from traditional finance, that the protocols that will revolutionize society will not be funded with fiat cash, and their value will not be easily translated into fiat. Many people in crypto want to reduce the coercive power of government and big finance, not get in bed with them, and certainly not get in bed on their terms.

But there are many others in crypto who welcome peace on the frontier, with clarified rules. One reason is they think this will reduce fraud and the enabling of crimes from ransomware to terrorism. Another is that it will lower the cost of fiat capital to underwrite crypto projects and increase the fiat currency value that can be extracted from successful ones. But perhaps the biggest reason is it will allow honest people to follow safe-harbour provisions to work in crypto without fear of prosecution.

There is a parallel split on the regulatory side between people who want to bring crypto into the existing legal regime, and those who prefer to isolate crypto from fiat money as much as possible. Zhao's deal with US regulators appears to be a victory for the former group. If the deal satisfies both sides, we can expect other crypto frontier gunslingsers to come in from the cold.

The future of crypto will be determined by the technology, not by billionaires and lawyers negotiating over frontier real estate. If crypto comes up with a 'killer app' that will convince hundreds of millions of people to learn real crypto—not just holding crypto coins in portfolios or speculate in NFTs—then it will take off on its own, without needing to ask regulators for permission or traditional investors for capital. Without a killer app, crypto will remain a useful technical tool for niche projects and true believers. There won't be enough economic value in it to interest lawyers or most investors.

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GUEST VIEW

Indian higher education must get globally competitive

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The landscape of Indian higher education institutions (HEIs) is experiencing rapid evolution, propelled by factors such as changing student expectations, a renewed emphasis on research quality and innovation, burgeoning global collaborations, a fervent desire for international recognition and intense competition in the academic sector among both public and private players. This transformation is also fuelled by accrediting bodies and ranking entities like NAAC, NBA, NIRF, UGC and AICTE, which wield substantial influence, shaping the academic landscape in terms of peer standing, access to grants and funding, student preferences, branding, faculty recruitment and development, and the introduction of new courses.

With the New Education Policy (NEP) and establishment of Institutions of Eminence (IOEs) playing catalyst, a palpable sense of change has engulfed the industry. Institutions are investing to achieve better national and global ranks. Notable institutions like

IIT Bombay and IIT Delhi have made their mark in the global top 200, with IIT Bombay placed 149th by the 2024 QS Rankings. Private institutions like OP Jindal, Manipal Academy of Higher Education (MAHE), VIT, Saveetha Institute of Medical and Technical Sciences and Shoolini University have also carved out top-1,000 positions globally.

Highly relevant in this context is a report published this May titled, 'Transformative Reforms for Strengthening Periodic Assessment and Accreditation of All Higher Educational Institutions in India' by a committee appointed by the ministry of education, led by K. Radhakrishnan, chairman of IIT Kanpur's board of governors. While the panel's recommendations could cause a stir in the HEI sector, a critical examination of these is necessary to determine whether they can serve India's global aspirations well or are merely cosmetic changes.

The current committee has experts from IITs and representatives from public universities as well as accreditation and ranking agencies. However, it lacks representation from private universities, deemed universities, multi-disciplinary institutions and other reputed universities. With more than 400 private and over 100 deemed universities in the country, their exclusion raises

questions of whether adequately diverse voices are being heard. Foreign universities have no say either, even as India opens its doors for them.

One of the panel's recommendations is a 'One Nation, One Data' model, with suggestions on its implementation. HEIs currently spend much time providing data separately for various ratings and rankings. However, the report lacks specifics on the data to be collated, measurable parameters, or how data alignment between various agencies will work. While a proposal to simplify application forms is welcome, its practical implementation remains vague.

Critiques have emerged of the report's assessment of existing efforts. While it mentions that the National Assessment and Accreditation Council (NAAC) has accredited only 30% of HEIs in India, this is still a large number, and many renowned institutions have embraced the NAAC framework. The NAAC score is also considered a qualifying criterion for universities to run online

distance learning programmes. The report suggests replacing peer teams in the NAAC methodology with other agencies, which could potentially undermine the acceptance and capacity-building efforts established within the university system. As Henry Ford famously said, "We do not make changes for the sake of making them."

HEIs have been striving to attain A+ or A++ rankings to showcase their excellence, but the report aligns with NEP recommendations by proposing a binary ranking system with modifications, offering fewer incentives for institutions to excel.

Globally renowned institutions operate with a high degree of autonomy; they view government bodies as enablers rather than regulators. The Indian scenario, however, is burdened with governmental bureaucracy, given the need for university and course accreditation among other periodic compliance requirements. A positive recommendation from this committee is the amalgamation of various accreditations (programme/institution) into one, with the

added benefit of conditional periodicity of assessments.

The report takes a compassionate view of philanthropic institutions in remote areas with limited funding, proposing support and facilitation for accreditation. It also recognizes that a one-size-fits-all approach does not work, distinguishing between research-focused and teaching-based institutions, as well as new and established ones. But it overlooks the complexity of multidisciplinary HEIs that blend research and teaching. The report falls short in addressing how aspirational HEIs aiming for global recognition, such as IISc, IITs, Anna University, Savitribai Phule and MG University or deemed private universities like MAHE, OP Jindal and Shoolini, can be nurtured for it. Also, oddly, it does not touch upon IOEs at all, although it's a major government initiative.

Nurturing both public and private universities will not only offer students access to the best education in India, but also curtail the outflow of funds for studies abroad. Our higher education sector is an opaque space, but today's HEI competition is global and this requires a competitive mindset. With broader consultations, let's hope this report will be refined to better reflect the evolving HEI landscape and our global aspirations.