

THEIR VIEW

Speed up development in states that need to catch up with others

India's lagging states have little space for fiscal expansion but could make public spending on social schemes more efficient



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arlier this month the Institute of Economic Growth and India's ministry of finance hosted the fourth Kautilya Economic Conclave. In my presentation in a session on the state of state finances, I addressed the question of how to accelerate development in states that are lagging behind.

I first classified 20 states that account for the bulk of India's population (and for which relevant data was available) into four broad groups based on their level of economic and social development. These are a group of 'balanced development states,' with higher than median levels of both economic development and social development; a group of 'growth oriented states' with higher than median levels of economic development but below median social development; a group of 'social development oriented states' with higher than median levels of social development but below median economic development; and a fourth group of 'lagging states' where economic and social development are both below the median level. Comparing the economic and social development of the 20 states with their fiscal performance underlines the development dilemma of lagging states: namely, Assam, Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh, Rajasthan and Uttar Pradesh.

The level of public spending in these states is comparatively very low. For instance, in 2022-23, per capita government spending of around ₹17,000 per capita in Bihar was only about onefourth that of Himachal Pradesh at ₹67,700. However, there is little fiscal space for these states to step up public spending. Revenue receipts from their own sources are typically much lower than in the better-off states. Again, taking Bihar as an example, it raises less than 30% of its total revenues from its own sources, compared to over 80% in Haryana. The balance revenue in these states comes as trans fers from the central government, mostly as formula-driven shares of a shareable pool for all states and partly as discretionary grants for centrally sponsored schemes (CSS). Their only other source of expenditure financing is borrowing. However, their capacity to borrow is quite constrained, since their indebtedness (relative to gross state domestic product) is much higher on average at 31% compared to around 25% for better-off states. Their annual fiscal deficits, at around 3.4% on average, are also higher compared to 2.4% for better-off states and higher than permissible under the states' fiscal responsibility and budget management laws.

Thus, with revenues tightly constrained and their borrowing capacity also very limited, India's lagging states have little scope to step up their spending. Nor is there much scope for better outcomes through improved allocation of expenditure. Their average outlay for capital expenditure, at close to 16% of the total, is already higher than



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a low-income, low public

expenditure trap. Their budgets

are focused on development

but they can't raise more funds.

Yet, they face steep challenges.

Brazil's Bolsa Familia scheme

offers a model for conditional

cash transfers linked to desired

outcomes. We also need to

rationalize an unwieldy swathe

of programmes in operation.

that of 'balanced development' states and equal to that of 'growth oriented' states. Similarly, their allocation for social expenditure, at nearly 40% on average, is higher than that of 'growth oriented' or 'balanced development' states and similar to the 41% share in 'social development' oriented states.

Thus, India's lagging states are caught in a lowincome, low public expenditure trap. Their resour ces and borrowing capacity are very limited while the allocation of expenditure for development is

already as good as or better than in the higher income states. But their level of per capita income or social development is far behind. What can they possibly do to accelerate development? Pernaps their only way forward is to significantly improve the efficiency of government spending to get a bigger bang for the buck. Can this be done?

I have suggested a two-tier performance-linked approach for development expenditure. Such spending at the state level can be increasingly channelized through conditional cash transfers (CCT) linked to the perform-

ance of beneficiaries. For instance, income transfers to beneficiaries can be linked to their children's school attendance or their vaccination record. This approach has been successfully followed for decades in Brazil's Bolsa Familia programme, the world's largest CCT scheme now being progressively replicated in several countries. It lifted millions of Brazilian households out of poverty during the first Luiz Inácio Lula da Silva

regime and has now been revived during his second stint as president.

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In India, at the central government level, CSS transfers to states can be linked to their adoption of the CCT approach where relevant. Indeed, much reform is required in our CSS programme. It is highly skewed, with a long tail of token schemes. In the last budget, nearly ₹5.5 trillion was allocated to some 75 centrally sponsored schemes, of which the four largest have been allocated nearly 20% of the

> total CSS budget. The allocation for the largest 15 is about a third of that budget. However, my calculations indicate that the allocation even for the 15th largest programme is less than a token one rupee per beneficiary! Allocations for the other 50 schemes would be even thinner. Instead of this colossal waste, the long tail of token programmes can be abolished, while allocations are further expanded for the largest four: the Samugra Shiksha Abhivan, National Health Mission, Pradhan Mantri Gram Sadak Yojna and PM Poshan (the midday meal scheme). Further, for

the two largest schemes, education and health, top-down micro designing can be replaced by flexible schemes that states can adapt to their specific conditions. However, their content can be modified to include a significant CCT component in both. This alignment of incentives is essential to ensure that government spending becomes more efficient.

These are the author's personal views.

INT CURATOR

Rate shocks in Asia show why economists should be sceptics

The words of governors may not reflect underlying considerations



is a Bloomberg Opinion columnist covering

urprises in economics get bad press, unless they are nice, and those have been scarce of late. A string of monetary policy upsets indicate something is seriously off in Southeast Asia. Projections that interest-rate cuts would be forthcom $ing \, in \, Thail and \, Indonesia \, were \, wrong.$ A consensus that the Philippines was done with reductions was wide of the mark. How to account for these misses? At a bare minimum, the decisions indicate a more unsettled financial and political environment than previously assumed.

They are also a useful, if uncomfortable, reminder that turning points are tricky. And that guidance by central bankers themselves is rife with caveats. It seemed a sure thing that Bank Indonesia would avail itself of another opportunity to juice growth despite frequently stating that it wants a stable currency. The rupiah is the worst performer against the dollar in the region this year and trades near a record low. But that hasn't stopped Jakarta from delivering a series of shock rate cuts over recent months. The head of the bank declared in September that he was taking an "all-out pro-growth" stance. The remarks appeared to be a hearty endorsement of President Prabowo Subianto's goal of accelerating the economy's expansion.

So when policy was kept unchanged at the latest meeting, it was another bombshell. Not much had shifted in Indonesia's top-line economic numbers since its September decision. Why not go ahead and ease again? Inflation is contained and the intensified US-China trade war is widely expected to clip gross domestic product (GDP). Understandably, economists had overwhelmingly predicted further easing. It wasn't to be.

Perhaps the rupiah's frailty does bother officials more than they let on; authorities wade into the market regularly to cushion its decline. With the dismissal of Sri Mulyani Indrawati, the finance minister whose house was targeted by rioters during nationwide disturbances in August, the bank may be trying extra hard to promote its independence bona fides. Or maybe the real forecasting fault was a failure to foresee the decision to cut just weeks after the protests, unrest that reflected-at least in part-rising public anger at entrenched income inequality.

Under this scenario, political developments made it imperative to bring borrowing costs down at the first opportunity. By the time of the 22 October Bank Indonesia meeting, social stability had "improved, reducing headwinds on confidence,"



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Helmi Arman at Citigroup in Jakarta said in a note. "In this case, the timing of the next cut hinges on the political situation, which has so far been fluctuating in short cycles.

Politics isn't absent in any discussion about Thailand, either. The government, which has comprised a series of shaky coalitions since 2023, has indulged in frequent criticism of the Bank of Thailand. Officials dragged their feet, the arguments went, and they must do more to aid the economy, which suffers from deflation. Once the term of former governor Sethaput Suthiwartnarueput ended, ministers installed a champion of easy money.

Surely, the reductions to come would be swift and substantial. At his first meeting, however, the new chief, Vitai Ratanakorn, kept rates unchanged. While this is probably just a question of timing, given the darkening global picture, Vitai may have wanted to demonstrate to the market that he isn't quite a pushover; he may have firm views, but pragmatism also plays a role. The outgoing governor might also have made it easier for him to stand firm, having presided over 100 basis points of cuts in the prior year.

Economists may have gotten so used to being spoon-fed by central banks that they aren't allowing for the unexpected. It's a hard truth that policymakers can be misinterpreted or that their pronouncements, even when forthright, have a use-by date. What made the Philippines cut so startling vas the observation by the governor that the-then level of borrowing costs had a "goldilocks" quality to it. In other words, it was just right. If you can't take the governor at his word, who can you listen to?

Some local considerations played a role. But the Philippines will be buffeted by the same shifts that are affecting Indonesia and Thailand, as well as many other emerging markets. While global growth has held up remarkably well in the face of the tariff chaos unleashed by US President Donald Trump, there's little clear sailing for anybody. Southeast Asia rose to prosperity largely on the back of trade. The coming era will not be quite so benevolent.

The rate misses send a discomforting message about where the region finds itself. Economists need to be more nimble and maybe they need to take a wider view. It's time for scepticism. **©BLOOMBERG**

MY VIEW | PEN DRIVE

Mumbai: Maximum alert can't maximize well-being

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he tumult of a world growing ever more closed and insecure has found its mirror, especially in India's metros, in the slow degeneration of social structures and, worse, in the loss of community and childhood experiences. Mumbai once nurtured remarkable micro-communities: the chawl with its shared taps and gossip, the middle-class colony where Diwali meant collective rangoli patterns, and the narrow lanes where children played under the benign eyes of neighbours who might scold yet feed them. These spaces blurred class lines and built the city's greatest scaffold of invisible infrastructure: trust.

A recent Netflix documentary, The Perfect Neighbor, created almost entirely from police bodycam footage, reveals the paranoia and potential for ruin that emerge as the social fabric that binds a community begins to fray. The film revisits the 2023 killing of Ajike 'AJ' Owens, a 35-year-old African-American mother of four, shot by her Caucasian neighbour, Susan Lorincz, in Florida. Lorincz had spent over 18 months repeatedly calling 911 to complain about neighbourhood children playing outside, making noise and trespassing on property (not hers). When Owens knocked on her door to confront her about racial slurs hurled at her kids, Lorincz fired through her locked door, killing her. The incident is horrifying but also symbolic. It captures what happens when fear replaces familiarity and surveillance replaces sociability. Jessica Winter, in The New Yorker (shorturl.at/ zMdHL), notes that Lorincz embodied a post-pandemic American pathology—the rise of "snitches, narcs, and paranoiacs" who see normal public life as an intrusion. What gives the documentary its power is not just its tragedy, but its warning: neighbourhoods die not from violence, but from mistrust.

That message resonates uncomfortably with Mumbai. As with India's other urban centres, the city's densification has paradoxically bred disconnection. Redevelopment has replaced courtyards with parking lots and neighbourly banter with WhatsApp groups that mostly exist to complain. The idea of 'society,' once a triumph of India's cooperative imagination, is morphing into a cluster of sealed units that are guarded, gated and silent. We are witnessing our own version of The Perfect Neighbor, a slow and steady descent of community life.

Lorincz's story unfolded in Florida, not Mumbai, but her mindset is hauntingly familiar. The enemy, in her eyes, was not a stranger, but proximity. The children she called the police on were the same ones she saw everyday. The tragedy lay in that inversion: neighbours as threats, not ties. Sociologists call this the 'privatisation of the com-

mons.' When every space is owned, rented or restricted, we lose the idea of shared ownership and the sense that a lane 'belongs to us all.'

The Perfect Neighbor lays bare the moral bankruptcy of modern suburban fear and holds an unsettling warning for cities like Mumbai, where people live physically close yet remain emotionally walled off. If American paranoia took the shape of a gun, that

'The Perfect Neighbor' shows the moral bankruptcy of suburban US fear and holds an unsettling warning for Indian cities where people live physically close yet remain emotionally walled off.

QUICK READ

Urban design is never neutral. It can either foster or fracture social connections. To reclaim our cities, we need open spaces that welcome everyone and let kids play without being policed.

of Mumbai's high-rises takes the form of a camera. CCTVs, security guards and gateentry apps may symbolize safety, yet they also mask a culture of suspicion. The new 'enemy' could be a vendor, domestic worker, a neighbour who parks wrongly or even a 'noisy' child splashing in the society pool or playing in its parking lot, with each up for trial by WhatsApp groups or housing management panel darbars.

Watching the documentary, I found myself relating the events in faraway Florida

to my own Mumbai highrise, trying to understand how fear turns into culture in an age of 'shrinking commons.' When we trade human engagement for tech vigilance, we erode the essence of a neighbourhood. A watchful eye of care has turned into a lens of judgement. The result is a city perpetually on alert but rarely at ease, where both community and childhood are sacrificed at the altar of 'safety.'

Cities thrive on trust. They breathe easier when residents greet rather than glare, and resolve disputes without calling the cops. Psychologists have long shown that unstructured outdoor play is vital to both children's emotional development and their mental health. It teaches empathy, flexibility and self-regulation. When fear takes over and adults over-police children's play, it stifles not just fun but the idea of citizenship.

Urban design is never neutral, with streets and lawns either fostering or fracturing social links. American suburbs, built for cars and privacy, spelt isolation. Mumbai is headed down that path, literally, with narrow pavements, gated compounds, elevated skywalks and 'kids' zones' that look like containment pens—spaces that separate rather than connect.

Our city planners need to reverse this. Let's prioritize walkability, design public 'play zones' closed to traffic and create other shared spaces that are open to all. A city that plans for sociability plans for safety. If we are to reclaim our cities, we must first reclaim our childhood by protecting our commons, rebuilding communities and remembering that open associations are what make a neighbourhood.