



Parmoita Shastri, *How India's Small Towns Live (or Die)*, Academic Foundation, 2001, 180 pp., ISBN: 4772-73/23

India is currently one of the fastest growing economies. This progress is to be celebrated but also needs to be critically understood. Is this growth seen throughout the country? Have small and medium towns participated in the development? Paromita Shastri addresses these questions in her book *How India's Small Towns Live (or Die)* analyzing an extensive study of 30 small towns spread over the states of Rajasthan, Odisha, Andhra Pradesh, Haryana, Himachal Pradesh, Madhya Pradesh, Chattisgarh, and Bihar.

Shastri discusses the need for policy makers to focus on reviving India's small towns and big villages to relieve the population pressure on metropolitan cities and the resulting lower living conditions. With India's rapid growth rate and more than half its GDP earned from the service sector, the small towns have not been able to participate in the growth and development relative to the rest of the country. By improving living conditions in small towns with better housing, education, water supply and socio-economic incentives towns can be revived while reducing the pressure on metropolitan cities. Shastri focuses on the need to improve the operational responsibilities of municipalities to improve living conditions in small and medium towns.

Examining the responsibilities of municipalities and their role in development, Shastri demonstrates why towns in India have not been able to develop at the same pace as the cities in the country.

Decentralization

According to Shastri the most significant reason municipalities have been unsuccessful is because of the lack of decentralization. "Devolution is an important component of decentralization," transferring the authority to make decisions, and manage finances to municipalities that control services such as education, housing, development of industrial and commercial estates, and electricity. Decentralization will force local units to be held accountable for the work they do and will also increase transparency. This concept ensures that municipalities take responsibility for their finances, focusing on how to improve revenue-generating sources and how to cut costs. Giving municipalities more power will let them provide services that are most relevant to the areas they are in charge of, allowing them to be more efficient.

Decentralization has been more effective in some states of India than others because of the difference in land reforms and tax policies. Although the idea of decentralization could help improve the functionality of municipalities, Shastri ignores the effect lack of unity has between local units. If each

local unit were to set their own taxes and other policies to generate income, there could be over thousands of different tax policies that would only exacerbate the complexity of the system.

Finances

The lack of decentralization has also resulted in poor management of finances within municipalities. Currently, many municipalities run deficits; the costs to provide services exceed the revenue they are able to generate on their own or through grants. It is important to transfer both the operational and financial management for decentralization to be effective. Even if municipalities were given the power to make decisions on operations without the authority to allocate financial resources they might not be as effective in their plans.

Raising Revenue

The municipalities have very little authority to collect revenue or to widen the tax base. Municipalities are highly dependent on the state government for transfers and grant-in-aids. The reason municipalities have been unsuccessful in revenue generation is due to the lack of autonomy they have in setting tax rates as well as poor administration, management and collection procedures. Shastri explains that land reforms are important since tax on land is a large portion of revenue for municipalities. Although the value of land has been increasing in most of the towns, the taxes on land have not been revised and do not reflect these changes. From an economic point of view raising taxes would be the right approach to the situation, however most politicians have other motives. By increasing taxes the politicians' popularity decreases among the masses and they lose clout. Therefore most municipality officers will not focus on generating higher incomes even if given authority.

Expenditure

Unfortunately the efficiency of municipalities in their expenditures are not much different from their revenue generating skills. The overhead cost of the municipalities eats away a large portion of the finances that municipalities receive. A major component of the establishment cost is the salary bill, and since it is steady and recurrent municipalities can do little about it, other than freezing employment. This leaves them with little or no resources to meet running expenses such as providing civic services to residents of the area.

Corruption

In addition, widespread corruption fritters away already scarce resources. Corruption occurs when representatives are misappropriating funds and abusing their power. It starts at the state government level and trickles all the way down to the local governments. Often development work is concentrated around residential areas of municipal officers while the rest of the city is neglected. The problem is exacerbated by the lack of federal and local regulations requiring good book keeping. Since there are very few records of grant flows officers get away with misappropriating funds, leaving little for the functionary costs of the municipalities.

Room for Improvement

Keeping these ideas central to the discussion, Shastri proposes areas of reform to improve the functionality of municipalities which will in turn help small and medium towns develop. Some of the concepts Shastri suggests for improvement are property tax reform, fiscal and administration reforms, and public-private partnership.

- *Property Tax Reform*: in the case of property tax reform, only a small increase in taxes could result in large returns from the taxes. With more revenue, the municipalities can provide better infrastructure and services, improving the functioning of towns, which would lead to rising land value.
- *Fiscal and Administration Reform*: the fiscal and administration reform would allow for a more efficient use of funds through reforms in budgeting, internal control and audit and management information system.
- *Public-Private Partnership*: public private partnership leads to improvement in operational efficiency, new techniques, and new sources of income. For instance the provision of landline telecommunications is now controlled by private organizations which allows for competition, with better prices and service. Additionally, involving the public in the process of decision-making would put greater pressure on the municipal officers to execute their duties.

The public private partnership would be the most effective solution to municipal development since the private companies are profit maximizing and with competition will provide services most efficiently and at economical prices. However, municipalities would have to be decentralized in order to have the ability to finance these projects and make decisions on what is the most important service that needs to be provided.

Although these reforms address issues discussed in the book there are other problems that accompany them. For instance, with a public private partnership the politicians are more likely to choose a company for a project if they are bribed by the managers or have a stake in the company. In India policies and laws have not been revised since they were established when the British were in India. Therefore a property tax reform might take longer than anticipated to have an immediate impact on the functioning of municipalities. Shastri has completed a thorough study of how and why municipalities are the key to development of small and medium towns in India but I hope to see her address some of these issues related to reforms in her next book making her argument more complete.

Reviewed by Tanya Mallavarapu, MA candidate in Economics, Duke University, NC, U.S.A.