FISCAL DECENTRALISATION EFFECTIVENESS AND REGIONAL DISPARITIES: A CASE STUDY ON INDIA

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There has been a growing policy focus on adopting decentralization as a means of inclusive growth, regional balances, social empowerment and improved accountability in the development process. Decentralization has evolved as a theoretical construct from Oates (1972) “Principal of Subsidiarity” to Buchanan & Bremen (1977; 1980), Tullock’s (1962) Leviathan View to World Bank’s (1999) multidimensional functioning. The multidimensional functioning are explained as four categories such as, Political; Administrative; Market and Fiscal Decentralisation. All the four functionings are based on its efficiency and capacity for wider participation of the population. Therefore it helps in reducing the most discussed “Vertical and Horizontal” imbalances for a country. The decentralization experience in the South Asian nations reveal that other than China it has remained in the evolution stage as the focus is more on electoral participation and transferring of resources/grants to the lower tiers of the Government. The evolutionary stage hypothesis gets confirmed with the fact that during 1990 to 2013, South Asia’s share in global poor population has risen from 27.3 percent to 33.4 percent. Individually these countries have been successful in significantly reducing the absolute number of poor people but the regional disparities in terms of basic services, health, education, income, consumption, ownership of productive resources continues to widen.

Therefore the paper aim to explain the four functionings of decentralization and status of regional disparities in the context of selected south Asian countries, viz, India, Nepal, Bangladesh, Sri Lanka and Pakistan. Fiscal decentralization appears as an effective tool in reducing the impact of these disparities in the Panel Data Analysis of 28 Indian states with Kerala and Tamil Nadu as the pioneer case. These states exhibit that effective fiscal decentralisation acts as a primary force for other three dimensions of decentralization to follow and therefore ensure better public service delivery.

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