FISCAL DECENTRALISATION IN INDIA

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1. *Introduction*

India is a developing country with a colonial legacy and characterised by two special features: its large size (area: over 3 million sq. km.) and its linguistic, cultural, ethnic and geophysical diversity. These features have each contributed to the governmental structure that India now has, including the constitutional framework.

When India became independent in 1947, it inherited a particular structure of government built up by the erstwhile British rulers. The British influence is visible even now. The main feature of the British system was a strongly unitary structure of government, which was only to be expected in a colonial regime. However, the seeds of federalism were also sown by the same government which must have been influenced by the emergence of a strong local self-government system in England during the first half of the twentieth century.

The major political party at the time of independence was the Indian National Congress and it assumed charge of the country immediately. The party was implicitly committed to a strong Central government despite Gandhi's emphasis on decentralisation upto the village level. An unwillingness to restructure the existing system was obviously one of the factors which presumably weighed with the Constitution makers of free India. The other consideration had its roots in the episodes through which the Indian Union ultimately took its shape. Fissiparous tendencies were always present in India

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in varying degrees, and so it was felt that decentralisation could not be permitted beyond a point due to the risk of instability. However, the emphasis on democracy called for a governmental mechanism to meet local aspirations too. Also, the large size of the country and its diversity necessitated some autonomy for regional government. The balance of these considerations gave rise to the governmental structure that India has today - a three-tier system of Centre, State and local governments. Unlike in many developing countries, the Indian Constitution itself delineates the division of powers between the Centre and the States (that is, the federating units, as they are called).

2. Constitutional Provisions

Indeed, the Constitution of India, formally finalised in 1949, codified the governmental structure to a great extent. Apart from the Union government, it envisaged two types of regional government - the States and the Union Territories. The executive, the legislature and the judiciary at both the levels were to be formed and to act according to the provisions of the Constitution. While part V of the Constitution dealt with the Union, Part VI pertained to the States and Part VIII to the Union Territories. Part XI, read with the Seventh Schedule, specified the powers of the Union and the State governments, while Articles 268 to 281, 292 and 293 specified the distribution of revenue and borrowing powers. Union Territories have slowly been converted into States through constitutional amendments (sometimes with special constitutional provisions relating to individual ones) so that the area under Union Territories is now insignificant. Broadly the structure of government in the country is regulated by these provisions.

However, the Constitution is almost silent regarding local bodies - urban or rural. They are mentioned at two places only, viz.,

(i) Article 40 of the Directive Principles of State Policy which says that "The State shall take steps to organise village panchayats and endow them with such powers and authority as may be necessary to enable them to function as units of self-government"; and (ii) the fifth entry in List II-State List of the Seventh Schedule empowering the State government with all matters of "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." Since Directive Principles are not binding, the result of these two provisions of the Constitution has been that local self-governments have existed virtually at the will of the respective State governments and there has been no standard structure of these bodies across States.

The above summary of the relevant constitutional provisions indicates that decentralisation in India is only partly statutory. To appreciate it better, it is necessary to go into further details regarding the current structure of decentralisation, the problems faced and the prospects, with particular reference to fiscal decentralisation. This paper seeks to go into the issues at two levels: distribution of powers and functions between the Centre and the States, and that between the States and local bodies (urban and rural).

3. *Allocation of Powers and Functions between Centre and States an Federal Fiscal Relations*

Drawing on the experience of the colonial days, th Constitution makers of free India made a clear demarcation of th powers and responsibilities of the Centre and the States. The Sevent Schedule to the Indian Constitution enumerates in three lists, th subjects on which the Centre and the States have exclusiv legislative jurisdiction as also those on which they have a concurren jurisdiction. The tax powers are demarcated under two heads - thos which come under the exclusive jurisdiction of the States and those belonging entirely to the Centre. The residuary powers were assigned to the Centre.

Provision of most of the important social and economic services like health, education, agriculture, irrigation, industries, labour, production, distribution and supply of goods, mines and mineral development is the responsibility of the States. However, the ambit of Centre's functions is also wide. Apart from defence, foreign affairs, communications, the Centre has exclusive jurisdiction over banking and currency, foreign loans, foreign trade, inter-State trade and commerce, capital market, public limited companies, oil fields and inter-State rivers. The Centre has also been given concurrent jurisdiction over several important areas of economic and social services, viz., economic and social planning, commercial and industrial monopolies, trade unions, social security, employment, labour welfare, price control and trade, commerce and provision of certain basic goods like foodstuff and any other goods as may be considered expedient by Parliament. In the event of any conflict over concurrent jurisdiction, the Centre has overriding powers (Dandekar, 1987).

While the distribution of powers and functions between the Centre and the States reflects an attempt to entrust the responsibility for meeting the needs for public services to the States, keeping in view their closeness to the people at the operational level, the allocation of financial powers has created an imbalance. This imbalance - often referred to as "vertical imbalance" - resulted from the fact that most of the major and "more productive sources of revenue" were vested in the Centre (viz., customs and excise and non-agricultural income tax, both corporate and non-corporate). The residuary powers of taxation are also given to the Centre. The States' powers of taxation are also fairly extensive. The main tax heads falling under the exclusive jurisdiction of the States are: taxes on sales and purchases, land taxes, agricultural income tax, taxes on lands and buildings, duties of excise on alcoholic liquor, taxes on vehicles and on goods and passengers carried by road and inland waterways, taxes on luxuries including taxes on entertainment, amusements, etc. and taxes on professions, trades, callings and employment.

The Constitution however recognised that even with all these powers, the States would not be able to raise the resources required for discharging their responsibilities while the Centre would have more resources than would be required and so made specific provision to facilitate compulsory and smooth flow of funds from the Centre to the States. It was stipulated that:

- Some of the taxes though levied by the Centre would be collected and appropriated by the States (viz., stamp duties and excise duties on medicinal and toilet preparations, vide Article 268 of the Indian Constitution);

- Some taxes, though levied and collected by the Centre, would be assigned to the States. These are: estate duty and succession duties on property other than agricultural land, terminal taxes on goods or passengers carried by railway, sea and air; taxes on railway fares and freights, taxes on transactions in stock exchanges and future markets (other than stamp duties); taxes on the sale and purchase of newspaper and on advertisements therein and taxes on inter-State sale and purchase (Article 269);

- Proceeds of some of the taxes collected by the Centre (income tax other than corporation tax) will be shared with the States (Article 270);

- Subject to Parliament's approval, proceeds of excise duties other than those on medicinal and toilet preparations may also be shared with the States (Article 272);

- Parliament can also authorise the payment of grants-in-aid to States which may be found to be in need of assistance and "different sums may be fixed for different States" (Article 275);

- The Centre can also make grants to the States for "any public purpose" (Article 282);

- A "Finance Commission" will be appointed by the President at least once in every five years to make recommendations regarding (a) the distribution between the Centre and the States of the proceeds of taxes which are to be, or may be, shared by the Centre and the allocation between the States of their respective shares; (b) the principles which should govern the grants-in-aid of the revenues of the States in need out of the Centre's funds; and (c) any other matter which may be referred by the President "in the interest of sound finances" (Article 280).

The mechanism for transfer of federal funds described above was designed also to correct the sharp disparities in the scale and level of public services among the States resulting from differences in their economic structures and levels of development.

These arrangements have been instrumental in correcting the vertical imbalance in the Indian federation arising from uneven distribution of powers and functions between the Centre and the States, and also containing, if not removing, the horizontal imbalances in the provision of public services and thereby strengthening the foundations for healthy federal financial relations. Despite limitations, the Finance Commissions, it is generally believed, have done well (vide Dandekar, 1987). However, there is a widespread feeling that the constitutional arrangements have proved inadequate and that there has been a trend towards greater degree of centralisation and dependence of the States on the Centre than was apparently visualised by the Constitution makers or is conducive to good federal governance in a country like India. Factors which seem to have generated this feeling are mainly the following:

- Growing dependence of the States on the Centre for financial resources and accentuation of vertical imbalance;

- Devolution of federal funds through non-statutory channels;

- Undue encroachment by the Centre into the States spheres via the concurrent powers especially since the adoption of planning and on the States powers of taxation in various ways;

- The tendency on the part of the Centre to circumscribe the independence of the Finance Commissions by laying down guidelines or even directives unilaterally; and

- Concentration of powers of borrowing and control over banking and capital market in the Centre.

Dissatisfaction with the arrangements for devolution of federal funds is expressed also on the ground that these have not helped to correct the "horizontal imbalance" among the federating units and disparities in their per capita incomes are growing (Gulati and George, 1987). While some of these criticisms are not well founded, the working of the transfer mechanism reveals deficiencies which were probably not foreseen.

4. Fiscal Imbalance and Role of Federal Transfers

That there is a sharp vertical imbalance in the Indian federal system is undeniable. This is evidenced by the fact that while the share of the States in the aggregate revenue or current expenditure of the government (Centre and States taken together) has remained at more than 50 per cent, the proportion of tax revenue raised by the States on their own in the aggregate tax revenue has also hovered around 33 per cent (Table 1). The gap of nearly 20 per cent is made up by devolution in some form or the other. As much as two-thirds of the aggregate tax revenue in the Indian Union (Centre and States taken together) is raised by the Centre. The States' total expenditure forms about 52 per cent of the aggregate government expenditure whereas their own revenue constitutes only 35 per cent of the aggregate government revenue (Table 2).

Another measure of the growing dependence of the States on the Centre is provided by the decline in the proportion of own revenue of the States in their total revenue. In the first half of the 1960s, about 64 per cent of the total revenue of the States came from their own sources. This proportion came down to less than 60 per cent in the 1970s and currently stands at barely 55 per cent (Table 3).

However, it would not be correct to say that the Centre is appropriating a larger share of aggregate tax revenues of the government than before. While the share of the Centre in the aggregate tax revenue *raised* has remained fairly high at over 65 per cent, the proportion of taxes accruing to the States in the aggregate tax revenue has gone up from about 42 per cent in the early 1960s to over 50 per cent at present (Table 3). Over 25 per cent of Central tax revenue now devolves to the States as compared to less than 19 per cent earlier. Thus the Indian federal system has exhibited considerable flexibility in meeting the requirements of the States and the impression that the Centre has appropriated an increasingly larger proportion of revenues than before is not well founded.

What underlies dissatisfaction with the mechanism that has evolved over the years for federal transfers is that the bulk of the transfers is taking place through channels which are not statutory, that is, other than the Finance Commission awards. Transfers under the Five Year Plans which are decided by the Planning Commission and "discretionary" transfers made by the Centre for various purposes like relief for natural calamities and so on have constituted over 50 per cent of the total transfers (Table 4). The proportion of statutory transfers has gone up in recent years but still remains at no more than 40 per cent or so of the total. The proportion of discretionary transfers has come down but that of "Plan transfers" has increased.

The principal objection to the non-statutory transfers is that these are not adjudicated by an independent body deriving its authority from the Constitution like the Finance Commission and so are subject to influences which may not be entirely objective. To allay misgivings on this account, since 1969 transfers by way of Plan assistance are governed by a formula agreed upon in a forum called the National Development Council (NDC) where the States are represented by their Chief Ministers. The formula, known as the "Gadgil formula" - by which the Plan assistance to the States is decided - originally provided that 60 per cent of the assistance will be given on the basis of population, 10 per cent on the basis of tax effort, 10 per cent on account of backwardness (measured by per capita income as compared to the all-India average), 10 per cent for outlay on major irrigation and power projects, and 10 per cent for special problems. Since 1980, the weightage for backwardness has been raised to 20 per cent while that for outlay on irrigation and power projects dropped. Even with the revised formula, whereby the poorer States are given a more fair deal, transfers made by way of Plan assistance are objected to on the ground that these are dependent entirely on the approval of the Planning Commission which is not a statutory body and is a creature of the Central government (Dandekar, 1987).

Another point of criticism of the pattern of relations that has emerged between the Centre and the States is that there is an increasing tendency on the part of the Centre to impose schemes of expenditures devised at the Union level ("the Centrally Sponsored Schemes"), thereby encroaching on the powers and functions of the States. These schemes are accounting for a growing proportion of the total expenditure of the States (Table 5). Though designed to address some national problems on an urgent footing, these schemes, which often call for matching contribution from the States, interfere with the States' own priorities and erode the capacity to undertake their own programmes (George and Gulati). This goes against the poorer States who may not be in a position to put forward their matching contribution.

Moreover, the Centre, it is alleged, is appropriating a larger proportion of the capital receipts of the government than before. In any case, it has the exclusive powers to undertake deficit financing. The States powers to borrow from the market are severely circumscribed.

While there is some validity in the criticisms noted above, the fact is that with large devolution of funds to the States and also the growing pressures on its budget, the vertical imbalance envisaged in the Indian Constitution has turned almost upside down (Bagchi, 1988). Instead of the States being short of funds, it is the Centre which has run into deficits and since the beginning of the present decade the revenue account of the Centre after devolution to the States has run into deficits. The situation has raised widespread alarm; so much so, that the terms of reference of the Ninth Finance Commission which was set up to make recommendations regarding statutory devolution for the year 1989-90 to 1990-95, contains a specific item calling upon it to "keep in view the objective of not only balancing the receipts and expenditure on revenue account of both the States and the Centre, but also generating surpluses for capital investment."

How far the Ninth Finance Commission succeeds in helping to bring this about will be watched with keen interest. The Central Government budget for 1989-90 makes a valiant effort to contain the growth of deficit on the current (revenue) account. But the deficit still remains sizeable.

Questions which arise in the context of decentralisation from the Centre to States in India are: (1) Is there an excessive concentration of economic powers at the Centre or has this taken place to an undesirable extent? (2) Is autonomy of the States being affected? If so, what really are the reasons and what are the remedies?

A look at the Seventh Schedule would no doubt confirm that the Centre has a dominance in economic matters. It has exclusive domain over a wide range of subjects and also the residual powers. Moreover, several subjects in the additional list have been placed with the Centre. Of these the important ones are economic and social planning, social securities, employment, labour welfare, price control and production and trade in certain basic goods such as foodstuff, cotton and such other goods, as the Parliament may decide (Chelliah, 1985).

While the question, what should be the optimal distribution of powers between the Centre and the States in a federation does not admit of a simple answer, the fact remains that certain functions and responsibilities like overseeing the macro management of the economy and looking after matters like employment generation and growth in general have led to a degree of centralisation of economic powers and functions in most federations, including that of the USA. In a country with sharp regional inequalities such as India, the Centre has an additional responsibility to see that some degree of equality is brought about in the level of basic public services through federal action. At the same time, the considerations which argue for a federal form of polity cannot be lost sight of, viz., that decentralisation of provision of public goods facilitates more efficient satisfaction of wants and makes it possible to take care of the preference of different groups of people and their needs in conformity with their own choices.

Ideally, the responsibility of providing all public services which call for familiarity with local needs and conditions is best entrusted to local governments. As far as possible they should also try to meet the cost of providing such services on their own by taxing citizens residing within their respective jurisdiction. The trouble arises from the fact that taxes which can yield substantial revenue are often convenient and economical to collect at higher levels. Hence the need for adequate arrangements for devolution. Experience however shows that separation of powers to raise taxes and to spend is unhealthy. In the absence of accountability of those who derive the benefit of public goods to pay for them breeds fiscal indiscipline if not irresponsibility. The chronic imbalance in the government budgets in India is traceable partly to this factor. The devolution of an increasingly large proportion of tax revenues raised by it to other levels of government also tends to generate apathy on the part of those having the power to levy such taxes. How to reconcile these opposing tendencies is not amenable to a simple solution. Obviously it depends on the specific conditions of each country, including the character of its people, the diversity of its constituents particularly in terms of levels of growth and the political environment.

In India, while there has been a marked trend towards centralisation in the economic field, especially with the institution of planning, it cannot be gainsaid that the Centre's intervention has helped to reduce the inequalities in the provision of at least basic public services. Although the inequalities in the levels of per capita SDP have tended to widen over the years, there is reason to think that the disparities would have accentuated in the absence of federal support for the poorer States. A recurrent theme in the discussions on the federal financial arrangements in India has been that the process of devolution has not helped the poorer States as much as it should have. Nevertheless, it is acknowledged that the federal transfers, especially those occurring through the Finance Commissions' awards, have had an equalising influence.

Even after devolution the disparity in the per capita revenue surpluses in the budgets of the government between the richest and the poorest State is as much as 40 times while the spread in their per capita domestic product is not more than 3 or 4 times (Bagchi, 1988). It is the revenue surpluses which determine the scale of public sector investment outlays under the plans and so the disparities in the revenue surpluses seem to account for the accentuation of disparities to a considerable extent. There is also an advantage in unifying the market in a large country, as the EEC's proposals for an integrated common market for Europe clearly demonstrates. Lack of homogeneity in their economic structures and levels of development as also potential stands in the way of evolving an acceptable approach towards issues like abolition of barriers to inter-State trade and commerce and each State tries to maximise its own revenue by levying taxes on goods transported to other States. There is a tax on inter-State sale of goods, though regulated by a Central legislation. Very recently, the Centre had to agree to the extension of this tax even to consignment of goods (from one branch of an industrial or trading firm to another) across States. The case for centralisation of powers to regulate the economy therefore is obvious. But that does not warrant needless encroachment on spheres which are best left to the States. There is thus a case for reviewing the entire position and taking a fresh look at the way the Centre-States relations have evolved. Such a review was in fact undertaken recently through the deliberations of a high-powered panel set up by th Central government, headed by a former Supreme Court Judge, known as the Sarkaria Commission. The Commission has made wide-ranging recommendations but does not envisage any fundamental restructuring of the financial relations between the Centre and the States. The climate for taking a dispassionate view of the matter is often clouded by political rivalries. Considering the growth of regional-party-based government in several States and the apprehensions of Central imposition and at the same time the need for maintaining the integrity of the country if not fostering the common market, some consensus is urgently needed as to what should be the spheres of the Centre and the States in economic matters. It might be useful to delegate some of the economic functions to the States but there should also be strict limits over the extent to which one State can export taxes to another, if at all any tax is to be imposed on inter-State trade. This may not call for a fundamental restructuring of the Constitution but only a voluntary withdrawal by the Centre from certain spheres and also some initiative on the part of the States to exercise powers they already have under the Constitution. Perhaps the tax powers of the Staes may be strengthened and they should not expect federal devolution to take care of their own spending programmes to any extent. It is time the principle of accountability of the spending authorities for raising the revenue required was built clearly into the system. The overall responsibility for overseeing the balanced growth of the economy has no doubt to rest with the Centre. But the initiative for planning must also come from below and not be over-centralised. There is a need also for ensuring that not only current revenue but also capital receipts (in other words, the resources, both revenue and capital, of the government) are divided between the Centre and the States and allocated among the States on sound and equitable principles.

5. Urban Local Bodies in India

As noted earlier, local bodies in India derive their authority from the State governments. While there is no uniformity in the pattern, almost all States have urban local bodies set up for specific areas of administration, which usually consist of providing services of a purely local nature, through Acts of their respective legislatures. Urban local bodies functioning in different States of India can be grouped broadly under five categories: municipalities for urban areas usually having a population of less than 10 lakhs (1 million) but more than 10,000, Notified Area Councils (in some States) for usually small urban areas or urban areas considered strategically important, Town Committees for urban areas with village characteristics, Cantonment Boards for military townships and Municipal Corporations for large cities. There are, occasionally, parallel urban planning and development agencies like Calcutta Metropolitan Development Authority. Usually municipalities and municipal corporations, but not necessarily the other types of local bodies, are constituted through direct voting and enjoy a greater degree of autonomy, though the pattern may differ from State to State within India.

The services usually provided by urban local bodies are water supply and sanitation, street maintenance and construction, street lighting, garbage disposal, construction and maintenance of market places, stray animal pounds, education (generally upto school level only), health and a few more; in some instances, local motor transport is also under the care of the local government. These imply expenditures of both capital and current nature. Invariably, revenue sources are hardly commensurate with their responsibilities.

Two major tax revenue sources are octroi duties (where they are levied) and property taxes. The former are meant to be taxes on consumption/use of various commodities within the jurisdiction of the local body concerned, while the latter are the usual capital levies on land and buildings within the area. Fees and fines, and rent constitute the major current own non-tax revenue source for these bodies. However, in general, the expenditures are met to a great extent out of grants and loans given by the State government. In some States, the State government distributes the collection from taxes like profession tax, entertainment tax etc. among the local bodies after deducting the cost of collection. In the State of Kerala, these taxes are levied by the local bodies themselves. Data on local finances are scanty. However, whatever could be culled out from published sources is presented in Tables 6 to 10 to provide a bird's eye view of the finances of some urban local bodies in India.

It will be seen from the tables that devolution from the State government constitutes the major source of revenue for urban local bodies in most cases and, as Table 11 will show, in some States like West Bengal dependence on revenue transfers from the State government is increasing over the years The main reason for this trend is that the sources of revenue of these authorities are inelastic. Property tax is hamstrung by legal constraints on its base (which has got linked with the rent control laws). The other important source, viz., octroi duties, have been severely criticised on efficiency grounds. As a result, some States have abolished this tax and have devised alternative means of providing resources to the local bodies, usually an entry tax (which is an account-based substitute of octroi), a tax sharing arrangement with the State government or a compensatory grant mechanism.

The brief review above brings out the growing dependence of urban local bodies on the State government. In several instances, the State government is only the disbursing agency in the sense that it receives funds from the Centre or international funding agencies to distribute among the local bodies. However, the dependence of local bodies on grants has another aspect which is important: a large percentage of the grants are tied grants, i.e., the grants are given to local bodies on the condition that these are spent on predesignated items. This, more than the financing pattern, undermines the autonomy of the local bodies. After all, the theoretical case for local bodies rests on the ground that local preferences are better cared for by local bodies and thus decision-making by local bodies on the provision of various public goods is likely to be more efficient. By first denying them sufficient revenue and then tying up the grants, the decentralisation process in reality is neutralised to a great extent[1].

Further, the power of urban local bodies to mobilise resources is severely limited as the State governments usually do not allow them to raise loans directly from the market; it would cut into the limited access that the States themselves have to the market. Even borrowings from financial institutions are generally required to be approved by the State government; such approvals are not always easy to obtain. Often, there are controls on the tax powers of the local bodies as well. Even when a State Act allows a particular tax to be levied by the local bodies, it usually allows them to fix the rates within a statutory limit only, or the local bodies are required to obtain

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1. NCAER(1980) and NIUA(1983) both estimate the share of tax collection by local bodies at approximately 4.5 per cent of total taxes collected in the country.

approval of all aspects of the tax law by the State government. These factors limit the financial autonomy of the local bodies to a considerable extent.

The local bodies must also bear some responsibility for losing their autonomy. They have generally failed to administer effectively one of the important levies in their armoury, namely, the property tax. It is widely believed that the property tax administration is weak and yields much less revenue than it ought to, at least partly because of weaknesses in administration, though it must be acknowledged that the base of the tax is severely constrained by various factors especially the legal framework (NIPFP, 1982). Octroi invites criticism mainly because of its checkpost-based nature. The local bodies have not tried seriously to devise an alternative method of levying this highly revenue-yielding tax. Also, despite the fact that octroi is supposed to tax only consumption/use of commodities within the local area, a large amount of revenue has been raised through tax-exporting. A case in point is the heavy reliance on octroi duty raised in many urban local bodies in Maharashtra. A large part of the revenue from octroi often comes from the tax on motor spirits, which is mostly consumed by transport vehicles passing through the State. In Kerala, local bodies can levy and use the revenue from entertainment tax, but from all indications the administration is rather poor and the revenue realised is much less than that collected by other States with comparable tax base. The other area where the urban local bodies have failed to raise potential revenue is user charges. Most of the services provided by them are usually heavily subsidised, the extent of which is not based on any scientific pricing principle. It is believed that there is scope for raising a substantial amount of revenue by rationalising user charges.

The mismatch in expenditure obligations and limited revenue sources, however, do not always result in explicit deficits in the budgets of local bodies; in fact, the budgets generally show surpluses. Available studies reveal that overall current revenue of the municipalities combined was about Rs 850 crore while their current expenditure was about Rs 760 crore in 1979-80. Part of the resultant surplus of Rs 90 crore went to finance about Rs 40 crore deficit in the capital account (expenditure: Rs 245 crore and revenue: Rs 205 crore). Overall surplus was estimated at approximately Rs 50 crore.

These surpluses, however, should not be taken as an indication of a sound financial position of the urban local bodies (Planning Commission, 1983). In fact, they only reflect the statutory requirement in most States that municipalities must have surplus budgets. Lack of proper capital accounting results in the absence of any depreciation provision or provision for sinking funds to repay debts. Thus, assets, once created, are not maintained properly nor are they replaced as and when required. Even replacements have to be budgeted for as fresh capital expenditures, with the attendant difficulties of pushing these proposals through. Ultimately, it is the provision of services that suffers due to lack of resources. The level and quality of municipal services in India, apart from those in a few corporations, are grossly inadequate and uneven.[2] Considering that urban population is growing rapidly, it is imperative to ensure that related services are improved. It is now time to strengthen the local bodies in all respects; their formation, administration and finances, all need looking into.

6. *Status of Rural Local Bodies*

The institution of rural local bodies in India has a very long tradition, dating back a few centuries. Originally, it was a body of village elders which worked as an arbitrator of petty disputes, looked after social and religious well-being of the village, imposed minor taxes for local public goods and doled out minor punishments for minor offences. As it usually consisted of five (*Panch*) elders it was

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2. Total local government expenditure in India was less than one per cent of the Gross Domestic Product in the year 1979. In most developed countries this ratio is above 10 per cent.

called `Panchayat'. This name survives to date and the present structure of rural local bodies is known as `Panchayati Raj'. The current structure is about 50 years old.

The rural local administration structure was extremely varied before 1957. That year saw the publication of the *Report of the Study Team to study the Community Development Projects and National Extension Service* (under the Chairmanship of Balvantray Mehta) sponsored by the Planning Commission. In fact, it was the Second Five Year Plan which gave a boost to local self-administration by stressing "the need for creating within the district and local levels, a well-organised democratic structure of administration in which the village Panchayats will be organically linked with popular organisations at higher levels." (Ramachandran, 1988). The plan document emphasised that "for small areas within the district or the sub-division such as development blocks or the taluks, sub-committees of the popular bodies should be assigned with clear functions in the implementation of local programmes."

The Report of the Balvantray Mehta Study team was followed by the introduction of a somewhat standardised Panchayat system in several States. This consisted of a three-tier structure of Village Panchayats, Panchayat Samitis (Unions) at the block/ Taluk/ village cluster/ sub-division level, and Zilla Parishads (District boards/Councils) at the district level. This is the structure that prevails even today though the powers and functions of the bodies vary considerably across States.

Ironically, it was the planning process which carried the seeds of the eclipse of the Panchayati Raj Institutions (PRIs). Planning implies centralised decision-making regarding policies, priorities and targets. Moreover, conscious efforts at upgrading technology had also had a strong centralising tendency. In the interests of efficiency, and sometimes even uniformity, specialised agencies have been created which have taken over the functions of the rural local bodies to a great extent. Another contributing factor has been the growth of co-operatives in various fields including a few which were traditionally in the domain of PRIs.

The period 1960-80 was a period of relative neglect of PRIs. Important plan programmes of essentially redistributive nature were administered through various agencies created for these purposes and as a result the PRIs became relatively unimportant.

The issue of PRIs was re-examined in 1977 by the *Committee on Panchayati Raj Institutions* under the Chairmanship of Ashok Mehta, appointed by the Government of India to review the working of PRIs and recommend reorganisation, if necessary. The Committee came out strongly in support of the PRIs .... "if PRIs were involved in the developmental process, planning will be realistic, programming will cater to the felt needs and the priorities of the people and implementation would evoke people's involvement and participation. The fact of the matter is that PRIs have not been given a chance to serve as a vanguard of development in village India. Wherever they have been given the responsibility to whatever limited extent, as in Maharashtra and Gujarat, they have done well." The Committee recommended a two-tier system of PRIs with one body at the district level and another for a cluster of villages below the district level body. This two-tier system, however, has been adopted by very few States until now. Annexure I provides a summary picture of the existing system in some major States.

It was the Planning Commission again that came to focus attention on PRIs. The launching of the Sixth Five Year Plan in 1980 emphasising various poverty alleviation programmes like Integrated Rural Development Programme (IRDP) and Rural Labour Employment Guarantee Programme (RLEGP), called for a second look at the mechanism to implement these, and the need for rationalising and consolidating the activities of various agencies working to promote these programmes was keenly felt. It was also recognised that these programmes can succeed only by proper identification of the beneficiaries, for which it is necessary to involve the local bodies. Thus, there was renewed emphasis on the PRIs which caused a substantial number of new legislations in several States to overhaul and strengthen the PRIs. In recent days there have been quite a few indications that the Indian government is keen to promote the PRIs.

As in the case of urban local bodies, rural local bodies also depend heavily on the State governments for their funds. The duties of the various PRIs usually overlap, with the higher level body overseeing and supervising the work of lower level Panchayats. These consist of the usual local bodies functions of public works (including construction of roads, buildings etc.), water supply, public health and sanitation, street lighting, education, and some others. Additionally, they now have a large role to play in social welfare programmes and programmes relating to agriculture and animal husbandry, as well as setting up and maintenance of village courts in some States.

Their own revenue sources usually consist of some sort of a property tax, tax on vehicles not coming under the purview of State taxes, cesses on land revenue, licence fees and rents. Revenue from own sources constitute perhaps 25% to 30% of the total income of Panchayats on an average. The rest of the income is derived from shared taxes and compensations, and grants. Some data on the income of PRIs in three States, Kerala, Andhra Pradesh and Karnataka, are provided in Tables 12, 13 and 14. It should be borne in mind that own tax revenue of these bodies is appreciably higher in Kerala than in any other State as almost no other State has delegated to local bodies the power to levy as many taxes. Also, all these States have PRIs of sounder financial health than in most other States.

The information contained in the abovementioned tables suggests that about one-half the resources of PRIs is raised by themselves while the other half is provided by the respective State governments in the form of grants or assigned revenues from specific taxes. The situation in other States is likely to be worse in the sense that PRIs are probably able to raise not more than 40% of their total revenue from their own sources. This clearly underlines the dependence of PRIs on the State governments for funds. Since a large proportion of the grants are specific purpose grants - whether under Plan schemes or not - the autonomy of the PRIs is severely limited. This is in addition to various direct controls exercised by the State governments on the autonomy of the PRIs through requirements of approval of various tax or expenditure proposals.

Thus, although data in this regard are scanty, it is apparent that like urban local bodies, rural local bodies are also short of funds, especially untied funds, that is, what they can spend according to their own priorities and preferences. While the importance of better resource mobilisation by the PRIs themselves cannot be gainsaid, the important question that needs answering is: should the PRIs depend so heavily on transfers from the State governments? Any attempt at answering this question involves broad policy issues and we postpone this discussion to the next section.

6. Conclusions and Suggested Framework

We now take stock of the overall picture regarding decentralisation and assess the current structure to examine possibilities for further decentralisation.

Currently, economic administration in India is in several respects centralised, partly due to constitutional provisions, and partly due to extra-constitutional developments. The Constitution of India vests the Union government with wide-ranging powers to guide the economy through the use of monetary policy (exclusive domain), fiscal policy (domain which, though shared with the States, is heavily tilted towards the Centre), and direct controls (almost exclusive domain). The emergence of the Planning Commission functioning under the Centre has also contributed to the centralisation process, though States too have a say in planning. We have also observed that through various means, the Centre has sought to influence the policies of the States even in areas which are constitutionally in their exclusive domain.

The States, in turn, have done little to strengthen local bodies - whether urban or rural. The authority of local bodies has been undermined by various factors such as keeping the elections in abeyance and fiscal control over them. Only a few States like Kerala stand out as exceptions. However, while the States in general have endeavoured to exercise whatever autonomy they have to the maximum extent, especially in fiscal matters, the performance of local bodies is far from encouraging in this regard, even where they enjoy some autonomy (as in Kerala).

The key to decentralisation in India would seem to lie in decentralising the planning process itself. Though the Planning Commission does not derive its authority from the Constitution of India, it was very much on the cards at the time the Constitution was drafted. As of now, devolution under the aegis of Planning Commission is as important as transfer of federal funds to the States ordained by the Finance Commission and hence an appraisal of its role is essential before exploring ways of fiscal decentralisation in India.

Once the role of overall planning is accepted as a strategy of development, a certain amount of centralisation of economic decision-making, with accompanying panoply of controls, is inescapable. This is particularly true for financial (as opposed to physical) planning as resource use must match availability. Given the regional disparities in economic development, planning is perhaps indispensable in India. If left to themselves, market forces cannot but accentuate the disparities. Also, given the level and extent of poverty in India, one cannot look at economic growth and income distribution as two separate issues. The aim has to be growth with equity. This requires the framing of an overall plan and then executing it by partitioning it and implementing the parts simultaneously at the required levels. Totally decentralised planning, with mutually independent plans, may not be suitable or practicable for India, especially with such acute disparities between States and also within the States which are relatively advanced.

In this framework, the process of decentralisation should be viewed as an aid to the planning process. Bodies at subnational levels of government are expected to perform two functions. First, they are expected to provide inputs for the formulation of plans by providing information regarding the current availability and requirements of various necessities of life within their own jurisdictions. They must also realistically assess their own ability to meet these requirements to the maximum possible extent . Also, bodies at every level must consolidate these information received from the lower levels, and pass them on to the next higher level in turn, so that finally an overall, internally consistent plan can be formulated keeping the requirements in view.

Second, once the plan is formulated, the task of its implementation must be shared by all agencies down to the grassroot level so that bodies at every level are involved. Thus, at every subnational level there would coexist two types of governmental activity: the first, completely autonomous and the second, guided by a higher level body. The latter can operate efficiently only under a system of incentives in the form of grants from the higher level of government. This essentially seems to be the approach underlying decentralisation in planning in India.

This basic structure seems to be well-suited to the Indian conditions. While there have been complaints from States about distortions in regional preferences, this appears inevitable within the planning process. But the fact of the matter is that decentralisation has not progressed beyond the State level. Many States boast of district plans: but in reality, those are only departmental plans, decided at the State level, put together for individual districts separately.[3]

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3. Gujarat is one of the more progressive States in this regard, but even there not much has been achieved so far. See Govt. of Gujarat (undated) and Kurien(1985).

However, there is another side to the story. The planning process in India was originally sought to be superimposed on a decentralised economic system where each level of government made its *expenditure* decisions independently to suit the requirements within its jurisdictions. Presumably for efficiency reasons, *tax collection* was not thought expedient for decentralisation to the extent required for striking a balance between the powers and responsibilities of governments at different levels. To take care of the revenue-expenditure imbalance of the federating units, a scheme of devolution of tax revenues was outlined, with details to be filled in by successive Finance Commissions. As far as the distribution of revenue between the Centre and the States is concerned, this system has been working reasonably well, given the complexities of the Indian federal scene. But there is no scheme of devolution of tax revenue from the States to the local bodies spelt out anywhere in the Constitution, and is left entirely to the States to decide how much to devolve while almost all studies on local finances point to the acute financial strain of local authorities.[4]

Two solutions have been suggested to this situation. The first is to make a constitutional provision for Local Finance Commissions on the lines of the existing Finance Commissions which could rationalise devolution of taxes in particular. The second is based on the perception that it is unrealistic to expect local bodies to undertake large capital expenditures. The suggestion is that capital expenditure on infrastructures should not be the responsibility of the local bodies; either the State or the Centre or

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4. The per capita expenditures in most towns and cities on various services is very small, with the exceptions of a few corporations like New Delhi Municipal Corporation. Total local government expenditure in India was less than one per cent of the Gross Domestic Product in 1979 in India. In most developed countries, it is above 20 per cent.

both should undertake the task of investing in their infrastructure. Setting up autonomous bodies for particular functions within this category is also not ruled out. This would allow local bodies to look after their other duties properly.

In this context, it needs to be recognised that the problems of urban and rural local bodies are of a different nature but are interlinked by the fact of substantial urbanisation in India. Thus, while the problem in urban India is how to provide civic amenities to a burgeoning population and prevent the `bursting of the cities at the seams the problem in rural India is to provide adequate income opportunities through developmental and anti-poverty programmes as well as basic amenities like drinking water, roads, electricity, local markets etc., so that the attraction of the urban areas is diminished. These objectives can be achieved only with the cooperation of local bodies in the respective areas. Also, local bodies in urban areas should be able to raise a substantial amount of revenue themselves and should be encouraged to do so. The potential in rural areas is small, and they must of necessity depend on grants.

All these are well recognised. What is important to note is that without a change in the basic structure in the Constitution, considerable improvement is possible through reorganisation of powers and functions and better implementation. But all that needs a clear perception of the role of local agencies and institutions.

An important question which calls for attention in this context is, should there be a clear constitutional status for the local bodies? We have noted the constitutional provisions in this regard above. There is no recognition of the need for self-government at levels above the village either in rural or in urban areas. Local government also figures in the State list of the Indian Constitution, but it runs in such a fashion that both elected bodies as well as those appointed by higher level governments are placed on the same footing. Also it casts no obligation on the States to endow local governments with adequate functional and fiscal powers (Datta, 1987).

It is widely recognised that the local governments need strengthening. However, how to go about it does not admit of a simple answer.

As pointed out by Datta(1987), the alternatives in strengthening the local governments and securing constitutional protection for them are: (a) to accord them coordinate status with a formal division of powers with the States; (b) to grant them independent status and (c) improve their financial and administrative resources within the existing constitutional framework. The first alternative would give rise to difficulties in intergovernmental coordination and might militate against the federal character of the Indian polity. The same objection could hold for the second alternative too, unless it is meant only to guarantee the right of existence of the local bodies with powers of supervision and control by the States. Perhaps a via media like casting an obligation on the States to hold elections of local bodies periodically and limiting the periods of supersession and delegation of certain tax powers might be more acceptable. Constitutional guarantee beyond this, though favoured by some experts (like Datta, 1987), may not find acceptance and might be construed as attempts to weaken the States and the federal structure.

Ultimately, it is the political genius of the people which will give shape to the future of local government in the country. While in the last analysis, there is no substitute for self-government, there are certain advantages in having certain governmental functions taken up at a unified higher level (such as avoiding problems of indivisibilities, availing economies of scale etc.). Striking a balance between the two is a challenge which needs to be addressed in the light of the realities and constraints of the given situation in each country.

Recently even the Prime Minister has admitted that "there was delay in bringing about decentralisation of power and that such devolved power was withdrawn through manipulations." (*The Hindu*, Jan. 28, 1989). The Centre has been promising to breathe new life into the local governments. This has, however, been interpreted by many State governments as an attempt to usurp the States' powers. Such misgivings, whether well founded or not, are exactly what can only be called the bane of the decentralisation process in India. The welfare of the populace has been swamped by political wrangles for long. What is required to bring about the necessary decentralisation is political will on the part of the Centre and the States and a solution through consultation rather than confrontation. According constitutional status to local bodies may provide a much needed shot in the arm for decentralisation in the country.

TABLE 1

Share of States in Aggregate Revenue Expenditures and Aggregate Tax Revenue of Government in the Indian Union

(In percentages)

Averages of	States' revenue expenditure as per cent of aggregate revenue expenditure of government	States own tax revenue as per cent of aggregate tax revenue of government
1961-62 to 1964-65	54.5	30.62
1965-66 to 1969-70	58.28	31.23
1970-71 to 1974-75	54.4	30.98
1975-75 to 1979-80	52.5	32.49
1980-81 to 1984-85	54.9	34.21
1985-86 to 1986-87	52.5	33.23

Source: Government of India, Ministry of Finance, *Public Finance Statistics*, Part II (annual)

TABLE 2

Share of States in Aggregate Government Expenditure Aggregate Revenues and Aggregate Receipts of the Government in the Indian Union

(In percentages)

	States' total expenditure as per cent of aggregate government expenditure (Centre + States)	States own revenue as per cent of aggregate government revenue (Centre + States)	States' own source receipts as per cent of aggregate receipts (Centre + States)
1950-51	51.73	38.38	46.32
1955-56	61.70	41.17	50.60
1960-61	56.76	36.61	49.00
1965-66	53.33	32.58	43.92
1970-71	53.87	35.54	43.49
1975-76	47.55	33.54	39.21
1980-81	55.97	35.62	43.97
1981-82	54.57	31.45	41.54
1982-83	52.78	36.35	42.02
1983-84	52.77	36.82	45.14
1984-85	51.82	35.67	44.08
1985-86 (R.E.)	52.08	35.41	42.32

Source: *Rao (1987)*

Original source: Government of India, Ministry of Finance, *Public Finance Statistics*, Part-II (annual).

TABLE 3

Composition of States' Revenues

(In percentages)

Average of	Own revenue of States as per cent of States' total revenues	Devolution of taxes as per cent of States' total revenues	Plan grants as per cent of States' total revenues	Other grants as per cent of States' total revenues
1	2	3	4	5
1961-62 to 1964-65	64.32	16.93	11.46	7.15
1965-66 to 1969-70	61.88	17.27	11.70	9.15
1970-71 to 1974-75	58.21	23.76	9.61	11.74
1975-76 to 1979-80	58.43	21.51	12.22	7.83
1980-81 to 1984-85	58.45	23.50	13.61	4.44
1985-86 to 1986-87	55.76	23.34	14.67	6.25

Source: Government of India, Ministry of Finance, *Public Finance Statistics*, Part II (annual).

Table 4

DEVOLUTION OF FEDERAL FUNDS FROM CENTRE TO STATES

(Rs. million)

Plan	Statutory Transfers		Plan Transfers	Discretionary Transfers	Total Transfers
	Shared Taxes	Total			
1. First Plan	3440	4470	3500	6340	14310
(1951-56)	(24.04)	(31.24)	(24.46)	(44.30)	(100.00)
2. Second Plan	6680	9180	10580	8920	28680
(1956-61)	(23.29)	(32.29)	(36.89)	(31.10)	(100.00)
3. Third Plan	11960	15900	27380	12720	56000
(1961-66)	(21.36)	(28.39)	(48.89)	(22.71)	(100.00)
4. Annual Plans	12820	17820	19170	16480	53470
(1966-69)	(23.98)	(33.33)	(35.85)	(30.82)	(100.00)
5. Fourth Plan	45620	54210	47310	49490	151010
(1969-74)	(30.21)	(35.90)	(31.33)	(32.77)	(100.00)
6. Fifth Plan	82720	109360	103750	40440	253550
(1975-79)	(32.62)	(43.13)	(40.92)	(15.95)	(100.00)
7. Sixth Plan	269520	287770	294790	122950	705510
(1980-85)	(38.20)	(40.79)	(41.78)	(17.43)	(100.00)

Note: Figures in parentheses represent percentages to total.

Source: *Rao(1987)*.

Table 5

Share of Centrally Sponsored Schemes in Total Expenditure of the States

(Rs. crore)

Year	Grants under Centrally Sponsored Schemes	Total Revenue Expenditure	Col. (1) as a percentage of Col.(2)
	(1)	(2)	(3)
1973-74	147.7	8260.8	1.79
1975-76	157.2	10457.3	1.50
1980-81	389.5	22769.9	1.71
1984-85	1310.9	39745.7	3.30
1985-86 (R.E.)	2216.0	45770.9	4.84

Source: *RBI Bulletin*, various issues.

Table 6

Revenue Structure of Municipal Authorities in Major States: 1975-76 and 1979-80

(in percentages)

State	Tax Revenues		Non-Tax Revenues		Grant		Total Ordinary Income
	75-76	79-80	75-76	79-80	75-76	79-80	
Andhra Pradesh	63.20	50	17.54	9	19.26	41	100
Assam	53.44	35	35.14	11	11.42	54	100
Bihar	36.55	50	16.75	10	46.70	40	100
Gujarat	24.10	75	69.07	7	6.83	18	100
Haryana	64.37	75	28.10	15	7.53	6	100
Himachal Pradesh	70.22	78	25.96	12	3.82	10	100
Jammu & Kashmir	48.62	34	49.37	6	2.01	60	100
Karnataka	79.67	34	17.75	11	2.58	55	100
Kerala	72.25	70	18.48	17	9.27	13	100
Madhya Pradesh	77.68	26	17.24	10	5.08	64	100
Maharashtra	68.78	84	15.73	6	15.49	10	100
Orissa	51.12	47	22.84	12	26.04	41	100
Punjab	79.30	89	1[illegible].98	8	1.72	3	100
Rajasthan	78.35	82	21.50	8	0.15	10	100
Tamil Nadu	64.80	59	32.16	13	3.04	28	100
Uttar Pradesh	59.78	65	21.40	12	18.82	23	100
West Bengal	60.10	40	10.90	10	29.00	50	100
All India	63.47	65	23.58	10	12.95	25	100

Source: *Finance Commission (1979) and NIUA(1983)*

Table 7

Tax Revenue of Urban Local Bodies:1979-80

(as percentages of the total tax revenue)

Type	House/ Property Tax	Octroi	Water and Drainage Tax	Entertainment Tax	Other Taxes	Total Tax Revenue
Metropolitan	29.24	39.50	12.90	1.34	17.02	100
I	22.39	41.12	15.44	8.04	13.01	100
II + III	17.73	38.78	14.43	10.74	18.32	100
IV + V + VI	14.17	53.89	9.33	4.82	17.79	100
Total	25.32	40.19	13.68	4.58	16.23	100

Source: *NIUA(1983)*

Table 8

Revenue Structure of Local Bodies by Size Class: 1979-80

(as percentages to total revenue)

Size Class (population)	Tax Revenue	Non-Tax Revenue	Revenue Grants	Total
1 million +	77	8	15	100
100,000 to 1 million	55	12	33	100
50,000 to 100,000	54	13	34	100
20,000 to 50,000	53	12	35	100
10,000 to 20,000	53	12	36	100
5,000 to 10,000	56	12	33	100
Less than 5000	49	18	33	100
Total	65	10	25	100

Source: *NIUA(1983)*

Table 9

Pattern of Ordinary Expenditure of Sample Municipal Authorities in Major States: 1975-76

(in percentages)

State	General Admn.	Collection of Revenue	Public Health	Public Safety	Medical	Water Supply	Education	Roads	Loan Repayments	Others	Total
Andhra Pradesh	7.9	2.0	22.9	3.7	0.1	16.8	18.7	20.7	0.3	6.7	100
Assam	16.3	7.8	21.2	9.0	1.5	7.3	0.3	10.2	3.6	22.9	100
Bihar	13.7	1.1	29.9	6.9	0.9	3.7	7.4	12.3	13.2	10.8	100
Gujarat	5.1	4.2	8.9	2.3	6.6	2.5	10.3	-	10.0	50.3	100
Haryana	13.5	0.2	27.0	7.7	5.5	16.2	0.9	3.1	1.7	20.4	100
Himachal Pradesh	13.9	14.1	28.5	4.9	0.3	14.2	0.1	3.6	0.8	19.6	100
Jammu & Kashmir	26.8	0.3	29.3	3.9	-	-	1.7	-	0.3	37.7	100
Karnataka	16.7	-	17.1	8.3	1.9	8.1	1.1	-	6.6	40.3	100
Kerala	32.7	1.6	12.2	7.7	11.2	6.2	1.0	7.8	7.6	12.2	100
Madhya Pradesh	17.9	11.1	20.6	7.4	1.5	9.4	4.3	4.5	7.1	16.3	100
Maharashtra	6.5	5.9	15.9	4.4	13.5	5.1	9.3	12.0	4.0	23.3	100
Orissa	12.5	11.2	23.8	8.3	0.9	2.7	12.5	0.1	3.3	24.6	100
Punjab	12.6	17.2	28.4	8.9	1.5	9.1	0.6	4.3	8.9	8.5	100
Rajasthan	15.2	14.6	48.5	8.4	0.8	1.6	0.7	0.1	2.1	8.0	100
Tamil Nadu	15.7	0.2	24.8	4.7	5.8	11.3	14.8	4.5	7.5	10.7	100
Uttar Pradesh	8.0	10.9	41.3	5.0	3.3	6.5	2.2	0.4	6.2	16.0	100
West Bengal	27.8	6.7	21.9	5.4	2.3	6.8	7.2	2.4	0.6	22.9	100
All India	10.8	5.4	21.3	4.8	7.3	6.2	10.0	7.0	5.3	21.8	100

Source : *Finance Commission (1979)*, pp. 226-32.

Table 10

Pattern of Per Capita Ordinary Income and Expenditure of Sample Municipal Authorities in Major States: 1979-80

(in 1970-71 prices)

State	Per capita Ordinary Income(Rs.)	Per Capita Ordinary Expenditure(Rs.)						
		Total	General Admn.	Public Health	Public Works	Street Lighting	Water Supply	Others
Andhra Pradesh	30	25	3	6	6	1	3	6
Assam	11	9	2	3	1	1	1	2
Bihar	7	8	1	2	1	3	1	1.7
Gujarat	55	55	9	11	4	2	6	23
Haryana	24	28	6	8	2	2	5	5
Himachal Pradesh	47	43	11	13	6	2	8	3
Jammu & Kashmir	28	21	4	6	11	-	-	-
Karnataka	23	16	5	2	2	1	1	5
Kerala	24	17	4	4	3	2	1	3
Madhya Pradesh	23	20	4	5	4	1	4	2
Maharashtra	76	61	5	14	12	3	12	15
Orissa	21	25	3	4	4	1	2	11
Punjab	37	26	5	6	4	2	4	3
Rajasthan	16	11	4	6	1	1	4	1.6
Tamil Nadu	27	26	3	6	3	2	2	7
Uttar Pradesh	19	19	3	7	3	1	2	3
West Bengal	25	27	2	3	3	1	8	8

Source: *NIUA(1983)*

Table 11

unicipal Bodies: West Bengal

(Rs. 10 million)

	Own Source Revenue					TRANSFERS				
Year	Property Tax	Other Tax	Total Tax	Revenue Expenditure	Revenue Gap (5 - 4)	D.A. Subventions*	Entry tax	Others	Total	Net Surplus (10 - 6)
1	2	3	4	5	6	7	8	9	10	11
1965-66	7.66	1.93	9.59	12.28	2.69	2.31	0	0.90	3.21	0.52
1970-71	10.64	1.81	12.45	19.78	7.33	4.80	0	0.60	5.40	-1.93
1975-76	14.10	4.69	18.79	27.13	8.34	7.65	4.10	0.53	12.28	3.94
1980-81	18.94	7.48	26.42	53.23	26.81	12.15	10.49	4.17	26.81	0
1981-82	23.86	10.35	34.21	64.75	30.54	16.29	14.14	3.85	34.28	3.74
1982-83	25.66	8.85	34.51	68.92	34.41	17.00	23.81	3.52	44.33	9.92
1983-84	28.29	10.24	38.53	82.32	43.79	17.96	26.30	3.52	47.78	3.99
1984-85	30.35	4.84	35.19	84.21	49.02	19.56	20.97	9.33	49.86	0.84

* Subventions for meeting the cost of Dearness Allowance to employees.

Source: T.K.Banerjee(1986),"Resource Mobilisation in Retrospect", paper presented at the Seminar on Calcutta's Basic Development Plan: In Retrospect.

Table 12

RECEIPTS OF PANCHAYATS UNDER MAJOR HEADS IN KERALA: 1983-84

(Rs. thousand)

	Building Tax	Profession Tax	Vehicle Tax	Entertainment Tax	Show Tax	Service Tax	Land Cess	Total tax Revenue	Non-tax Revenue	Statutory Grants	Other Grants	Total Income
Amount	60893	30203	663	30357	1104	2294	163	125677	51459	64876	87247	329259
Percentage to gross income	18.49	9.17	0.2	9.22	0.34	0.7	0.05	38.17	15.62	19.7	26.5	100

Source: *Report of the Panchayat Finance Commisssion(1985), Government of Kerala.*

Table 14

Finances of Local Bodies in Karnataka - 1980-81

(Rs. million)

Type of Local Bodies	Total Revenue Receipts	Receipts From Own Taxes	Receipts From Other Sources		Total Expenditure	Overall Surplus(+) /Deficit(-)
			Shared Taxes	Grants		
1. Corporations	466.0	133.8	332.2	NIL	332.2	138.8
2. Municipalities	186.1	43.6	102.5	40.0	183.8	2.3
3. Taluk Development boards	102.7	17.7	85.0	NIL	102.7	NIL
4. Panchayats	68.7	31.2	37.5	NIL	68.7	NIL

Source: Government of Karnataka (1983
Karnataka Taxation Review, Pa
II, Report on Local Finance.

Table 13

REVENUE STRUCTURE of PRIs in ANDHRA PRADESH

(Rs. thousand)

Item	Village Panchayat (1979-80)		Zilla Parishad (1976-77)	
Tax Revenue	67677	(31.1%)	NIL	-
Non-Tax Revenue	53777	(25.3%)	83900	(14.24%)
Assigned Revenue	58316	(27.4%)	26157	(4.44%)
Grants	29628	(13.9%)	395288	(67.08%)
Other Transfers from State Government	3163	(1.5%)	83903	(14.24%)
Total	212561	(100%)	505354	(100%)

Note: The total receipts of Panchayat Samitis in the year 1979-80 was about Rs. 90 crores of which grants constituted about 80% and assigned revenues about 4%. They did not have any tax revenue of their own.

Source: *Rao(1988)*

Annexure - I

State-Wise Position of Panchayati Raj

State	Type of constitution			Tiers with elected bodies, their term in years and year of last election in parentheses		
	ZP	PS	VP	ZP	PS	VP
Andhra Pradesh	C	C	E	5(1981)	5(1981)	5(1981)
Assam	-	E+C	E	-	4(1979)	4(1979)
Bihar	C+E+(1)	C	E	5(1980)	5(1979)	5(1978)
Gujarat	E+C	C	E	5(1980)	5(1981)	5(1981)
Haryana	-	E(1)	E	-	5(1986)	5(1983)
Himachal Pradesh	C	E(1)	E	5(1976)	5(1974)	5(1978)
Jammu & Kashmir	-	-	E	-	-	5(1977)
Karnataka	C(now E)	E(now C)	E	5(1978)	5(1978)	5(1978)
Kerala	-	-	E	-	-	5(1979)
Madhya Pradesh	E+C	E(1)+C	E	5(1985)	5(1984)	5(1983)
Maharashtra	E+C	E+C	E	6(1979)	6(1979)	5(1983)
Manipur	-	C	E	-	5(1985)	5(1985)
Orissa	-	C	E	-	5(1984)	5(1984)
Punjab	E(1)+C	E(1)+C	E	5(1975)	5(1975)	5(1983)
Rajasthan	C	E(1)+C	E	3(1982)	3(1982)	3(1981)
Sikkim	-	-	E	-	-	3(1983)
Tamil Nadu	C	C	E	5(1970)	5(1970)	5(1970)
Tripura	-	-	E	-	-	5(1984)
Uttar Pradesh	C	C	E	5(1973)	5(1983)	5(1982)
West Bengal	E+C	E+C	E	5(1983)	5(1983)	5(1983)

Note: ZP: Zilla Parishad (district level body); PS: Panchayat Samiti (taluk/block/sub-divison level body); VP: Village Panchayat (Viliage/ Mandal level body);

E: Direct Election by votes; E(1): Indirect election by electoral college of lower tier Presidents or members or others;

C: Construction/ Representation with ex-officio members from Presidents or members of lower tier and others (members of Municipalities etc., Managing Committees of District Central Co-operative Bank etc.) particularly at district level.

- Elections have since been held in A.P., H.P., Karnataka, Kerala, Rajasthan,T.N., U.P., and West Bengal.

Source: *Ramachandran(1988).*

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