Preface

Fiscal discipline has always been regarded as one of the major requirements for the smooth functioning of an economy. The experience of Indian economy in eighties suggests the growth of an economy does not mean that the economy has a sound fiscal health too. It is believed that for sustaining the growth momentum an effective fiscal discipline is essential as was evident from India’s experience in the closing year of the decade of eighties when economy plunged into a crises situation. The fiscal imbalance can seriously impede the growth process as it has potentiality to nullify the good work done by the producing sectors. Adverse effects on rate of interest, price level, increase in inequality of income distribution, perverse incentives for work and crowding out of the private investment are some of the potential effects of fiscal imbalance on the economy. These effects together hamper the growth and development of the economy. Relative magnitude of such effects on the economy depends on the nature of fiscal imbalance and the way such imbalance is handled (financed). In short it can be said that the fiscal management is as important a task as the management of other sectors of the economy. Moreover fiscal imbalance once set in, has the tendency to perpetuate itself.

Chapter One broadly explains the plan of the study. It defines various measures of fiscal imbalance like fiscal deficit, revenue deficit, primary deficits etc. and their implication for the economy and fiscal management. In Indian federalism there exists a formal relationship between different layers of governments. Therefore what happens at one level affects the others too. It is for this reason that the assessment of the role of federal financial arrangements in reducing / increasing the imbalances of States becomes necessary. It includes the objectives of the study, hypotheses to be tested and research methodology.

Chapter Two undertakes the review of literature which can be classified into three categories; theoretical framework, theoretical and
empirical studies on fiscal federalism and analytical studies on fiscal imbalances in the Central and/or in the State government finances.

Chapter Three examines the dynamics of fiscal transfers, both statutory and non-statutory. Constitution of India assigns responsibilities and revenue sources to Centre as well as States. Such division is said to be asymmetric as States are assigned greater responsibilities considering their revenue jurisdictions. Multiplicity of the channels of transfers and the lack of coordination amongst them has also been examined.

Chapter Four presents the macro view of the imbalances in major States in India. For the purpose fourteen general category States have been chosen. The States belonging to this category but omitted are the one that would not fit well for the purpose of comparative analyses. The chapter presents the aggregate picture of the States’ finances as well as inter-State comparison.

Chapter Five examined the revenue and expenditure of the major States belonging to general category. Faced with the problem of fiscal difficulties, how these States responded to the fiscal challenge and their relative success and failure is the subject matter of this chapter.

Chapter Six is devoted to the analysis of the fiscal scenario of Uttar Pradesh, most populous, most diversified in terms of economic activity, politically most active and yet one of the most economically backward States in India.

Findings of the study and the policy implications as well as the direction of further studies are presented in the last chapter namely ‘Conclusions and Policy Imperatives’.