PREFACE

The system of local self-government is not alien to India. The traces of similar system are also found during Chola Period in 10th and 11th Centuries A.D. Later on the British rule eclipsed the system, which was in vogue in India. However, the Imperial Government later realised the necessity of local self-government and initiated many measures to create local bodies under various enactments. Modern history of Urban Local Bodies (ULBs) in India can be traced as far back as the year 1687, with the formation of the Municipal Corporation of the port city of Madras. This corporation was setup to levy certain direct taxes and to provide amenities like education, water supply, cleaning of roads, etc.

Over the years the local bodies have failed to provide adequate services mainly because of lack of resources at their command and inadequate infrastructure. This is because there had not been regular division of revenue and proceeds among State Government and local bodies. So for a very long time, the sharing of revenue was on adhoc basis. This problem was further aggravated in case of the Urban Local Bodies, by the fact that while urban population has grown rapidly, the lack of adequate financial resources available to municipalities for discharging their obligations has remained a perpetual and largely unaddressed problem and underscored the need for a Constitutional remedy to provide for a regular assessment of their fiscal resources gap on account of increasing responsibilities and escalating costs.

With the passage of time, challenges emerging out of increasing population and the characteristics thereof, a need to strengthen and revitalise the whole system of local self-government was felt. After long deliberations spreading over three successive governments, the Constitution was amended by 73rd and 74th Acts in 1992, which came into effect in 1994. In pursuance of these Constitutional Amendment Acts, all the State Governments enacted legislations regarding governance of local self-government in the country. These Acts provide for structural uniformity and stability to the grass-root institutions under the overall supervision and control of the State Government.
The 73rd and 74th Amendments Acts, interalia, mandate the setting up of a State Finance Commission (SFC), in each State on the pattern of the Union Finance Commission. The SFCs are required to study and recommend among other things, the distribution of the net proceeds of taxes, duties, tolls and fees leviable by the State Government, between Panchayati Raj Institutions (PRIs) and ULBs which may be divided among them under Part IX and IX (A) of the Constitution, and allocation between PRIs and ULBs of their respective shares of such proceeds. The democratic decentralization is facilitated by granting of limited autonomy to the local self-government units. Thus, the Act is a landmark in the history of local self-government in the country.

The present study gives a comparative picture of three different State Finance Commissions i.e. Tamil Nadu, Uttar Pradesh and NCT of Delhi. It contains eight chapters.

The first chapter is of introductory nature. The structures of fiscal federalism, the historical background and emergence of local government have been discussed. Need and appointment of State Finance Commissions, objectives of the present study, research methodology and review of the literature have been mentioned in this chapter.

The second chapter deals with the theories of fiscal federalism given by eminent economists like Stigler and Oates and an attempt has been made for theoretical foundations on whose basis the State-Local fiscal relations should be developed.

The third chapter highlights the three-tier structure of local government in the sample States and their legislative framework. An attempt has also been made to draw up a comparative picture concerning what constitutional status has been given to local government through the 73rd and 74th Amendment Acts.

The fourth chapter throws light on the principles of assignment of functions to local bodies and a comparative approach between the 11th and 12th Schedules with the Panchayati Raj Institutions and Urban Local Bodies of the sample States.

The fifth chapter has been devoted to various theories of local taxation given by Musgrave, Oates, Foster and Pelmen, etc on the principles of taxation in federal system
and own resources generated by different local bodies. An attempt has also been made to study the suggestions made by the State Finance Commissions for enhancing these resources.

In the sixth chapter the intergovernmental fiscal transfers, theory of intergovernmental grants and revenue sharing given by Oates and Bradford have been discussed. Structure and types of grants given to local bodies, principles recommended by the Taxation Enquiry Commission and State wise pattern of revenue sharing and receiving of grants have also been discussed.

In the seventh chapter a comparative analysis of recommendations made by State Finance Commissions of the sample States, has been made.

The eighth chapter contains the main findings regarding the study and suggestions emanating from the study.