

Chapter – I

INTRODUCTION

1.1. Introduction

Generally it believes that development will be possible only with the participation of people at all levels of governmental machinery which is intended to accomplish the democracy and development task. As India lives in her villages, development depends to a large extent on the active involvement of the rural population in administration. To realize this objective, the Panchayati Raj Institutions were established in India in 1959. After Independence, Community Development Programmes and National Extension Programmes were launched in India in 1952 and 1953 respectively for the development of rural areas.

But the performance failed to achieve their objectives mainly because of lack of public participation which is considered as one of the crucial variables in the achievement of development goals. It is felt that no amount of money spent on rural development by the government can do for the people than what people can do themselves.

People who are expected to be benefited by the development must be involved and they must themselves take up the responsibility for achieving the rural development. Balwantrai Mehta Study Team realizing the importance of popular participation and recommended the creation of Panchayati Raj Institutions which are to be statutory, elective, comprehensive in duties and functions, equipped with necessary executive machinery with adequate resources and enough autonomy and freedom.

The creation of Panchayati Raj in 1959, with a view to entrusting the authority and responsibility of rural development to rural people is considered not only an innovation but also a revolution.

Table 1.1 : Number of Panchayati Raj Institutions in India

Sl. No.	State / Union Territory	Gram Panchayats	Panchayat Samithis/ Mandals	Zilla Parishads	Total
1	Andhra Pradesh	21913	1095	22	23030
2	Arunachal Pradesh	1747	150	15	1912
3	Assam	2489	203	20	2712
4	Bihar	8471	531	38	9040
5	Chattisgarh	9139	146	16	9301
6	Goa	190	0	2	192
7	Gujarat	13819	225	25	14069
8	Haryana	6034	114	19	6167
9	Himachal Pradesh	3037	75	12	3124
10	Jharkhand	3746	211	22	3979
11	Jammu & Kashmir	2683	0	0	2683
12	Karnataka	5659	175	27	5861
13	Kerala	991	152	14	1157
14	Madhya Pradesh	22029	313	45	22387
15	Maharashtra	28553	349	33	28935
16	Manipur	166	0	4	170
17	Orissa	6234	314	30	6578
18	Punjab	12445	140	17	12602
19	Rajasthan	9189	237	32	9458
20	Sikkim	159	0	4	163
21	Tamil Nadu	12618	385	29	13032
22	Tripura	537	23	4	564
23	Uttar Pradesh	52028	813	71	52912
24	Uttaranchal	7227	95	13	7335
25	West Bengal	3360	333	18	3711
26	A&N Islands	67	7	1	75
27	Chandigarh	17	1	1	19
28	Dadra & Nagar Haveli	11	0	1	12
29	Daman & Diu	10	0	1	11
30	Lakshadweep	10	0	1	11
31	Pondicherry	98	10	0	108
	Total	234676	6097	537	241310

Source: <http://panchayat.nic/pris/htm>.

The team made an exhaustive enquiry and submitted its report on November 24, 1957. To democratize the local institutions, the team suggested a three-tier system of Panchayati Raj with gram panchayat at the bottom, Panchayat Samithi at the

middle and Zilla Parishad at the top. The following table 1.1 shows the number of Panchayati Raj Institutions in operation in rural India.

The Planning Commission and the emphasized that planning should start at the grassroot level and gram panchayats should be made the nuclei of planning. Hence, the idea of “planning from the below” was entertained, and it was derived that the gram panchayat should form the primary unit of rural administration. But the experience of the last five decades has shown that the Panchayati Raj system is moving downhill. In most of the states it has become moribund.

The reports of the several committees and commissions and other research studies relating to Panchayati Raj have indicated various reasons for its inactivity. They are:

- apathy of citizens towards local problems
- lack of mature and experienced leadership
- factions, partisanship and inter-group adjustments
- inadequacy of financial resources
- lack of people’s orientation and of inter-departmental co-ordination and
- structural overlapping of functions.

Of all the above reasons, the most outstanding is the fourth reason, i.e., paucity of funds of the gram panchayats, because of which they have to depend unduly on the State Governments. This leads to their loss of local autonomy. To give the system more vigour and vitality there should be better resource mobilization and efficient management of Panchayat finances. Several steps were taken by the Central and State Governments to strengthen the gram panchayats in the country, but the expected results did not emerge.

At last the Central Government found the solution in the form of constitutional 73rd Amendment bill which was passed by Parliament on 22nd December 1992 to remove all the weaknesses of Panchayati Raj system. It is argued that “this Act seeks to enshrine democracy of grassroots” as it intends “to give power to the people” and it will end corruption and fight and finish power brokers and middlemen politics.

Panchayati Raj in Andhra Pradesh, in its present form and content, largely owes its origin to the report of the Balwant Rai Mehta committee. Rajasthan and Andhra Pradesh were the two early advocates of the Panchayati Raj in India. The Government of Andhra Pradesh acted swiftly in accepting the recommendations of the Mehta Team and enacted a legislation in 1959 to introduce the three-tier Panchayati Raj in the state with gram panchayat at the bottom, Zilla Parishad at the top and the Panchayat Samithi at the middle.

Although later on a few changes have been made in the organisation, the framework has been essentially remained the same. The Panchayati Raj of today in Andhra Pradesh is based on Andhra Pradesh gram panchayats Act, 1964, and the Panchayat Samithis and Zilla Parishads Act, 1959. Despite ups and downs the system could continue and function for more than three-decades. On 29 July, 1986 the Government of Andhra Pradesh passed a legislation known as Andhra Pradesh Mandal Praja Parishads, Zilla Praja Parishads and Zilla Pranalika Abhivrudhi Mandals Bill with an object to reorganize the existing Panchayati Raj system in Andhra Pradesh.

The decision to bring out a legislation constituting of Mandal Praja Parishads and Zilla Praja Parishads was taken on the basis of the recommendations of a Cabinet Sub-Committee which considered the suggestions of the Ashok Mehta Committee. The latter recommended Mandal set-up in order to bring out the Panchayati Raj

Administration closer to the people. The creation of 1,104 mandals in the place of 322 Panchayat Samithis in Andhra Pradesh gives an impression that the principle of decentralization of power has been maintained but it alone does not assure the concept of decentralization of powers. However, the existing Mandal Praja Parishads and Zilla Parishads Act had not provided any change in the financial structure of gram panchayats in Andhra Pradesh. In Andhra Pradesh at present the Panchayati Raj Institutions are functioning on the basis of the Andhra Pradesh Panchayati Raj Act 1994.

1.2. Importance of Gram Panchayats

The gram panchayats have to play a crucial role in achieving overall development of rural areas. But the gram panchayats are endowed with inadequate tax powers and multiple functional responsibilities. The gram panchayats are unable to achieve many of their objectives because of lack of funds. Inevitably gram panchayats cannot perform satisfactorily the developmental functions that are bestowed on them unless they have command over larger financial resources.

In order to revitalize the gram panchayats, it is absolutely necessary to extricate them from their present status and find out ways and means to make them viable units of administration and development. They should be assured broad fiscal autonomy before they can function with administrative autonomy.

The late Rajiv Gandhi surveyed the rural and urban scenes and found that the development work in rural areas was unsatisfactory. He thought that unless local self-government in rural areas was given constitutional status, things would not be improved. In this process, constitutional amendments were drafted but could not be put through during the tenure of the Eighth Lok Sabha. It is only on April 20, 1993 that the Constitution (73rd Amendment) Act has been brought on the statute book. The

gram panchayats bodies require funds and it is for the state legislatures to prescribe taxes and fees leviable by the Gram Panchayat. But this is not enough, just as at the Central level, the constitution provides for the setting up of a Finance Commission every five years to recommend the devolution of taxes and grants-in-aid and their allocation to gram panchayats at all levels. This has been fulfilled at some extent after the establishment of State Finance Commission at the state level.

The gram panchayats are expected to play a vital role in rural development in India, particularly after Independence. Plan documents of both the Central and State Governments and various committees have emphasized the importance of gram panchayats in the polity. The Second Five Year Plan document had stressed the need for creating a well organized democratic structure of administration within the district in which the gram panchayats would be organically linked with popular organizations at a higher level and these popular bodies were to be entrusted with the functions of the entire general administration and development of the area.

The gram panchayats have many responsibilities on both civic and developmental fields such as education, public health, water supply, communications, agriculture, minor irrigation, village and small scale industries and social welfare. In this context the finances of gram panchayats assume a major importance. But the gram panchayats are endowed with inadequate tax powers and multiple functional responsibilities. Unless the gram panchayats have a command over larger financial resources they cannot perform satisfactorily the developmental functions that are bestowed on them.

There are many critical observations on the working of gram panchayats in many aspects. It is stated that they are unduly dependent on Government and are not able to generate local resources. It is observed that they spend major portion of their

revenue on establishment, leaving very little for developmental programmes. On the other hand, there are representations from gram panchayats that their financial resources are meager. It is stated that the assistance to the gram panchayats from Government has not increased in proportion to their ever growing functional responsibilities over the decades in India.

1.3. Committees and Commission on Gram Panchayat Finances

The Santhanam Committee on Panchayati Raj finances observed that “although Panchayati Raj Institutions have their formidable list of functions to discharge their duties, they do not have necessary financial resources to cope with their functions.” Therefore, it is essential for the stability and growth of the gram panchayats that they should have substantial financial resources which are entirely within their powers to exploit and develop.” It is also observed that “there is a need to maintain a balance between the expanding functions and the role entrusted to the gram panchayats and their financial resources.”

Ashok Mehta Committee report pointed out that the present Panchayati Raj system is not able to function effectively not only due to the poverty level in the village but also due to the size of the resource base. It is therefore argued that the Government should transfer considerable resources to the gram panchayats.

Panchayati Raj finance has not received adequate attention to the extent that the subject rightly deserves. Though the problem of state-local fiscal relations is as complex as that of central-state fiscal relations, local finance is apt to be neglected in a federation in view of the fact that in several federations, local authorities do not have any constitutional status, powers and privileges. It is stated that the state level fiscal adjustments are much more complex than the central-state fiscal adjustments.

Unlike the Central Government which deals with a few State Governments, the State Governments have to deal with thousands of Local Governments which are of different composition and nature and whose revenue potential and expenditure are widely differ from one another. The powers and functions of the lower-tier of Panchayati Raj in India i.e., gram panchayats are differ from one State to another State.

1.4. The Importance of the Study

It is necessary to study the finances of gram panchayats, which have to play an increasingly important role in the democratic life of the country. The inadequacy of the financial resources of gram panchayats is at present the most serious obstacle to the progress of gram panchayats. The successful functioning of gram panchayats, however, depends on adequate financial resources. But in India, in almost all States, gram panchayats have been suffering with inadequate financial resources. They have also inadequate powers to levy taxes.

Tax revenues of gram panchayats include the tax revenues like house tax, water tax, vehicle tax, advertisement tax, katarusum, tax on vacant lands, etc.. As gram panchayats are now saddled heavily with ever growing functional responsibilities, the need to mobilize more financial resources by the gram panchayats is greater than before.

The State Government imposed many restrictions on the financial powers of gram panchayats and the taxes allocated to gram panchayats are limited and less elastic. The general problem of gram panchayats has been one of widening gap between inelastic and limited financial resources and their ever growing functions. Some gram panchayats have many functional responsibilities in both civic and development fields such as public health, water supply, communications, street

lighting and other social welfare activities. In this context, the study of the tax awareness among the tax payers of gram panchayat is useful to understand the gaps in mobilizing the own tax revenues of gram panchayats.

Though various problems of gram panchayats have been studied and highlighted, the problem of shortage of own funds to gram panchayats is an area yet to be fully explored. The tax awareness among the tax payers of gram panchayats could not draw adequate attention of academicians and no systematic effort has been made to conduct a comprehensive study in the area of the tax structure of gram panchayats in India.

The gram panchayats are incapable of exercising its tax levying power. In such a situation, the gram panchayats in Andhra Pradesh are going to face financial crisis to carryout their bare minimum responsibilities. In the light of the above circumstances, there is a need to find out the ways where the gram panchayats can stand on their own feet for discharging their increasing responsibilities. Once the gram panchayats are self-sufficient, there will be a momentum towards development and that will automatically lead to rapid economic development of the country.

In the light of the paucity of studies pertaining to the tax revenues and the awareness of the tax payers on own tax resources of gram panchayats in Andhra Pradesh and the inadequate attention paid by the recent committees and commissions appointed by the State Government to make a thorough investigation on the tax structure of gram panchayats in the state. In this context, the need for the present study is both relevant and urgent. An attempt is, therefore, made in the present study to examine critically the awareness of tax payers on various own tax revenues of gram panchayats in Anantapur district with special reference to the selected gram panchayat

from Penukonda revenue division of Anantapur district in Rayalaseema region of Andhra Pradesh.

This study is first of its kind in Andhra Pradesh. It covers not only the analysis of tax awareness but also suggested suitable measures for mobilisation of own tax resources. No study of this kind has been undertaken in the field of local finance. This study brought important factors in to limelight about the reasons for inadequate tax sources and faulty collection of various taxes at the gram panchayat level. The ultimate aim is to exploring possibilities of tax resource mobilisation in the gram panchayats of Andhra Pradesh in general and the resource mobilization in Anantapur district in pariticular.

This study is to examine the financial health of gram panchayat taxes. The gram panchayats have to perform a diversity of functions for the development of rural villages, but due to lack of own funds, gram panchayats are in helpless condition to discharge their functional responsibilities in an efficient manner. Hence, it is to be investigated that how best the various tax revenues can be increased and what more new taxes can be included in the list of taxes of gram panchayats are the twin problems to investigate in this present study.

Very little studies were made in the tax awareness among the tax payers and all the tax aspects relating to the resources of gram panchayats has not been made since the inception of the Panchayati Raj in rural India.

1.5. Review of Literature

There has been a few studies on the gram panchayats covering different aspects like functions and powers, mobilisation of resources for developmental functions, the official and non-official relations and their role in the implementation

of developmental programmes etc. A brief review of the important literature on such aspects attempted in the following pages would be most relevant and urgent.

There is one detailed study by B.C.Muttaiah on Panchayat taxes with particular reference to a few gram panchayats in Andhra Pradesh. It reveals the truth that these bodies are heavily depends on grants from the Government and the upper tiers of Panchayati Raj Institutions. But taxation is also conceived of as one of the resources of revenue for Panchayati Raj bodies and this understanding, he concludes, tax awareness may be one of the influencing factors in their tax payment.

The team for the study of community projects and national extension service appointed by the Government of India in 1957 under the chairmanship of Balwantrai Mehta, Local Finance Enquiry Committee headed by P.K.Wattal, appointed by the Government of India, 1951, the study team on Panchayati Raj Finances in 1963 headed by Santhanam made some innovative suggestions in the field of finances of gram panchayats.

The other expert bodies constituted by the Government of India viz., the Study Team on Budgeting and Accounting Procedure of Panchayati Raj Institutions (1963), the study team on the Audit of Accounts of Panchayati Raj Bodies (1965) made only a few suggestions in the field of Panchayati Raj finances but they have not made any comprehensive study of the finances of gram panchayats.

The report of the committee on Panchayati Raj Institutions headed by Ashok Mehta in 1978 appointed by the Government of India also made constructive suggestions on structural, functional and administrative aspects but not attempted any comprehensive study of the finances of gram panchayats.

Number of Committees have gone into the working of Panchayati Raj Institutions in various States of India. The report of the Committee on Panchayati Raj

bodies, Jalagam Vengala Rao as its convenor appointed by the Andhra Pradesh Congress Legislature Party in 1968 gave much importance to the political and administrative aspects of Panchayati Raj Institutions only.

The report of the High Power Committee on Panchayat Raj appointed by the Government of Andhra Pradesh in 1972 headed by C.Narasimham to make the study of the working of Panchayati Raj Institutions and to suggest measures to strengthen these democratic local institutions in the State has not examined the aspect of their finances in comprehensive manner. The committee has paid greater attention only to structural and administrative issues. The report of this committee did not give much weight to the financial aspects of gram panchayats in Andhra Pradesh.

Herman Finer (1950), in his work entitled 'English Local Government' gave an important definition of the theory of Local Governments apart from the practical working of Local Governments in the United Kingdom.

One of the notable works on the finances of Local Self-Governments was Ursula K. Hicks, 'Development From Below' (1954). She performed a remarkable work on "Local Governments and their Finances in Developing Common Wealth Countries, viz., India, Ceylon, West Africa and East African countries. She discussed elaborately on evaluation, transition, budgetary accounts, local taxations including grants and their role in local finances. She observed that the financial management is of vital importance for the success of any government or organization. Marshall, A.E. (1974) has given a remarkable note in the financial management of the Local Self-Governments.

A comprehensive study of the finances of all the three tiers of Panchayati Raj, namely, "gram panchayats, Panchayat Samithis and Zilla Parishads" was made by K.Siva Subrahmanyam (1974). He made a detailed enquiry into the finances of

Panchayati Raj Institutions in Andhra Pradesh during 1960-61 to 1970-71. He found that “at the local level, economic considerations do not appear to be a strict guide of revenue and expenditure decisions of the local authorities.” Overwhelming and personal influence results to imprudent economic considerations. The author finally suggested that the success of Panchayati Raj Institutions depends primarily, if not exclusively, upon a reversal of this deplorable trend.

According to Mr. Niranjan Panth, in his work ‘Politics of Panchayati Raj Administration’, is a study of official and non-official relations (1980). In his work, he opined that the officials are always dominating the non-officials in administration of local affairs.

Sivaling Prasad’s work, entitled “Panchayat and Development (1981) is a study based on empirical data on organization and working of Panchayats. In his work, the author tries to throw light on the administrative aspects of the gram panchayats, particularly, the operational dynamics in achieving the objectives of rural development.

The major hindrance for effective functioning of Panchayats is inadequate financial resources. The author concluded that the structure of Panchayats becoming feeble because of insufficient powers and resources, untrained and incompetent staff, concentration of power is in the hands of Sarpanch, ineffective linkage and channels of communication, improper supervision and guidance, insensitive bureaucracy and the improper priorities are the maladies prevailed in the entire Panchayati Raj system in India.

John Stewart (1983), in his work argues that local authority can be described as political institutions are capable of exercising significant choice at the levels of the locality.

Neil Webster (1992), in his book “Panchayati Raj and the Decentralization of Development Planning in West Bengal”, examined the impact of Panchayati Raj Programme for greater decentralized planning in West Bengal. He concluded that decentralization and popular participation have come to dominate development policies and that the present conjuncture sees quite different political philosophies emerging with remarkable similar policy conclusions – namely, the need to elevate politics is the primary role in the pursuit of successful development through the decentralization of government and the empowerment of people.

The book entitled “State-Local Fiscal Relations in India” (1998) is an outcome of the National Conference on ‘Emerging Trends in Local Fiscal Relation in India’ held at the National Institute of Rural Development in Hyderabad on 18 and 19 December, 1996. Authors of different papers in this book have suggested some policy options for reforming state-local fiscal relations in India.

Ch.A. Krishna Rao and M.Sarojini emphasized the need for developing a rational approach for allocating the resources to the Panchayati Raj bodies. They argued that financial transfers among the different local bodies should be mainly based on carefully chosen criteria reflecting their relative fiscal needs.

Sujatha Rao suggested that ideally major part of revenue collection and expenditure should be left in the hands of the Panchayati Raj Institutions. When there is an increased stress on the basic needs, specific resource transfers must accompany the additional responsibilities on the local bodies.

M.A. Oommen expressed that a rational flow of funds is the key for rational fiscal relations.²⁵ The opinions of other authors in this book, O.P Bohra argued that tax assignments, sharing of taxes and Grants-in-Aid play a vital role in the effective functioning of Panchayati Raj Institutions. Keeping fiscal autonomy in view, the

buyout and income elastic resources should be assigned to the Panchayati Raj Institutions.

Noorjahan Bava stressed for the need to look at the entire issue of resource generation of the local bodies in an inter-disciplinary perspective by responding to the needs and parameters of democracy.

Citing the Andhra Pradesh Scenario, V. Gnaneswar pointed out that a well-articulated system of financial transfers could not emerge mainly due to reluctance on the part of State Governments to share financial resources.

The National Conference on 'Emerging Trends in Local Government Finances' held at the National Institute of Rural Development, Hyderabad, 24-25 October 1996 published its proceedings entitled "Local Government Finances in India" (1998). In this Book Abdul Aziz presented the case of Karnataka.

He concluded that the gram panchayats have lived primarily on the developmental grants provided by the state. There was hardly any attempt to generate resources. He, however, finds that the financial position of gram panchayats is stronger than the other two tiers of Panchayati Raj since the taxation power lies only in the hands of the Gram Panchayat.

G. Palanithurai (1999) in his book entitled 'New Panchayati Raj System At work: An Evaluation', made a remarkable work done at various villages in Tamil Nadu analyzing the functions of the New Panchayati Raj system evolved in the light of 73rd Amendment in the Constitution of India. He opined that 'as Panchayat leaders have more functional responsibilities and to discharge their role and responsibilities, their capacity has to be enhanced and managerial skill has to be increased. To enhance their capacity, and to improve the managerial skills, training programmes have to be organized periodically and for which paramount arrangement to be evolved.

Sandeep Joshi (2000) work on “Panchayati Raj Institutions and Poverty Alleviation” focused on various aspects relating to the poverty alleviation programmes and the role of Panchayati Raj Institutions in Ujjain and Jhabna Districts of Madhya Pradesh. In his work, he concluded that” it will be pertinent to quote here the observation of the Ashok Mehta Committee.

1.6. Scope of the Study

The present study attempts a detailed enquiry into the tax awareness among the tax payers of selected gram panchayat in Anantapur district of Rayalaseema region in Andhra Pradesh. The emphasis of the present study is on the various tax resources of gram panchayats.

1.7. Objectives of the Study

The main objectives of the study are:

1. to understand and analyse the tax resources of sample gram panchayat,
2. to examine the awareness of tax payers on various taxes of the selected gram panchayat;
3. to analyse the various in the awareness among different group of tax payers,
4. to undertake the opinion of tax payers on the levy of own tax revenues of gram panchayat;
5. to suggest the possible lines to improve the tax resources of gram panchayats to meet their functional expenditure by bringing suitable modifications in levying / collection of various taxes at gram panchayat level.

1.8. Methodology & Sampling Design

In view of large number of gram panchayats in the State and their wide geographical dispersal, the area of the study is confined to a certain geographical periphery. Anantapur district of Rayalaseema region has been selected for the study.

In Anantapur district there are many gram panchayats. To minimize the expenditure and to maintain the time frame the present study is confined to only one notified gram panchayat namely Mudigubba gram panchayat of Penukonda revenue division in Anantapur district.

1.9. Data Base

Relevant information was collected form the officials and non-officials of the Gram Panchayat. Secondary data was gathered from several published reports and administrative reports of gram panchayats to the extent of their availability. The relevant simple statistical techniques are used to interpret the data so as to draw the relevant conclusions. For the purpose of the analysis of the data, simple percentages, pie-diagrams diagrams have been used wherever necessary.

1.10. Chapter Scheme

First Chapter covers the significance of the finances of gram panchayats, the importance of the study, review of literature, objectives and methodology of the study including chapter scheme.

The second Chapter explains evolution awareness of the tax payers on various tax resources of selected gram panchayat.

The third Chapter analyses the opinions of the tax payers on the levy of tax rates selected gram panchayat in the district.

The fourth Chapter devotes to examine the suggestion of different sample tax payers for better levy of certain taxes in the sample gram panchayat.

The last Chapter is entirely devoted not only to summarise the findings but also to suggest the possible measures to improve the tax resources of selected gram panchayat to meet their functional expenditure effectively.

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