CHAPTER - 2

REVIEW OF LITERATURE, DATA AND METHODOLOGY
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"The Political problem of mankind is to combine three things: economic efficiency, social justice and individual liberty"

J.M. Keynes

2.0 Introduction

This chapter consists of review of literature, need for the study, importance of the study, objectives, hypotheses, methodology, scope, limitations of the study and scheme of analysis. In order to present this chapter in a systematic way, it has been arranged in three sections. Review of literature is presented in Section-I. Section-II covers the need and importance of the present study and also objectives and hypothesis of the present study. Methodology and statistical design, scope of the study and scheme of the thesis are given in the last section.

Section I

2.1 Review of Literature

Local finance is comparatively neglected part in the field of Public Finance. Few studies were made in local finance nationally or internationally. Even in the field of local finance, only urban local finance was studied more than that of rural local finance. The Government of India also did not give proper credence as it instituted a few committees. The Local Finance Enquiry Committee (1951), the Taxation Enquiry Commission (1951-54), the Committee on the Augmentation of Financial Resources of Urban Local Bodies (1963) and the Rural Urban Relationship Committee (1966) etc., are some of the committees, which have devoted their attention and concentration on the finances of urban local authorities rather than rural local finances.
In order to enlist different research studies and the relevant literature have been contributed over the years, in this section, literature review is undertaken and arranged in chronological order. This will help in not only understanding contributions to the subject matter but also study gaps in the field of local finance.

Herman Finer\(^1\) (1950) in his work entitled *English Local Government* gives an important definition of the theory of local governments apart from discussing practical working of local Government in the United Kingdom.

Taxation Enquiry Committee (1954)\(^2\), under the chairmanship of John Mathai, discussed that taxes like land cess, house tax, duty on transfer of property and services taxes should be allocated to local bodies for collection and fixation of rates from time to time.

One of the notable works on the finances of Local governments was that of U.K.Hick's\(^3\) (1954) *Development From Below*. She did a remarkable work on local governments and their finance in developing countries like India, Sri Lanka (formerly known as Ceylon), West Africa and East African countries. She remarked that financial management is of vital importance for the success of any government or institution.
Hugh Tinker (1954) in his work entitled *Local Self-Government in India, Pakistan and Burma* debates the important administrative issues with historical interpretation.

B.C. Muthayya (1972), in his work *Panchayat Taxes* examined 444 respondents of three *Panchayats* in Andhra Pradesh. The author opined that the main function of the *Panchayat* is to mobilize local resources and degree of success is dependent upon the local support. In his opinion, the respondents were aware of the improvements in the village and felt that the money collected from the people in terms of taxes had been properly utilized.

K. Siva Subrahmanyam (1974), in his work *Financing Panchayat Raj in Andhra Pradesh*, referred to some selected local units in the State. The author suggests mainly “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 in imprudent economic considerations. The author suggested that the success of *Panchayat Raj* should depend primarily, if not exclusively, upon a reversal of this deplorable trend.

A.E Marshall (1974), in his work *Financial Management in Local-Government*, has given a remarkable note on how to manage finances at the local government level. It is improper financial management that is responsible for the present state of affairs.
*Panchayat Raj in Assam* is a comprehensive study on functioning and finances by S.P. Jain⁹ (1976). In his project report, he explains how people's participation, attitudes and opinions of officials and elected representatives are helpful for local administration. He observed that out of four *Gram Panchayats*, two were found to be working satisfactorily. He says that steps should be taken to enable these bodies to play more meaningful and active role in the nation-building process¹⁰.

Lagroye and Vincent Wright¹¹ (1979) in their work *Local Government in Britain and France*, concentrated on the evolution of local governments in Britain and France.

Niranjan Panth¹² (1980), in his work *Politics of Panchayat Raj Administration - A Study of Official and Non-official Relations*, observed that the officials are always dominating the non-officials (elected people) in administration of local affairs.

V. Sivalinga Prasad’s¹³ work entitled *Panchayat and Development* (1981), is a study of organization and working of *Panchayats*, based on the empirical work. In this work, he tries to bring to light the administrative aspects of the village *Panchayats* particularly referring to operational dynamics in achieving the objectives of rural development. The effective functioning of *Panchayats* have always faced problem by the finances. The author concludes that the structure of *Panchayats* becoming feeble because of insufficient powers and resources, untrained and
incompetent staff, concentration of power in the hands of Sarpanch, ineffective linkage and channels of communication, improper supervision and guidance, insensitive bureaucracy and the improper priorities. These indeed are the basic problems which plagued the entire *Panchayat Raj* system in the country.

John Stewart\(^\text{14}\) (1983) in his work *Local Government: The Condition of Local Choice*, argues that local authority can be described as political institution capable of exercising significant choice at the levels of the locality.

Pekka Seppal\(^\text{15}\) (1998), in his project report *Tanzanian Local Administration-A Vehicle for Democratic Development*, discussed various issues relating to local administration and finances of local administration and reforming the finances of the local governments. Basing on the study, he concluded that the local government should encourage villagers and businessmen to participate actively in village politics and administration.

M.V. Narasimha Sarma’s\(^{17}\) (1991) unpublished work entitled *Finance of Gram Panchayats in Andhra Pradesh – An Empirical Evaluation* is a comparative study of the finances of *Gram Panchayats* based on selected districts in Andhra Pradesh. He gave a set of suggestions for every revenue as well as expenditure items of rural local units. To make the role of elected representatives as well as officials more meaningful, it is desirable to organize orientation courses periodically. In this connection, it may be pointed out that District *Panchayat* Officer and *Zilla Parishad* officials may offer guidance in the administrative and financial management of *Panchayats*. Also, the National Institute of Rural Development may be requested to provide orientation and training\(^{18}\).

Neil Webster\(^{19}\) (1992) in his work *Panchayat Raj and the Decentralization of Development planning in West Bengal* examined the impact of *Panchayat Raj* programme for greater centralized planning and local Government in West Bengal.

H.Satyam’s\(^{20}\) (1994) article entitled *Making Gram Panchayats Effective in Andhra Pradesh*, is a study on various sources of *Gram Panchayat* revenues in Andhra Pradesh. He opined that socio-economic and financial development of India could be achieved only by strengthening the *Gram Panchayats*.

Uma Joshi\(^{21}\) (1994) in her article entitled ‘*Women Role Imperative For Strong – PRI’s*,’ suggested that a multi-pronged effort is needed to make poor
Women become active participants in the decision-making and to strengthen the Panchayat Raj institutions.

*Women in Panchayats – A Constructive Approach,* is an article of Ashoka Gupta (1994), in which he briefed the women status in India since British Period. While elaborating the women’s role in the light of 73rd constitutional Amendment 1992, he wrote that women members of Panchayats will form a ‘forum for women’ irrespective of party line so that women’s voice from the grass-root level can be heard.

A.K.Dubey and Sanjay Mitra’s (1995) article entitled *Planning and Finance for Panchayat Raj Institutions* is a study on finances of rural local government institutions. They observed that Panchayats are neither enjoying financial independence nor stability.

C.P.Vithal (1995), in his article named *The New Panchayat Raj Act in Andhra Pradesh: An Analysis,* observed that despite the demand for more decentralization of powers to the duly elected grass-root level democratic institutions, the State has usurped more powers under various provisions of the 1994 Act.

Ranjana Mukharji (1995) in his article *Financial Management by Panchayats,* analysed the budgeting, taxation and audit of 1993-94 revenue and expenditures of Eureka Zilla Parishad of West Bengal State. He suggested that some changes in the present system and some hard
decisions are necessary for the success of Panchayat Raj system. *Enhancing Financial Autonomy of PRI’s - Tasks Before State Finance Commissions* is a work of Noorjahan Bava\(^2\) (1996). In this article, the author pointed out various issues, which needed the attention of State Finance Commissions.

M.R.Biju’s\(^3\) (1996) article entitled *Financial Organisation of Panchayat Raj Institutions in Kerala* is a study on revenue patterns of Panchayat Raj Institutions in Kerala State. He suggested enhancement of State Government grants, involvement of commercial banks in preparation of area plans, and setting up of a multi-disciplinary technical planning cell at district level, which might solve the financial crunch.

Sohail Jawaid\(^4\) (1996) in his article *Grass-root Democracy and Financial Resources* argued that strings of finance, which influence the entire role and functions of the Panchayats must be studied carefully. He concluded that the whole efforts to establish a well-knit administration to assist the Panchayats, would become futile if the employees are not properly trained to suit the work environment.

Mahipal\(^5\) (1997), in his article *Panchayat Raj in India: Issues and Challenges*, discussed various issues and changing trends of Panchayat Raj system in the wake of Constitution (Seventy-third) Amendment Act, 1992. After elaborate discussion, he concluded, "Experiences gained so far after the Amendment gives a gloomy picture of the implementation of the Act because the States have not understood the spirit of the Act. Hence, for
making Panchayats viable and pulsating institutions, another amendment to the Constitution is required, which would give functional, administrative and financial autonomy to the Panchayats. But this is not an easy task, because most of the political elite and bureaucrats will never like this. Thus, the urge for this has to come from the grass-roots, and then only poverty, unemployment, inequality and disease could be removed”.

*Participatory Planning* is an article of S.N.Misra\(^{30}\) (1997), in which, he concluded that in every State at district level, a District Planning Committee shall be constituted to consolidate the plans prepared by the Panchayats.

P.N.Sankaran’s\(^{31}\) (1997) article named *Panchayat Raj : Institutional Dimensions and Deficiencies*, points out that there are certain gaps in institutional development and concluded that the government, people’s organizations, NGO’s and political parties to rededicate themselves and contribute to a supportive institutional setting for the *Panchayat Raj*.

La. Su. Rangarajan\(^{32}\) (1997) in his article *Gram Swaraj- A Gandhian Perspect* discussed the latest developments in Panchayat Raj System in relation to Gandhian Perspective of Gram Swaraj. In his words, “The 73\(^{rd}\) Constitutional Amendment places the Panchayats totally at the mercy of the State administration. It is possible for the State Legislature to enact laws empowering the government to dissolve the Panchayats. The three tier Panchayat institutions are not clothed with any power of self-government in the real sense”.

*The Relationship between Gram Sabha and Gram Panchayat* (1999) is an article by M.S.John and Jos Chathukulam, in which, the authors opined that a workable relationship between *Gram Sabha* and *Panchayat* is yet to emerge in most of the States. This is a difficult and long drawnout process. K.Subha and B.S.Bhargava's (2000) paper *Panchayats and N.G.O's in Social Change*, emphasized the role of *Panchayats* in social change. While emphasising the importance of Non-Governmental Organisations, they expressed that there is an urgent need to appreciate the Non-Governmental Organisations in realizing the significance of democratic
decentralization. A close understanding and co-ordination between the Panchayat Raj institutions and Non-Governmental Organisations is vital for development from below.

Panchayat Raj Institutions and Poverty Alleviation (2000) is a work of Sandeep Joshi38. This work is a study on various aspects relating to the poverty alleviation programmes and role of Panchayat Raj institutions in Ujjain and Jhabna Districts of Madhya Pradesh.

The edited volume of George Mathew39 (2001) entitled Documenting Panchayat Raj is a comprehensive view of the status of Panchayat Raj in the States and Union Territories of India. He says that the implementation of the recommendations of 11th Finance Commission as well as other Finance Commissions would strengthen decentralized governance, planning and development in the years to come.

V.Annamalai's40 (2001) Research Report entitled Role of Panchayat Raj in Natural Resource Management is a study of two village Panchayats in Tamil Nadu' He observed that natural resource management will lead to rapid village development on one side and on the other it will improve the financial position of village Panchayats.

Madha Kotwal Lele41 (2001) in his article entitled Local Government: conflict of Interests and Issues of Legitimation, observed that there are two
parallel bodies with legitimising sources which continue to function in Maharasthra State following the 73rd and 74th Amendments. In Maharasthra the Gram Sabha and the traditional village Panchayats are dominated by upper and richer caste men.

E. Somanathan\textsuperscript{42} (2001) in his article entitled Empowering Local Government-Lessons from Europe gives a broad outlook of local-governments in the past and present in Britain, France, Germany, Italy, Spain and Scandinavia. He came out with a conclusion that political development in the sphere of local government may not succeed until economic growth has first taken place. He opined that the powers and roles of local government should be clearly defined and should be transparent, otherwise it leads to poor performance.

The Twelfth Finance Commission, under the Chairmanship of C. Rangarajan\textsuperscript{43} (2006), recommended a substantial increase in grants – in – aid to the states. It followed the method of assigning weights to parameters such as area, population, tax discipline, infrastructure and inter-state variations in income levels. The commission recommended that henceforth the Centre should release only the grant portion of its an assistance, with a view to cultivate fiscal discipline.
Section II

Need for the present study, importance of the present study, objectives and hypotheses are presented in this section.

2.2.1 Need for the Study

Gram Panchayat is an age-old concept in India. It is a tax levying authority on par with State and Central Government. Recently Gram Panchayats are given constitutional status by Constitutional (73rd Amendment) Act, 1992.

Since inception of Panchayat Raj system, Government has appointed some expert committees to study various issues for strengthening Gram Panchayats. Local Finance Enquiry Committee\textsuperscript{44} was appointed in 1951, under the chairmanship of Mr. P.K. Wattal. This committee suggested that local bodies should have independent power of taxation subject to prescribed ceilings.

In 1953–54, Taxation Enquiry Committee\textsuperscript{45} was constituted under the chairmanship of John Mathai. Some of the recommendations of this committee are: i) A substantial part of Panchayat finances should be met by grant from State Government in the initial period of growth. ii) Some taxes like land cess, house tax, duty on transfer of property, services taxes etc., should be exclusively transferred to local bodies.
In 1963, a Study Team was appointed under the chairmanship of K. Santhanam and it came out with several recommendations, such as (a) setting up of Panchayat Raj Finance Corporation, (b) Powers to Panchayats to levy special tax, based on land revenue and house tax etc.

The Study Team on District Administration of the Administrative Reforms Committee (1967) made several recommendations relating to taxes and transfer of assigned revenues and grants, which could be transferred by the State Government. The Ashok Mehta Committee, which was constituted in 1978, has recommended to set up State Finance Commission.

The G.V.K. Rao Committee (1985), after examining the functions and revenue resources of Panchayat Raj institutions in detail recommended a finance and standing committee at district level to supervise finance, framing of budgets, proposals to increase revenue and consideration of proposals affecting finance.

The L.M. Singhvi Committee (1985) has examined various financial resources of Panchayat Raj institutions and strongly favoured the constitution of State Finance Commission for each State and a pattern of compulsory and optional levies to Panchayat Raj institutions.

The Government of Andhra Pradesh also appointed a State Committee under the Chairmanship of C. Narasimham. This Committee
has suggested that a State Finance Commission should be setup to recommend distribution of finances between the State and its local bodies.

*Gram Panchayat* is the rural local body at bottom level of *Panchayat Raj* that is expected to perform a number of civic and developmental activities facing inadequacy of funds on one side and taking away of tax levying powers of *Gram Panchayats* by State Government on the other side.

This study is unique because this is a micro level study by taking villages as sample. No study has been yet conducted on these lines in Andhra Pradesh. The present study is a thorough enquiry into *Gram Panchayat* finances and spotlighted various problems that encompass financial administration and giving constructive suggestions for better financial governance of *Gram Panchayats* in Andhra Pradesh.

### 2.2.2 Importance of the Study

*Panchayat Raj* system is a novel experiment in the history of rural local-government, in which, *Gram Panchayat* plays a vital role in decentralized development of India. It has also got constitutional status accorded by the Constitutional 73rd Amendment Act, 1992.

With regard to powers and functions of *Gram Panchayats*, the responsibilities are enormously increasing compared to revenue. Recent studies reveal that *Gram Panchayats* in Andhra Pradesh are not able to utilize their own sources such as taxes, fees, and fines. For that reason, they
are mostly dependent upon transfers from the State Government and grants-in-aid.

It is also an important fact that transfers of the State Government are not made at regular intervals and grants are also not getting sanctioned as specified. Due to these reasons, Gram Panchayats are not even in a position to carry out their entrusted functions. Presently Gram Panchayats require two kinds of exercises, known as, matching of revenues with their functions, and good governance of finances.

The present study is an attempt to suggest various measures to improve revenue from the existing sources in a sustained manner and identifying new sources of revenue to Gram Panchayats in Andhra Pradesh. It is also intended to identify priorities of expenditure in selected villages and districts. These suggestions are applicable to all Gram Panchayats in the entire State. Hence, the present study has immense utility for good governance of finances which in turn accelerates the economic development of the country.

2.2.3 Objectives of the present study

With a view to study Gram Panchayat finances in selected villages of Andhra Pradesh, the following objectives are set:

1. to study the structure of rural local governments and their finances in Andhra Pradesh
2. to study the trends and growth of revenues and expenditures in the selected villages of the three regions in Andhra Pradesh
3. to examine the comparative differences in the pattern of revenues and expenditure of Gram Panchayats in the three regions of Andhra Pradesh
4. to suggest suitable measures for better financial administration of Gram Panchayats.

2.2.4 Hypotheses of the present study

Based on the objectives set for the study, the following hypotheses are framed for testing:

1. Revenues of Gram Panchayats in all the three regions of Andhra Pradesh are increasing continuously.
2. Expenditures of Gram Panchayats in all the three regions of Andhra Pradesh are increasing continuously.
3. There are fixed rules with which the revenues are collected by the Gram Panchayats in Andhra Pradesh.
4. There are rules governing the expenditures of Gram Panchayats and they are implemented appropriately.
5. The pattern of revenues and expenditures of Gram Panchayats differs from one region to another in Andhra Pradesh.

Section III

Methodology and statistical design, scope of the study and scheme of the thesis are given in this section.
2.3.1 Methodology and Statistical Design

This study is a sample study. Purposive stratified random technique is used while selecting the sample. On geographical basis, Andhra Pradesh is divided into three regions as Andhra, Rayalaseema and Telangana regions. From each sample district, how the notified and non notified Gram Panchayats are taken, is given in Table 2.1.

**Table - 2.1**

Table showing the Sample Gram Panchayats of Sample Districts in Andhra Pradesh

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<tr>
<th>Sl No</th>
<th>Region</th>
<th>District</th>
<th>Notified Gram Panchayats</th>
<th>Non-Notified Gram Panchayats</th>
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2.3.1.1 Sources of Data

Most of the data used in this study is secondary data, which was collected from official records of concerned Gram Panchayats and Mandal Parishads and Mandal Revenue Offices. Data has also been collected from audited reports of Gram Panchayats, bank passbooks etc., in certain villages. Data pertaining to districts and the State has been compiled from the publications of the Directorate of Economics and Statistics, Andhra Pradesh. With regard to certain statistics relating to profiles of the sample Gram Panchayats, primary data is also collected and used in this study. The collected data has been processed through Statistical Package for Social Sciences (SPSS) Software.

2.3.1.2 Statistical Tools used for Analysis

Simple statistical tools - averages and percentages are used to compare various items of income and expenditures. In order to estimate the relative change, index numbers are used by taking 1986-87 as fixed base year in most of the cases. In certain exceptional cases namely, Jawahar Grama Samridhi Yojana, 1989-90 is taken as base year because it was started in that year.

2.3.1.3 Estimation of Trend

There are various econometric methods that can be used to derive estimates of the parameters of economic relationship from statistical observations. However, the mechanics of least-squares are simple to understand.
Assuming two variables, X and Y the functional relationship may be written as:

\[ Y = f(X) \]

Where

\[ X = \text{Explanatory variable} \]
\[ Y = \text{Dependent variable} \]

We further assume that the variables are related with the simplest possible mathematical form, that is, the relationship between these two variables is linear of the form

\[ Y_i = b_0 + b_1 X_i \]

This form implies that there is one-way causation between the variables Y and X. The parameters, \( b_0 \) and \( b_1 \) are estimated using the 'normal' equations of OLS

\[ \sum Y_i = n b_0 + b_1 \sum X_i \]
\[ \sum X_i Y_i = b_0 \sum X_i + b_1 \sum X_i^2 \]

Since sampling errors are inevitable in all estimates, it is necessary to measure the size of the error and determine the degree of confidence in the validity of the estimates. In this regard, the 'standard error test' is popular and the same is applied in this study. This helps us to decide whether the estimates \( b_0 \) and \( b_1 \) are significantly different from zero, i.e., whether the sample from which they have been estimated might have come from a population whose true parameters are zero (\( b_0 = 0 \) and/or \( b_1 = 0 \)). We test the null-hypothesis
Ho: $b_i = 0$

against the alternative hypothesis

$H_1: b_i \neq 0$

The square of the correlation coefficient, $R^2$ is used for judging the explanatory power of the linear regression of $Y$ on $X$. A measure of the goodness of fit is the square of the correlation coefficient $R^2$ which shows the percentage of the total variation of the dependent variable that can be explained by the independent variable $X$.

The regression analysis provides numerical values for the influence of the various explanatory factors on the dependent variable. The method of analysis of variance is used in regression analysis for conducting various tests of significance, the most important among them are ‘t’ and ‘F’ statistic and they are used in this analysis. For individual regression coefficients ‘t’ and ‘F’ are formally equivalent.

2.3.2 Scope of the Present Study

The present study is strictly confined to the finances of Gram Panchayats in Andhra Pradesh. It is an attempt for detailed investigation of Gram Panchayat finances over a period of 14 years i.e., from 1986-87 to 1999-2000. In view of several constraints in selecting census method, sampling technique is used in this study. This study covers one notified and two non-notified Gram Panchayats from three districts each from Andhra, Rayalaseema and Telangana Regions.
As two thirds of the sample is non-notified Gram Panchayats, it became very difficult to collect the required data because of several reasons like improper book keeping, record maintenance etc. On some occasions it is inevitable to go through the bank passbooks for getting the revenues and expenditures in certain villages. As such, necessary adjustments were also made in the available data to suit the totals, wherever necessary.

Despite all these limitations, earnest efforts were made to collect reliable and appropriate data from the available sources. The same data is used effectively to draw conclusions and to give appropriate suggestions for healthy financial administration of Gram Panchayats.

2.3.3 Scheme of the Thesis

For systematic presentation of the present work, this thesis has been divided into six chapters.

Chapter-I is an introductory chapter, which dealt with local governments in retrospect. Chapter II comprises of review of literature, objectives, data and methodology. Chapter III deals with Rural Local Governments in Andhra Pradesh. Chapter IV deals with the Profile of Andhra Pradesh and the Sample Districts. Chapter V deals with A Region-wise Trend Analysis of Revenues of Gram Panchayats. Chapter VI deals with A Region-wise Trend Analysis of Expenditures of Gram Panchayats in Andhra Pradesh. Chapter VII deals with observations and recommendations of this study.
Notes


7. Ibid., p.794.


10. Ibid., 1976, p.119.


18. Ibid., p.254.


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