



THE SOCIAL SCIENCE PERSPECTIVE

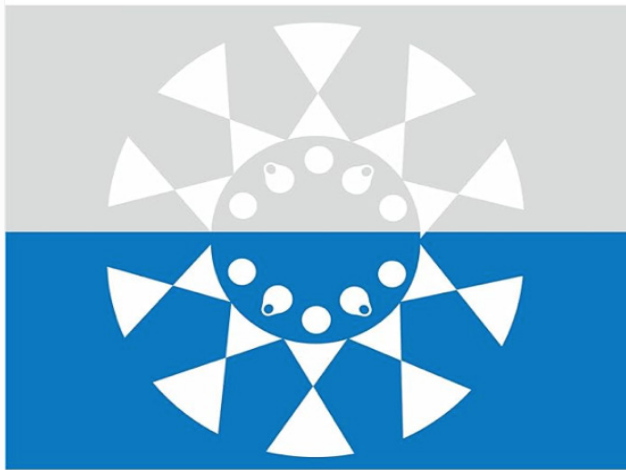
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BOOK REVIEW

Social Movements and Systemic Alternatives

Essays on Fiscal Decentralisation to Local Governments in India



Essays on Fiscal Decentralization to Local Governments in India

M.A. Oomen

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Prof. M.A. Oomen is currently Distinguished Fellow, Gulati Institute of Finance and Taxation (GIFT) and Hon. Fellow, Centre for Development Studies, Trivandrum. He has been, and continues to be, India's leading scholar on decentralized local government finance. The book comprises eleven outstanding papers on fiscal decentralization and represent Prof. Oomen's work of nearly four decades on India's experiments with democratic decentralization. His rich experience as a teacher, researcher and advisor comes together in this series of essays focused on the framework and working of fiscal decentralization in India. Deep, thoughtful and practical investigation of decentralization reform is Prof. Oomen's hallmark, which is reflected in this volume.

The first part of the volume is dedicated to the important theoretical considerations for decentralization policy, including



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a summary (in the second chapter) of the principles of local taxation, inter-governmental transfers, and expenditure assignment. Case studies of Brazil, India and Kerala provide rich insight into the impact of socio-economic, demographic, and regional differences on decentralization. The message of this first group of essays is quite clear, as pointed out by Sally Wallace, Dean and Professor of Economics at the Andrew Young School of Policy Studies at Georgia State University, USA in the Foreword: "Decentralization and democracy can improve the lives of individuals, and the architecture for doing so exists. This includes India's framework for decentralization, as well as the potential to collect the data necessary to evaluate and respond to the needs of citizens"

The second part of the volume reveals rich experiences of the practice of fiscal decentralization in India, with a focus on Local Governments (LGs). Prof. Oomen's vast experience allows him to summarize the background and recommendations of five State Commissions in the sixth chapter. The details provided in this, and in the next chapter clearly demonstrate that there is no 'one-size-fits-all' model of decentralization, as local context and institutions are critically important. Additional details and insights are provided in the ninth and tenth chapters. The concluding chapter makes out a case for expanded fiscal space for LGs in India.

Prof. Oomen's major arguments in the book are worth recalling:

1. Given the language of the 73rd and 74th Constitutional Amendments, the success of democratic decentralization in India depends a great deal on the readiness of State Governments to devolve relevant functions, required finance and the needed functionaries to the various LGs at the sub-state levels. In other words, real devolution can happen only when the state parts with power and authority and virtually empowers the sub-state local governments. At best, the two Amendments are only necessary conditions; many more sufficient conditions remain to be realized. (p.226)
2. The readiness to transfer resources by the higher-level governments to implement the expenditure responsibilities assigned to LGs, and the creation of relevant statutory and administrative framework for autonomous decision-making by them is a necessary condition and indeed the first step towards democratic deepening at the local level. (ibid.)
3. The most compelling macro fiscal policy reform, especially with the exit of the Planning Commission, relates to the redesigning of the transfer arrangements. The real macro fiscal policy that needs attention is to rationalize the multiple channels of transfers, keeping a well-designed space for LGs. (p.233)
4. Another assignment that needs reform is the scheme of Union tax sharing. An unambiguous clause to give a specific share to LGs through suitable Constitutional amendments, may be added. (ibid.)
5. No redesigning can afford to ignore the issues related to the fiscal space of LGs. Centrally Sponsored Schemes (CSSs) assume particular significance in this respect. If the various central ministries continue to execute the CSSs, without quantitative and qualitative evaluation of delivery and outcome, the transfer system of the country without the Planning Commission can only worsen the situation. (p.234)
6. A necessary condition of all transfers (grants, tax-sharing, etc.) should be to ensure equalization of fiscal capacity of all LGs. All LGs should have the fiscal capacity to provide comparable levels of public services at reasonably comparable levels of taxation, so that citizens do not suffer deprivation due to their choice of residential location. (p.235)
7. It is very important to take steps to have a working financial reporting system based on proper annual budgets, accounting practices and audit reports. To build a good data base, the practice of budget making and accounting has to be streamlined. (ibid.)
8. The CAG has prescribed the accrual-based double-entry

system for municipalities and the cash-based single-entry system of accounting for panchayats. Kerala can boast that it has fully implemented the accrual-based accounting system for both municipalities and panchayats. Unless this is done in all the States, the case for building more fiscal space will remain weak. (p.236)

9. Without assigning a respectable fiscal space for LGs in India's federal polity, all the grandiose objectives regarding local democracy would be empty rhetoric. (ibid.)
10. The rich body of fiscal federalism literature handed down from the West does not offer the policy-theoretic required for developing local democracy in India. The task of fiscal empowerment depends on equitable assignments and transfers. (ibid)

Prof. Oomen makes out a strong case for a comprehensive, holistic and integrated fiscal transfer system based on territorial equity. The overarching goal should be to equalize the fiscal capacity of LGs, so that all citizens are able to meet their basic needs.

The book has received very good reviews from both national and international experts. Some of their views are also worth revealing:

- ***“The entire volume is peppered with unique data and includes an expansive, well-documented literature. The essays serve as an enduring guide for developing and evaluating decentralization policy in India.”*** (Sally Wallace)
- ***“This compendium is an important contribution to the literature on fiscal decentralization. It provides excellent insight into the decentralization processes covering theory, the 73rd and 74th Constitutional amendments, assignment of revenue and expenditure, and local democracy. The book also brings global experiences in understanding the three-tier functional federal system. The book is a must-read for scholars and policy makers working on decentralization.”*** (Pinaki Chakraborty)

The insights and analysis that the essays in the book provide are compelling and candid; they capture the functioning of the third tier of Federalism in the country and lay out the challenges that India faces in establishing a legitimate place and role for Local Governments in India's federal structure. This is a book that has immense learning for practitioners and for those seeking to gain a comprehensive understanding of what is and what ought to be in the arena of fiscal decentralization.