

Conclusion

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Conclusion

In the preceding chapters we have attempted to analyze as comprehensively as possible central budgetary transfers in colonial India and independent South Asian states since the First World War. The conclusions reached in these chapters are summarized under the following five headings together with a few prospects concerning future institutional development.

Institutional evolution

The first implication stemming from the history of the development of the central budgetary transfer in South Asia is that decisions by central governments in the region to relinquish their share of fiscal revenue sources have usually come in times of fiscal and/or political crisis, rather than in times of fiscal prosperity. The fiscal system under the Government of India Act of 1935, which became the basis for the federal public finance systems in both India and Pakistan following national independence, constituted a set of institutions created in the midst of a rising nationalist movement and state fiscal crisis following the Great Depression years. Even after national independence in the strongly centralized fiscal system of Pakistan, it was only after the separation of Bangladesh a quarter of a century later in 1971 that central budgetary transfers to the provinces were begun in earnest. In India as well, as indicated by the special consideration given to such areas as its so-called miniscule border states, budgetary transfer decisions rely heavily on political considerations. Under the unitary political systems of Bangladesh and Sri Lanka, dependence on foreign aid and pressure from foreign-aid lending organizations in the case of the upazila system in the former and the problems posed by Tamil regional autonomy move-

ment in the latter are directly connected to moves for institutional fiscal reform.

As in the case of the upazila system, we will probably continue to see the central transfer being adopted in economies with a high level of fiscal dependence on foreign aid as the result of reform in foreign-aid administration and/or pressure from foreign-aid lending organizations.

Uneven development characteristic of capitalist economies provides a prerequisite for evolving a system of fiscal adjustment to rectify economic concentration, but in the process of putting such a system into practice, a more subjective factor coming from political and economic considerations plays a far greater role.

The predominance of discretionary transfers

Focusing for the moment on the various forms that central budgetary transfers take, we find that the discretionary transfer tends to be a very frequently used medium in all the countries of South Asia when transferring funds to the local level. Historically speaking states' shares of Union taxes and excises has been the form used for the longest period of time, but the share of the total outlays occupied by this form will tend to decrease unless conscious efforts are made to prevent that from happening.

There are many cases in which discretionary transfers with very strict conditionalities as to their mode of expenditure have become the norm rather than the exception in projects sponsored by central government. It is the ability to attach strict conditionalities that makes this form such a convenient means for imposing restrictions determined by the central government. It is also a means by which the central government can get local governments to comply with its policy guidelines. Even Bangladesh's Upazila Development Grant, which was introduced in the spirit of decentralization, cannot be defined within the category of block grant, since it contains conditionalities, however loose in their interpretation, imposed by the central government. We can also discern that the slogan of "decentralization" used in the case of upazila is really a disguised form of centralization in terms of the function performed by these transfers in strengthening the political base of the ruling regime.

Local government fiscal autonomy

The hypothesis offered in Chapter 1 that the extent to which a local government holds autonomy over policymaking is apparent in its fiscal expenditure structure was supported for the case in South Asia through a comparison of state/provincial finances in India and Pakistan. Policymaking autonomy as indicated by expenditure items is reflected in the tendency to allot relatively more funds for expanding the social infrastructure, which includes education and social welfare. Bangladesh's Upazila Development Grants show an opposing tendency, in which central transfers are purported to expand physical infrastructure in the form of road and levee building. This type of physical infrastructure fund-

ing trends generally to be used for gaining influence in local politics and is a possible source of graft and corruption.

Rising expenditures for the social infrastructure are, thus, a positive sign for how to make fiscal policy in order to respond to what is really needed on the local level in today's developing countries. Moreover, as local governments increase their responsibility in this category, they will in turn be strengthening their role in national fiscal affairs. One meaningful prospect coming out of the research we have presented here is that by means of greater expenditure for and more delegated power over such social infrastructural items as education and public health, local governments can gradually strengthen their fiscal managerial capabilities and increase the autonomy they exercise over their own fiscal affairs. Localities which chose to take this course in India or Pakistan do not necessarily have to be states or provinces, but can also be at the lowest strata of local administration, which at the present time have been given only a very marginal role in fiscal affairs.

What this all means is that the problem of fiscal autonomy is not simply a question of loosening the restrictions imposed by the central government. Non-discretionary, or less conditional, central budgetary transfers are per se not necessarily across-the-board improvements. That is to say, since local government expenditures are subject to the influence of local politics, the existence of conditions within central transfers designed to strengthen the social infrastructure should be welcome additions.

One of the important conclusions reached in the preceding chapters is that how central transfers are made in the future cannot be debated solely on the basis of attitudes concerning the level of freedom to be enjoyed in the process of their expenditure on the local level. It would be more important to examine how the transferred funds are expended.

The "internal debt-trap"

The imbalance that exists between center and local finances in all of the countries of South Asia is most telling when we look at authority over the procurement and distribution of capital receipts. Here, each country's investment activities are concentrated at the federal (or central) level. State/provincial governments are normally not permitted to participate directly in the market for capital funds and thus are supplied with capital loans by their central governments, resulting in dependence by the former on the latter and the appearance of internal debt-trap patterns. Such center-local financial arrangements tend to have adverse effects on general local-level expenditures in that local governments are prevented from planning their own unique development-related outlays due to financial pressures arising from interest payments owed to the central government, expenditure items that are unrelated to development.

Loans of foreign-aid funds for the purpose of local development projects are also conducted within this same framework of center-local relations. One

difference in the region is that India pools the foreign-aid funding it receives at the center and lends capital to the states under uniform conditions, whereas Pakistan lends foreign-aid funds to the provinces under the same conditions the central government borrowed them from each foreign government or agency.

There are also cases of foreign funds bypassing state/provincial governments and urban local bodies and going directly to public enterprises. In India this is the case in the electric power, housing and urban development industries. The activities of such foreign aid-funded public enterprises can either supplement or erode the fiscal activities of central and local governments. Through their participation in funds from foreign aid, the existence of public enterprises represent a new phenomenon in inter-governmental fiscal relations.

Transfers to the lowest strata of local government

The scale at which budgetary transfers are made to the lowest levels of government in South Asia is still very small. This situation is related to the fact that local governments below the state/provincial level have not been guaranteed constitutional status within the fundamental framework of each country's administrative system. India's sixty-fourth constitutional amendment has attempted to correct this defect by defining the panchayat system more clearly within the law of the land. We have seen just how lightly the lowest strata of local government are treated in South Asia by the fact that no nationwide statistics are kept below the state/provincial levels in any of these countries. Compared to the importance given to state/provincial-level governments in national fiscal affairs, the needs of administrative bodies in cities and villages alike have been virtually ignored. Reflecting the existence of states and provinces as the region's basic cultural units, South Asian politics is still dominated by a pattern that developed on the state-provincial administrative level; and from the standpoint of efficiency in fiscal spending, a virtual fiscal starvation at the lowest strata stands in the way of efficient management. It will soon become necessary for reforms that give the lowest administrative strata a constitutional place within institutions governing central budgetary transfers, while at the same time assuring fiscal expenditures at these levels based on a predetermined percentage of the GDP or yearly total public outlays. As we have already indicated, it is necessary to reallocate fiscal functions to the governments on this level in order to hand over to them the task of developing their social infrastructures.

From the viewpoint of politics, the existing fiscal imbalances between the different local administrative levels also have a structural aspect, as many ethnic groups in India continue to demand the status of states, like Jharkhand, Gorkhaland, or Bodoland. In the sense of being multinational regions, the countries of South Asia have needed for a long time now to start putting more emphasis on the lowest strata of local government.