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Central Budgetary Transfers in South Asia: An Introduction

Historical Evolution

Inter-governmental fiscal relationships in India, particularly those involving the institution of the central budgetary transfer, have gone through a long historical evolution since the introduction of the Government of India Act, 1919, a law that incorporated a mechanism of financial adjustment between the center and the provinces. Then under the new Government of India Act, 1935 the British government established in earnest fiscal adjustment institutions that included budgetary transfers to the provinces of revenue from income taxes and a portion of customs levies, such as the export duty on raw jute and jute goods. After national independence in 1947 and the establishment of a federal system, center-state/provincial fiscal relationships, which were theoretically based on the previous colonial institutions, became more and more complex in the cases of both India and Pakistan. Generally speaking, there are two purposes for setting up institutions for financial adjustment between central and local government:[1] to correct fiscal imbalances between the two (vertical adjustment), and correct differences in fiscal capability among local governments (horizontal adjustment). These two purposes are by no means independent of one another, but are rather integrated within the actual operation of existing institutions.

Table 1-1 compares the scale of budgetary transfers from the center to the states/provinces during the decade of the 1980s in India and Pakistan, whose institutions for center-local financial adjustment developed from arrangements first made under colonial rule. What this table shows is that the scale of the national budgets (the sum of central and local budgets) of India and Pakistan is close to 30 per cent of their respective Gross Domestic Products (GDP).

TABLE 1-1
NATIONAL AND STATE/PROVINCIAL FINANCE IN INDIA AND PAKISTAN

(Rs. billion)

	1980/81		1985/86		1988/89	
	India	Pakistan	India	Pakistan	India	Pakistan
Federal revenue (current and capital, net of transfers)	217.0	59.6	455.9	127.8	714.1	166.7
State/provincial revenue (current and capital)	218.7	19.9	465.6	42.1	675.8	65.7
Union/Federation transfers	94.3	13.6	145.1	36.6	303.1	60.6
Transfers as % of state/ provincial revenue	43.1	68.3	31.2	86.9	44.9	92.2
Total national revenue	435.7	79.5	921.5	169.9	1,389.9	232.4
Total national revenue as % of GDP[a]	32.1	31:8	35.1	33.0	35.2	30.1

Sources: For India, Reserve Bank of India, *Report on Currency and Finance*, Vol.2, *Statistics*, various issues. For Pakistan, National Bank of Pakistan, *Annual Report*, various issues.
[a] At current factor costs.

Moreover, despite differences in absolute amounts, not less than 40 per cent of the income flowing into the states/provinces is the result of transfers from the central government.

It should be obvious that such financial-adjustment institutions governing the center-local relationship are not necessarily specific to federal states only. Unitary states like Bangladesh and Sri Lanka have their institutions as well for financial adjustment between the center and local governments. Furthermore, in the federal states of India and Pakistan we observe budgetary transfers also being carried out between the states/provinces and the local bodies under their jurisdiction. However, in the unitary states of South Asia budgetary transfers from the central government to local bodies are very small in scale compared to similar transactions that take place in the advanced capitalist countries.[2] Similarly, in the federal polities of India and Pakistan, institutions governing budgetary transfers between the states/provinces and their respective subordinate local bodies remain quite undeveloped.

As shown in Table 1-2 budgetary transfers in both Bangladesh and Sri Lanka are made from the central government to local bodies on several different levels. However, in Bangladesh these transfers were extremely small in scale prior to the establishment of the upazila system in 1983 (see Chapter 6). In Sri Lanka, despite talk since 1987 of decentralization as one measure to ease ethnic strife between the Sinhalas and Tamils, the table shows that the fiscal scale of local bodies still comes to no more than 5 per cent of the central government's budget.

In the case of the federal polities of India and Pakistan, public finance is dominated by the central and state/provincial government levels, to the extent

TABLE 1-2
LOCAL BODY FINANCE IN BANGLADESH AND SRI LANCA

(%)

Fiscal Years[a]	National Government Revenue / GDP[b]		Local Body Revenue / National Government Revenue		Central Transfer / Total Local Body Revenue	
	Bangladesh	Sri Lanka	Bangladesh	Sri Lanka	Bangladesh	Sri Lanka
1974	10.3	24.4	2.4	3.9	20.0	32.1
1975	16.9	30.1	2.4	3.6	23.9	31.0
1976	18.6	33.2	2.6	n.a.	26.6	n.a.
1977	16.7	28.2	2.8	3.4	22.3	43.2
1978	17.0	46.6	2.4	2.1	30.5	47.1
1979	16.3	43.2	2.5	2.2	29.3	66.2
1980	17.4	48.7	2.3	1.7	28.1	49.6
1981	19.3	39.2	2.6	0.7[c]	36.7	n.a.
1982	21.5	35.4	2.1	2.4	23.5	51.7
1983	18.4	34.8	2.2	3.2	33.9	54.9
1984	18.3	34.2	6.5	3.5	60.5	38.1
1985	17.6	37.2	8.3	3.8	94.4	46.4
1986	18.0	36.2	8.0	3.8	61.1	47.4
1987	18.1	36.8	7.6	5.2	64.9	35.2
1988	17.4	37.8	8.5	4.2	59.5	64.0
1989	17.3	36.0	9.4	n.a.	54.2	n.a.
1990	17.6	30.9	n.a.	n.a.	n.a.	n.a.

Sources: Bangladesh: Bangladesh Bureau of Statistics, *Statistical Yearbook of Bangladesh*, various issues. Sri Lanka: for national government revenue, GDP, and central transfer to the local bodies, Central Bank of Sri Lanka, *Annual Report*, various issues; for local bodies revenue, Ministry of Plan and Implementation, Department of Census and Statistics, *Statistical Pocket Book of the Democratic Socialist Republic of Sri Lanka*, various issues.
Notes: National government revenue includes current revenue and capital receipts, domestic and foreign. Local bodies include municipalities, *zila parishad* (district council), *upazila parishad* (sub-district council), and union *parishad* for Bangladesh and, for Sri Lanka, municipality, urban committees, town and village committees (up to 1980) and district councils (since 1981). Central transfers includes general grants and works programme grants for Bangladesh. In Sri Lnaka central transfers are composed of current and capital transfers. The provisional upazila development grant for the year 1983/84 is not included.
[a] Fiscal year starting on June (Bangladesh) or April (Sri Lanka).
[b] GDP at current factor costs.
[c] Only provisional figures available.

that no one bothers to tabulate nationwide fiscal statistics on local bodies. The estimated figures for local bodies both urban and rural, below the state/provincial level presented in Tables 1-3 and 1-4 show that the position they occupy in public finance is indeed quite insignificant, a situation that is reflected well by the recent call for greater use of the budgetary transfer to local bodies as one means towards "decentralization."

Given the above conditions in the four countries of South Asia, the follow-

TABLE 1-3
STATE AND LOCAL BODY FINANCE IN INDIA

(Rs. billion)

	1976/77	1987/88
Gross domestic product (at current factor costs)	796.23	3,325.53
Union revenue (current and capital)	146.46 (18.0)	610.18 (18.3)
States revenue (current and capital)	119.21 (15.0)	602.33 (18.1)
Of which union transfers	46.31	273.96
Local body revenue		
Urban local body revenue	6.60 (0.8)	n.a.
Of which transfers from the states	1.49	n.a.
Rural local body revenue	7.46 (0.9)	5.79
Of which transfers from the states	6.60	4.03
Transfers as % of total revenue		
States	38.8	45.5
Urban local bodies	22.6	n.a.
Rural local bodies	88.5	69.6

Sources: For GDP and Union/states revenue, Reserve Bank of India, *Report on Currency and Finance*, Vol. 2, *Statistics*, 1977/78–78/79 and 1988/89–89/90 editions. For local body revenue in 1976/77, *Report of the Finance Commission, 1978* (Delhi, 1978), pp.184–85. The figure for urban bodies lacks data for Tamil Nadu, while the figure for rural bodies lacks data for seven states, Karnataka, Tamil Nadu being the major ones. For rural local body revenue in 1987/88, Government of India, Ministry of Agriculture, Department of Rural Development, *Panchayati Raj at a Glance, Status of Panchayati Raj Institutions in India, 1987–88* (New Delhi, 1989), pp. 18–19. The figure is not comprehensive and therefore unusable, as the major states, including Andhra Pradesh, Bihar, Maharashtra, Rajasthan, and West Bengal did not supply information.
Note: The figures in the parentheses indicate percentage of GDP.

ing chapters will be confined mainly to budgetary relationships that exist between the central governments and states/provinces in the federal polities of India and Pakistan, with only a brief discussion of the relatively large-scale attempt to introduce budgetary transfers in the unitary polity of Bangladesh under the upazila system. It should be mentioned, however, that in every country of South Asia, institutions concerned with budgetary transfers all reflect sharp political divisions in the midst of both inter-regional imbalances and ethnic strife. Moreover, these institutions represent the most substantive element within the

TABLE 1-4
PROVINCE AND LOCAL BODY FINANCE IN PAKISTAN, 1981/82

(Rs. million)

Gross domestic product (at current factor costs)	324,159	
Federal revenue (current and capital)	68,984	(21.3)
Total provincial revenue (current and capital)	22,164	(6.8)
Federal government transfers	16,429	
Transfers as % of toal provincial revenue	74.1	
Local bodies revenue (sum of two provinces)	1,800.3	(0.6)
Punjab	1,517.9	
North-West Frontier Province	282.4	

Sources: For GDP and federal/provincial revenue, State Bank of Pakistan, *Annual Report, 1982–83*. For local body revenue, Government of Punjab, Bureau of Statistics, *Punjab Development Statistics, 1983* (Lahore), p.318; Government of North-West Frontier Province, Planning and Development Department, Bureau of Statistics, *Development Statistics of N.W.F.P., 1984* (Peshawar), pp.624, 630, and 636.
Notes: Local bodies include *zila* councils, municipal corporations (Punjab), municipal committees and town committees. Figures in parentheses indicate percentage of GDP. According to K. Siddiqui, total income of local bodies for the year 1981/82 amounted to Rs. 3,310 million. This raises the total income percentage of GDP from 0.6 to 1.0, but does not alter the situation. See Kamal Siddiqui, ed., *Local Government in South Asia: A Comparative Study* (Dhaka: University Press, 1992), p.125.

state integration process. It is this kind of political economic aspect which has been added to the central budgetary transfers throughout India and Pakistan, in particular, thus giving rise to the title of this book, "Uneasy Federation."

Three Approaches to the Problem

The research literature on the subject of the historical development and functioning of the central budgetary transfers has reached enormous proportions in India due that country's long institutional experience in this area, which began during the colonial period. Despite the amount of research that has been done, very little change can be observed as to how the problem has been approached. Most of the researches has been done according to either the "institutional" approach or the "normative" approach. The former is mainly interested in the development of the financial adjustment system itself and its legal foundations, while the latter concentrates on how well the system is operating in practice from the viewpoint of the two norms of vertical and horizontal adjustment, in order to analyze and evaluate the actual conditions involving budgetary transfers. This study, however, will adopt what is called a "political economy" approach in the hope of filling in the gaps left by these two conventional approaches. Rather than looking at the subject matter in terms of deviations from set norms, the political economy approach focuses on the process of distribution and regulation of financial benefits through the public finance operations of the local and central governments. Here we will compare these three different approaches in the hope of not only applying our analytical framework to South Asia, but also providing a universally applicable framework of analysis for the central budgetary transfers in general.

The Institutional Approach

In many of the descriptive surveys done on India's financial adjustment system we find typologies based on the obligatory nature of the central government transfers or on the normativity which the central government is subject to, in conceding its revenue shares to the local governments. In all of these typologies there are the same three classifications given for budgetary transfers: (1) financial adjustments to states from the central government as stipulated in the constitution or the basic national statute, (2) budgetary transfers from the center to the states in accordance with national economic development plans, and (3) ad hoc or purely discretionary transfers from the central government to the state governments. This tripartite classification has many advantages for institutional analysis.

First and foremost, this classification allows for comparison as to how the system has developed. Type (1) represents a continuation by the independent states of India and Pakistan of the budgetary transfer system under the Government of India Act, 1935. Type (2) developed in response to the national economic-building process going on in both countries since independence, and type (3), while fundamentally a post-independence institution, was also practiced by the central government during the colonial period for the purpose of revenue-deficit compensation to provincial governments.

However, if we were to use a dual classification system by combining types (2) and (3) into one type, we would end up with a typology similar to the usual case found in advanced capitalist countries of local grants, generally in the form of block grants, on the one hand, and subsidies, on the other. By using such a scheme, it would become possible for us to compare the practices in India and Pakistan with those in advanced capitalist countries in quantitative terms.

Secondly, tripartite classification would also become a standard for discussing the connection between budgetary transfers and financial regulation through the control of expenditures. While type (1) is incorporated in local government general revenue as block grants, types (2) and (3) are tied to specific items of expenditure and come with binding conditionalities attached to each transfer. In addition, differences not only in form but also in transfer mode arise: that is, whether a certain transfer is a grant or a loan.

In sum the institutional approach is merely descriptive in nature, but at the same time is an important prerequisite for deeper analysis.

The Normative Approach

This approach may be summed up in the following four points.

First, the normative approach emphasizes analysis of revenue aspects of the local fiscal affairs. It presumes that the more revenue flowing into local coffers through budgetary transfers from the central government, the more effectively the vertical adjustment function is working; and the more retrogressive budgetary allotments become to regional income levels, the better the horizontal adjustment function is working. The main focus of norm-oriented research is to find out what kind of a redistributive effect budgetary transfers have on allotment levels from state to state, province to province. Most of the research that has been done on India's states' share of Union taxes and excises is based on this type of problematic.[3]

Secondly, the main presupposition behind this normative problematic is that low-income regions necessarily have weak fiscal bases. For this reason per capita fiscal expenditure levels are also low, therefore the effect of fiscal expenditure on raising income levels is weak. A vicious circle of a balanced, but low-level revenues-expenditure equilibrium occurs, the only solution to which is budgetary transfers from the central government. In general, such a line of reasoning is virtually irrefutable, as is the fact that central budgetary transfers to local government are carried out based exactly on such an argument. The reader will see later in Chapter 3 just how closely in the case of India per capita revenue and expenditure of state government reflect inter-regional economic disparity. Nevertheless, it is also a fact that local government fiscal activities being actually carried out within a matrix of multi-variate factors do not rest entirely on such economistic reasoning.

Next, on the expenditure side of the question, the normative approach tends to favor a system which gives maximum freedom to local governments as to how central budgetary transfers will be spent. For example, when rating in terms of spending freedom in the above-mentioned three types of transfer practice, we find that restrictions imposed by the central government increase as we proceed from (1) states' shares of Union taxes and excises to (2) plan transfers to the states, then to (3) discretionary transfers. In turn, the normative approach tends to evaluate these transfers in terms of desirability in the same order. In other words, the research to date has tended to emphasize the restrictive nature of the central government vis-à-vis expenditure on the local level, while paying little attention to unique spending activities specific to different local governments.

Finally, the normative approach, being as its name implies concerned with finding the most effective standards and practices in the budgetary adjustment process and giving some political indication of which standards and practices should in fact be employed, is unable to explain under what conditions the central government, which preempts national fiscal resources, should transfer a part of its revenue and authority over to the local level.

It is general practice for any central government to preempt fiscal resources for such purposes as national defense, financial obligations to foreign countries, and centrally managed public projects. For this reason, the pool of transferable revenue to the local level is always reduced to begin with. Here is where the normative approach gets into difficulty through its inability to answer the question, "under such conditions, what is the background of or the reason for a certain system of adjustment-directed central budgetary transfers to have been or be established in the first place?"

The Political Economy Approach

In order to overcome the difficulties inherent in the conventional normative approach as to the problem of the central budgetary transfer, we will in the remaining part of this chapter adopt the following revisionist viewpoint.

First, along with considering the level and structure of revenue, we will also look more closely at the level and structure of local fiscal expenditures. This approach, which has already been adopted in the study of urban fiscal affairs in Japan and elsewhere,[4] has been successful in clarifying the degree of inter-regional disparity among local government expenditure structures and the factors determining such disparity.

Secondly, in spite of the overall constraints posed by low-income levels on local fiscal affairs, it does not necessarily follow that all the local governments with equally low regional income will exhibit similar patterns in expenditure structures. Income level is a determinant more of the absolute level of revenue and expenditure than of the expenditure structure. To the contrary, inter-regional disparities among expenditure structures are related to different social and political factors. In other words, when looking at the relationship between local government finance and local economy and politics, it is more useful and productive to focus on the expenditure side rather than the revenue side. With regard to the problem of methodology, not only does the factor of inter-regional income disparity come into play, but it is also possible to introduce other factors that focus on the importance of economics and administration in local government. For example, it is possible to divide local governments into "core" and "periphery" units based on their strategic importance in the national economy and then compare fiscal structures. When analyzing local fiscal affairs in the multi-ethnic countries of South Asia, it is necessary to take these kinds of political economic factors into account.

Thirdly, an enquiry as to whether serious inter-regional disparities in fiscal structure can be discovered from expenditure analysis would reveal that fiscal regulation on the local government level is not necessarily uniform. In other words, disparity in expenditure structure is being utilized somewhat more indirectly as one standard in measuring the amount of freedom over spending enjoyed by local governments. Disparities among expenditure structures indirectly express such aspects as policy-making autonomy enjoyed by each local government unit and the existence of specific policy issues that each government must respond to and that often can become vehicles for exposing conflict between local government and the regulatory power held by the central government. One good example of such a scenario is the United Kingdom, where the local fiscal-reform policy under the Thatcher regime had one tacit goal of forcing local bodies who supported the opposing Labor Party to cut back spending, especially in the area of housing.

Next, it is probably the appearance of this kind of conflict that gives the largest impetus to efforts in readjusting the fiscal relationships between central and local governments. Whenever fiscal expenditure on the local government level is made necessary by special social and/or political factors, conditions usually arise which make it inevitable that at least a part of the sources that may be preempted by the central government will be transferred to local governments. Discovering a methodology for understanding such a process is what the "political economy" approach is concerned with. Within the chapters that follow, this approach will be employed to show that central governments do not rely solely on sets of abstract equity norms in adjusting their fiscal relations with their counterparts on the local level.

Finally, this approach will take into account several factors, so far regarded as extraneous ones by the conventional study of "inter-governmental fiscal relationships."

When attempting to analyze the fiscal activities of contemporary developing countries, the researcher will find a new set of phenomena which defy analysis through a methodology confined solely to the binary fiscal transactions between the center and local governments. First, South Asia as well as most other developing regions has been faced with the problem of dependence on foreign aid by national public finance. It has become impossible to fully understand the dynamics in inter-governmental fiscal relationships within these nations without making explicit the degree of influence exerted by foreign aid on those relationships. Secondly, we should be aware of the enormous public-sector undertakings that exist apart from public administration supported by narrowly defined "government budgets" and greatly influence both individual households and regional economies. The chapters that follow will include individual case studies of how the incidence of foreign borrowing and the existence of centrally managed public enterprises influence the fiscal affairs of local government. After all, the "political economy'" approach has to be so designed as to deal ably with these types of new problems.

The chapters that constitute this study aim to substantiate and elucidate our approach by analyzing central budgetary transfers in South Asia. It would be in order here to introduce the major points of discussion and problems addressed in subsequent chapters.

Outline of the Study

The colonial period

The framework of the center-state/provincial relationships in both India and Pakistan following national independence was influenced very strongly by fiscal institutions under British colonialism. Pakistan, in particular, after becoming independent in 1947 preserved the provisions of the Government of India Act, 1935 in its own constitutional act until 1956. As to the specific framework that was created in 1935, it is necessary to focus on the process, which began in 1927, of reviewing the Dyarchy that had existed since 1919. Until the Niemeyer Award (see Chapter 2) finally closed the debate by designing a major form by which budgetary transfers were made from the central government, conflict and debates arose as to the shares of transferred revenue between the industrially developed provinces of Bengal and Bombay and the agrarian regions represented by the United Provinces. The focus of this conflict was the transfer of income-tax revenue to the provinces and the problem of customs duties generated by Bengal's jute.

Chapter 2 focuses on colonial Bengal and traces the process by which the center-province fiscal relationship was formed under the Government of India Act, 1935. Particularly, it will deal with the problem of how a portion of the jute export duty came to be shared among the jute-producing provinces, a problem closely related to the relations between the eastern and western wings of Pakistan after its independence. Through an analysis of the decision-making process in the extraordinary move to transfer customs revenue from the jute export duty to jute-producing provinces, Chapter 2 clarifies the political and economic background that led to institutionalizing the central budgetary transfer.

India since independence

Chapter 3 is a discussion of center-state fiscal relationships in India since it became an independent nation. The center-state fiscal relationship has only become an important political issue in India, particularly, since the fourth general elections carried out in 1967, in which the one-party dominance of the Indian National Congress over Indian politics ended. That is to say, while the Congress retained a majority of seats in the Union Parliament, in seven of the fifteen states, opposition parties, or alliances thereof, were voted into power. Of these newly formed regimes, the Dravida Munnetra Kazhagham of Tamil Nadu and the leftist coalition governments of West Bengal and Kerala began to push strongly for more authority in state government administrative and financial affairs. Nevertheless, after a split in the Congress during 1969–70 and the landslide victory by Indira Gandhi in the 1971 election, authority over both fiscal and political matters continued to concentrate at the center. Then, after the brief Janata government of 1977–79, during which relatively little political friction between the center and the states was experienced, clashes between these two entities began to reappear on all political fronts with the formation of the second Indira Gandhi government in 1980. Movements for secession from the Union rose up in the states of Assam and Punjab, and strong demands for more state autonomy led by the left-front government of West Bengal were made repeatedly. The Indira Gandhi government was unable to ignore such moves, and in 1982 appointed a commission to thoroughly investigate the relationship between the center and the states.[5]

Chapter 3 aims to analyze state-level fiscal affairs during the Indira Gandhi regime of 1972–84 against the background of the development of the state autonomy problem in Indian politics. Since it was during this time that center-state relationships were most bitterly debated on the political front, what the points of contention are concerning this issue become quite well defined through such a study.

Next, within India's "mixed economy" system, public enterprises, especially those under the authority of the central government, have become responsible for building the country's economic infrastructure. It follows that such aspects as the location of these enterprises, as well as their business activities, exert significant influence on state-level fiscal affairs through various points of contact. Chapter 4 investigates the regional bias of the electricity sales activities of the National Thermal Power Corporation and the lending activities of the Rural Electrification Corporation, in an attempt to show in what way centrally managed public enterprises indirectly supplement power utility investment in some of the Indian states. The reason for selecting the power utility sector is twofold. One is that the central government is vigorously expanding its activity in this sector, although the Indian constitution puts it under the concurrent jurisdiction between the center and states. Another reason is that this sector, which is heavily dependent upon financing from abroad, provides an excellent opportunity to view center-state fiscal relationships in connection with foreign-aid financing.

Pakistan

Despite the fact that both India and Pakistan carried on similar institutions set up during the colonial period, there are large differences between the mix and scale of central budgetary transfers adopted in each of these two countries. Prior the separation of Pakistan's eastern wing into Bangladesh, how fiscal resources were to be allotted between East and West Pakistan was an extremely important and politically sensitive problem. Therefore, it follows that the separation of Bangladesh had important ramifications for center-province relationships in Pakistan, one being an enormous increase in budgetary transfers from the central government to the provinces beginning in 1971. Chapter 5 constitutes an analysis of center-province fiscal relationships in Pakistan following the separation of Bangladesh within a theoretical framework similar to that adopted in Chapter 3. As a result, we will see just how strong the tendency towards concentration of fiscal authority at the center is in Pakistan. The contrast with India is remarkable both in the way the central government preempts fiscal resources and in the uniformity of expenditure structure throughout all the provinces.

Bangladesh

In the independent unitary state of Bangladesh, a central budgetary transfer system involving the central government and the country's sub-districts, or upazila, was initiated in 1983 under the Ershad government. Chapter 6 provides an analysis of the system's characteristic features and why it was introduced. Center-upazila relationships are different from center-state/province relationships in India and Pakistan because aid-dependent economy as well as political exigencies largely determined the course of events that led to reforming local government institutions and created a system of central budgetary transfers. This chapter should provide important implications for the analysis of local government reform in countries of such regions as Southeast Asia and Africa, which depend similarly on foreign resource mobilization for rural development. Since the late 1950s, when central budgetary transfers first began to be instituted in Pakistan on a large scale, related institutions and practices have lacked stability from regime to regime because of their strong politically motivated character. The upazila system is no exception, since a loss of political sponsorship has resulted in its suspension as of 1992. What this means is that without looking into the political implications of local government reform, it would be impossible to understand the unique characteristics of the central budgetary transfer in Bangladesh.

Following the analysis of budgetary transfer systems in the above three countries of South Asia, the final chapter will attempt to compare these findings in terms of institutional evolution and the distinctive features in the working of the institution in the region as a whole. This concluding chapter will also offer suggestions for institutional reform implied by these research results with a view to the fact that local government finance is very closely tied to the daily life and basic needs of the common people in any country.

Finally, it should be mentioned that this one volume has by no means covered every aspect and issue concerning the budgetary transfer as we know it today. For example, the supplementary effects on local government finances brought about by direct central expenditures and the specific business activities of centrally managed public enterprises should be far more comprehensively covered than the partial treatment received in Chapter 4. We need to begin expanding our research further to include such issues as the cost-effectiveness and/or service-quality of local public expenditures that differ in content from one local government to another.

Notes

1 Throughout this study, the terms "central government" and "local government" will be used to indicate respectively national and sub-national levels of the government. They are terms broadly applicable to any polity, whether federal or unitary in form. However, such terms as "Union and states" (post-independence India) and "Federation and provinces" (colonial India and post-independence Pakistan) will also be used in specific context when applicable. One more term, "local bodies," indicates specifically either urban or rural governing bodies in South Asia working under the government of either a unitary state or a federal unit, thereby avoiding confusion with "local government," a term with broader application.

2 The following table shows the government fiscal scale and amount of budgetary transfers made from the center to local government in the advanced capitalist countries, represented by the federal polities of the United States and former West Germany and the unitary polities of the United Kingdom, Italy, and France.

Country	Year	GDP[a]	Central Revenue	Local Revenue[b]	Central Transfers[c]
United Kingdom (£ million)	1989	510,052 (47.6)	182,041	60,576 (25.0)	26,428 (43.6)
France (Fr billion)	1990	6,483 (50.3)	2,679	579 (17.8)	204 (35.2)
West Germany (DM billion)	1990	2,429 (40.1)	699	275 (28.2)	44 (16.0)
Italy (L trillion)	1989	1,907 (35.0)	509	158 (23.7)	126 (79.7)
United States (U.S.$ billion)	1990	5,366 (28.7)	1,086	456 (29.6)	171 (37.5)

Source: IMF, *Government Finance Statistics Yearbook,* Vol.15 (1991).

[a] Figures in parentheses are percentages of the GDP taken up by the sum of central and local government revenue.

[b] Figures in parentheses are percentages of total government revenue taken up by local government revenue.

[c] Figures in parentheses are percentages of local government budgets financed by transfers from the center.

3 The most representative research on this subject includes, Raj Krishna, "A More Equitable Distribution of Resources," in *Report of the Finance Commission, 1978* (Delhi, 1978); P.K. Bhargava, *Centre-State Resource Transfers in India* (Gurgaon: Academic Press, 1982); I.S. Gulati, ed., *Centre-State Budgetary Transfers* (Bombay: Sameeksha Trust, 1987).

4 The most representative research on this subject in the West and Japan includes Robert C. Fried, "Comparative Urban Policy and Performance," in *Policies and Policymaking*, Vol.6 of *Handbook of Political Science,* ed. F.L. Greestein and N.W. Polsby (Reading, Mass.: Addison-Wesley Publishing Co., 1975). H. Akuto and S. Satō, "Seiji shihyō to zaisei shishutsu—647 shi no keiryō bunseki" [Political indices and fiscal expenditure—measurement analysis of 647 municipalities], in *Nihon no chihō seifu*

[Local government in Japan], ed. Y. Ōmori and S. Satō (Tokyo: University of Tokyo Press, 1986). Concerning India from this aspect, see J.F.J. Toye, *Public Expenditure and Indian Development Policy, 1960–70* (Cambridge: Cambridge University Press, 1981).

5 Called the Sarkaria Commission after its chairman, this body issued a two-part report, Commission on Centre-State Relations, *Report, Part I* (1988), *Report, Part II* (1987).