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A Study of Political and Administrative Structures of Federalism and Good Governance in Indian Culture

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Abstract – This paper seeks to examine the essence of the federal structure of India, the changes that have taken place in the last 10 years and what is still to happen. First, we define briefly the main federal institutions in India, with a special emphasis on central-state transition mechanisms. These transfers are very comprehensive and are the most overt way to resolve inequalities among federal constituents. The role of political parties in communicating between central and state politics is an integral feature of federal institutions, inasmuch as the federalist nature is focused on representative democratic politics. In example of this, consider the extreme case of a notional democratic government with state-residue powers but a single, rigidly hierarchical political party dominates national governments as well as all states. Under this case, the results are the same as in a centralized, unitary structure. In India, different centralized political parties have represented, including the earlier congressional political bosses, the strictly-controlled, personalized approach of the later congress, the more institutionalized BJP hierarchy of political parties and the creation of specific regional parties. We then look at the facts on how the practical workings of the transition processes have influenced India's political economy. In the context of widening economic inequalities among States, we will discuss latest and potential reforms of the system of central-state transfer. It follows a study of broader existing and future changes in the federal institutions of India, including fiscal challenges and changes in the local government. Ultimately, we refer to other facets of economic change in India.

Key Words – Federalism, Good Governance, Indian Culture, Federal Institutions, Political Economy, Government Reform

- X -

INTRODUCTION

This paper gives the federal institutions of India in connection with economic reform. The document is structured accordingly. We summarize some of Indian politics, their bureaucracy and law and order agencies in their federal context. They then focus on fiscal aspects of federalism: revenue and expenditure distributions and centre-state transfer's structures. These transfers are very comprehensive and are the most overt way to resolve inequalities among federal constituents. Federal fiscal arrangements, particularly central-state transfers, in India. With a summary of the wider federal system of India we preface the debate. There are 28 States in India and seven' Territories of Union.' For the seven, two union territories (Delhi and Pondicherry), the rest are directly governed by the centre's appointees. All States have chosen parliamentarians and executive ministers. India is made a federal republic by the constitutional transfer of some legislative powers to States. The precise type and degree of centralization within this federal structure is determined by the transfer of powers. Furthermore, the size of countries also affects this function. Since many Indian States have a very small population (the greatest dozen are comparable to the larger European countries in their size), for example, transfer of powers to the states can still be a fairly centralized union without further decentralization below that level. In practice, the transition to the States and the (local) government institutions was possibly very poor.

REFORM OF INDIA'S FEDERAL INSTITUTIONS

In the previous portion, we argued that the structure components of center-state transfers were streamlined and simplified oriented more explicitly and increased value for discretion. We proposed that the recent revision of the arrangements for the sharing of taxes indicates that reform is possible and possible in this region. Some important specific issues are emerging from the decision by the Eleventh Finance Committee to include structured program transfers within the framework of the Finance Commission. In comparison to the limited assistance given to the Finance Commission, the resources allocated for the operations of the Planning Commission are very high. Otherwise (most recently at Rao and Singh, 2001) we argued that if the Finance Commission had the continuous resources to conduct its analyzes and formulate its recommendations, it would be more successful. The previous statement may be expanded to question if the Planning Commission's services have any advantages in an economy which has been liberalized. Where national coordination is justified because of externalities across national boundaries (e.g. highways or electricity), different departments or even governments may negotiate and collaborate. Where the cooperation is dependent on national cooperation. If no such rationale exists, unconditional payments, which the Finance Commission decides are not the correct mechanism and do not distort the fiscal incentives of the states. In such an hierarchical setting, the Planning Commission may be effectively redundant. It is certainly strategically difficult to deal with this issue in advance, but it could be a feasible solution to transfer accountability and resources slowly to the Finance Commission. The new suggestion comes from a discussion in the previous segment about how the center-state transmission network can be improvements. The transition mechanism also encompasses three key fields of continuing change, whether through improving the context through which it operates or by direct interactions. Clearly, the assignment of fiscal authority is necessary to influence the point of departure for intergovernmental transfers. Second, it will have an effect on the central-state fiscal relationship to directly reinforce local governments, by structured processes of transfer for state-local transfers being enforced. Finally, the restructuring of the financial sector coincides with the conditions under which subnational governments or other government bodies may receive capital project funds. When funds are fungible, existing and capital transfers of institutions are equally important. We take these things into account in turn.

POLITICAL AND ADMINISTRATIVE STRUCTURES

The primary expression of the legislative constitutional authority in India lies in directly elected national and state parliamentary governments, and in emerging directly elected municipal bodies at various local levels. The role of political parties in communicating between central and state politics is an integral feature of federal institutions, inasmuch as the federalist nature is focused on representative democratic politics. In example of this, consider the extreme case of a notional democratic government with state-residue powers but a single, rigidly hierarchical political party dominates national governments as well as all states. Under this case, the results are the same as in a centralized, unitary structure. In India, different centralized political parties have represented, including the earlier congressional political bosses, the strictly-controlled, personalized approach of the later congress, the more institutionalized BJP hierarchy of political parties and the creation of specific regional parties. Overall the structural representationally of federal or centralized political parties systems does not seem to have been a important independent factor in the shaping of India's federal system1. In addition, as elected officials act as political agents or electors, bureaucrats serve as elected officers ' agents. Bureaucrats are partly segregated from political whims and coercion, but essentially the elected representatives of the people must be subordinated to democracy. This means the federal political structure of a unitary hierarchical bureaucracy cannot itself be denied the same as a dominant, centralized national party. Nevertheless, a centralized bureaucracy may act as a political party agent to comply with federal structures requirements. In the Indian bureaucracy, there are elements of such practice.

The Indian Administrative Service (IAS), a crucial part of the central bureaucracy, has a dual loyalty. The IAS is a hierarchical institution in India: its leaders are elected and educated together through a central process. However, they are then assigned to other states and become part of a bureaucratic hierarchy at the state level, both theoretically and in most practical matters. Although the early work of an IAS member is in the home country and senior appointments at national level contain considerable power and prestige, appointments within the central government are of the utmost importance, power and attraction. Although the framework in the IAS has been structured for compromise, the need to have an efficient administrative system on the level of the government, which requires a constitution (i.e. state level), and the fear of fostering regional loyalties over national (w) are part of the tasks of day-to-day administration and development and law and order. The administrative mechanism of elected officials is a bureaucracy of the political system, and a lack of consistent powers generates motivation issues. To some degree, independent of federal systems, are the efficiency implications of the framework of bureaucratic governance. They refer to guidelines for restricting red tape at any level, be it domestic or subnational. However, in a centralized system, the implications of errors with regard to bureaucracies are more likely to be felt. Competitive federalism tends to be more corrective than unitary, as electoral monitors and encouragement in a federal system are more effective. Although rivalry between subnational governments can lead to taxation levels or environmental legislation being downward, it also puts more pressure on politicians than can be found in a centralized system to correct bureaucratic decisions errors.

For some ways, the judiciary is a specialized institution, but in a more general context it is a distinct branch of government at its highest levels. Most judicial decisions include deciding whether the law has been broken and who in particular violated the law in situations in which the judiciary functions as a professional representative to elected officials who frame legislation. Throughout the overall legal and constitutional context, the higher levels of the judiciary even serve as judges of the law themselves. In addition, the judiciary, in principle, can investigate the conduct of politicians in a manner that is difficult for bureaucratic: "Nobody is above the law." His rights include the broad original authority and the right to make the laws enacted by Parliament statutory. The Supreme Court and the Legislature / Executive have in practical terms disagreement over the extent of these rights, and their boundaries remain subject to negotiation. The President shall nominate judges of the Court in consultation with the Prime Minister. Under the Supreme Court, high courts are on the state level. In consultation with the Chief Judge of the Supreme Court and the Governor of the State, the President shall nominate each high court's judge. The Chief Minister of the State may have an impact on the Council of the governor in relation to the situation in the Centre. The initial and the appeal jurisdiction of high courts are both recognized. Therefore, they oversee the work of all state courts, including circuit courts, and the local county tribunals. Such branch courts are specialized and are segregated from, for example, criminal cases in smaller civil matters. Through the courts of judges, criminal offences are done. Therefore, the hierarchical judiciary is a well-defined hierarchy that has fairly simple tasks. This role and hierarchy are too centralized in that not many matters are dealt with in lower courts. This partly reflects the lack of funding for lower courts, but also a centralized division of jurisdictions. The funding problem persists at all levels. The problem is further aggravated by the complexity of the appeals process and the lack of oversight of the appeals by higher courts. Note also that judges below the national level usually are not appointed by local government officials, which is a major difference from the federal structure below that of the state. In particular, the judicial system's micro-economic inefficiencies reflect in appropriated decentralization within the judge itself, but ultimately are the result of the legislative / executive branch's inadequate delegation of powers. It, on the other hand, is a constitutional issue since some of the procedural elements of this delegation are absent. While a weaker central legislative term can allow a more effective checking position for national judicial bodies, especially the Supreme Court, the question of resource allocation, which ultimately needs to be fixed for smooth functions of daily judiciary functioning, cannot be resolved. The impetus for correction may come from rivalry between sub commercial jurisdictions. When countries and localities continue to attract investment and trade, they are under pressure to establish legal frameworks facilitating such trade. This argument applies not only to the criminal justice system, but also more broadly to areas like contract enforcement and enforcement of property rights. Ultimately, both the bureaucracy and the judiciary play a special role. The police are usually neutral prosecutors and monitors, avoiding violations of legislation as far as possible. A position in regulation complements the position of the judiciary. The police are structured, however, like other government officies, but differently from the judiciary, which is notionally autonomous, as a organization under the control of politicians. Consequently, the effective functioning of the police is subject to politisation and the central government's constitutional interference in legislation and order. The Indian police force, which is the Indian Police Supreme Officer (IPS), is structured in a dual line similar to the IAS, namely centralized recruitment and bureaucracy, but not as central as the IAS. The latter disparity illustrates the fundamental difference between the generalist IAS and IPS working. The IPS only takes reputation from the Indian Foreign Service and the IAS. The fact that IPS is a central agency, as with the IAS, places its members in a different role to that of the state police forces i.e. that hired directly by local authorities, even though IPS officers are appointed to some States. While each State has its own police force, it also has several police forces that provide it with considerable powers beyond the constitutional allocation of powers. Therefore, the Center has played a major role in the protection of law and order in practice. The nature of multiple governance aspects means that there can only be a federal political structure if different levels of government assume constitutional obligations. In addition to being able to collect taxes, each level of government in a federal system must also have the power to exercise policy making at this level. In India, the IAS, the IPS and the judicial authorities are all, in the light of the new federal policy framework, maybe more centralized or should be. While Independent India began with a fairly limited federal model, independent state-government political competition thrived, as we mentioned earlier. Such decentralization is not automatically compatible with the other political aspects, but would maybe be a more functional federal structure.

LOCAL GOVERNMENT REFORM

The political motivations and the history of Indian local government reforms differed considerably from those which led to the 1990s economic changes. Nevertheless, we argue that the two sets of changes are compatible, benefitting from the unintended convergence of time. A central government committee proposed that local bodies would have a statutory status after a long period of debate regarding decentralization. In 1992 parliament ratified over half of the state legislatures, which came into effect in 1993 with the 73rd which 74th amendments to India's constitution, two separate amendment bills were introduced covering panchayats and municipalities13 respectively. These amendments included the passage of sufficient laws by individual states while local government remained subject to the constitution and individual states did so. Such legislative amendments are the start of a cycle of reform of the Indian local government.

The rural communities, roughly, the village, the district and the block, are three tiers. The population per village is very low and raises economic efficiency problems. Blocks of population are considerably larger and they are approximately in the Legislative Assembly district, in the lower chambers of the state legislatures. The district of Lok Sabha, the lower house of the national parliament, is around the size of the constituency member. Blocks and districts were important elements of the central administration and implementation apparatus of the program, particularly latter. Until recently, there was little potential for local suffrage: 40-50% of local government bodies in India had been under supersession at all times since independence (Dillinger, 1994). Throughout the past, there was also a institutional limit to this trend, as only local government officials had been directly elected to the lowest levels of rural government in most states. Some states did not even have indirect elections at two tiers of local rural governance, but instead were elected by state administrations. The 73rd and 74th amendments were a crucial change in raising the power of state governments in relation to elections to local government authorities in rural areas. Local authorities must provide direct elections every five years. Elections must be held by the end of the period to create new bodies. When municipal governments are prematurely dissolved, elections will not be held until the conclusion of the six-year term and the new body.

ASSIGNMENTS AND TRANSFERS

As we have briefly addressed, authority assignments involve essential non-fiscal elements in the financial, administrative and legal sense. However, the control over the raising and use of public resources is important to every federal program. We define the tax and cost assignments underlying the federal fiscal institutions of India, and we find the Center-State transfers mechanism that is responsible for appointing tax authorities in India and complement them. The core of policy economic theory is the belief that the market system does not deliver all goods or services well. It is only a public good and a government candidate for provision if someone can consume a good (not exclusively) without reducing its availability to others (non-rival), or if others cannot prevent its consumption. This economic justification for governmental life does not justify a system of hierarchy. However, geographical distance may matter if the number of people who profit from a public good is small. If government information is not perfect and not intrinsically benevolent, sub-nationals or local governments can judge the levels of certain public goods that are desired and electoral incentives for such purposes can be given more powerful or refined. Based on better knowledge and better rewards, the justification for decentralizing governments down to lower levels means that budget priorities are allocated. Where there are no signs otherwise in the case of economies of scale, access to capital and outpourings, the distribution of expenditure will suit the position of the recipient. In other words, if the benefits of a public good are local, then it is the responsibility of the local government to provide it. Tax assignments are essentially essential as far as revenue authority is concerned, since borrowing interest must also be paid. The distribution of different assignments is the most important issue, apart from the problems of productivity in selection. For one country, for example, it exceeds autonomy across jurisdictions and nations. In response to a tax, a moving tax base will decrease significantly. Consequently it is more difficult than it is for the central Government to collect tax revenue for subnational jurisdictions. By so doing, it will be a temptation to build a balance between income and spending for sub National jurisdictions if more taxes should be raised by the centre, to the degree to which subnational governments are more likely to adapt to diversity of preferences, as noted above. The motive of redistribution will lead to a further drive to more centralized tax assignment. A "vertical fiscal imbalance" is the result of the different determinants of optimal expenditure assignments and tax authorities, where sub-national governments rely on the center for income transfer. Nevertheless, difference of income decisions and marginal spending decisions may have negative effects on incentives. The Center and States have the powers and functions of the Indian Constitution under its seventh Schedule. The schedule sets out the exclusive powers of the Center on the list of Union countries and states ' exclusive powers on the list of States, and competent parties on the list of competitors. The Center shall be given all remaining powers. The essence of the tasks is very typical of federal countries. In order to sustain macroeconomic stability, international trade and ties and to have consequences for more than one country, central government functions are needed. State policy, public santé, forestry, irrigation, land rights, fisheries and industries and mineral resources are main topics. For related subjects such as education and transport, financial security and social insurance, States often play an important role.

THE POLITICAL ECONOMY OF CENTER-STATE TRANSFERS

The creation of India's center-state transfer's institutions can be summarized as follows. As a central body responsible for dealing with fiscal inequalities between centers and states as well as between states, the Finance Commission was envisaged by the constitution. Its function was then restricted to the work of the Planning Commission, which was usually exempt from the terms of reference of the Finance Commission. Therefore, as transfers from the Planning Commission became formal, the central ministries continued to use budgetary grants. Thus, it seems like the general trend was for the central government to seek to control transfers to the states as best as it could. In addition, there is indirect evidence in each transfers channel that attempts are being made to manipulate the results of the process. For example, while "objective" formulae have been adopted by the Finance Commission in the determination of fiscal sharing, various subsidies are also made and States represented in the Commission ' s membership have been suggested to be reasonably good at these subsidies. In the case where they are assumed to lead to inefficiencies or a failure to achieve Equity Objectives in the center-state transition framework, we will address how this effect could be moderated by structural change. Within this section we discuss the latest evidence of factors of political power in the specific intergovernmental transfer scheme. There is already a comprehensive literature on the federalist political economy in general. Many strategies are focused on territorial development and unity, using negotiation analysis. an alternate literature branch discusses distribution and redistribution in the sense of present nations, without taking into consideration the possibility of a separation or breakup. Again, in this type of model, negotiating perspectives are significant. The sales expense study of federal procurement of public goods is performed by Inman and Rubinfeld (1997). They concentrate in particular on the role played in determining this distribution by the legislative frameworks. The economic output of various combinations of these three institutional variables can be compared, provided a simple assignment of duties, level of representation and legislative institutions. This distinction is made based on the work of Breton and Scott (1978) and Baron and Ferejohn (1989) on an assessment of different forms of cost of transactions. Within their study, intergovernmental transactions are not directly discussed. Kletzer and Singh (1997, 2000), with taxes, representative government, and intergovernmental transfers, examine a median electorate model for a federation. The constituent units of the federation recognize in their models that transfers must be financed by taxes, and they therefore care about net transfers. In a case study, they demonstrate how coalitions can develop, based on factors such as income and goal determination, to decide who the winners and losers from transition.

The formal theoretical models, as well as casual empiricism, have been the basis for several recent attempts to estimate political influences on center-state transfers. We next summarize the empirical work of Rao and Singh (2000), Biswas and Marjit (2000), Dasgupta, Dhillon and Dutta (2001), and Rao, Singh and Vashishta (2001). We begin with the first of these papers. Rao and Singh begin with five categories of transfers, which are:

1. Shared Taxes
2. Non-Plan Grants
3. Grants for State Plan Schemes
4. Grants for Central Plan Schemes
5. Grants for Centrally Sponsored Schemes

The first two categories are Finance Commission transfers, the next two are Planning Commission transfers, and the last constitutes transfers directly governed by the central government's ministries. Rao and Singh aggregate these categories as follows:

1. Statutory Transfers = Shared Taxes + Non Plan Grants
2. Grants for State Plan Schemes
3. Discretionary Transfers = Grants For Central Plan Schemes + Grants For Centrally Sponsored Schemes

The above categorisation is based on the assumption that shared taxes and unplanned grants are those defined by the Finance Commission, which is obviously free of direct political control. The centralized strategy and centrally funded programs, on the other hand, are both subject to the center's direct control and should display political influence. State program grants require centralized approval of plans by the state government, and so flexibility is possible, but it is theoretically different from transfers on a regional basis. Rao and Singh using 10 years data from 1983-84 to 1992-93 on 14 major Indian states. You test a model with fixed effects in the environment. Transfers per capita in three groups are contingent variables. The explanatory variables are State Domestic Product (SDP), SDP per capita, population, and two specifically political variables, 5 the proportion of the representatives of the governing party (lower house only) from a certain State, and 5 a dumb variable to quantify the center and state level of the same group. For brevity, we call these variables ' power' and' alignment' roughly.

CONVERGENCE, DIVERGENCE AND REFORM OF THE TRANSFER SYSTEM

Rao and Singh (2000) analyze the equalizing effects of the various types of transfers, in addition to their political influence. Their reversals lead to a slightly different tale than simple correlation coefficients that support the view that the transfers from the Finance Commission have favored lower per capita SDP countries more than the transfers from the Planning Commission (Table 6, Rao and Singh, 2000). Rather, the regressions of the fixed effect generate a more uncertain image. For example, if State fixed effects are included, the transfers of the Finance Commission per capita are not inversely dependent on SDP per capita. Whilst further empirical research is required, the overall point is that the equalization impact of central-state transfers is uncertain based on political and economic factors that can influence bargaining power. However, it is a separate issue whether this should concern itself if unconditional impacts are in the right direction, as reflected in the simple correlation coefficients. We would argue that it is alarming, given that economic reform has changed the nature of central government economic governance in such a way that the potential for more inequalities across countries is growing and the pressure on an effective system of central state transfer is growing. Through looking at proof of convergence and divergence in the Indian States, we support this claim. In recent years there has been an rise in the number of papers on convergence or divergence between Indian countries. The general revival of growth theory as well as the experience of India has fuelled this interest. Convergence research around countries focused on keeping up with rapid development by developing nations. If, in addition to initial income rates, faster growth is influenced by certain factors, convergence is conditional: that is, a poorer country (or region) will converge into a stable state that is different from a richer country (or region).6 The conditioning variable, along with followed economies, can be factors like employment, health care, and physical infrastructures. Clearly, the factors may be endogenous itself. Whilst there is very little evidence of convergence in different countries, convergence possibilities in related areas or in a federation such as India may be expected. Data for the period 1961-91, including the Rajiv Gandhi reform era of the eighties, were analyzed in one of the first convergence studies in India, Cashin and Sahay (1996). This excludes the reform era of the last decade. The research is conducted in 20 states, including some of the special category ones, which obtain central transfer by specific and generous formulae. This is important to note as the authors use state incomes per person and, except for joint taxes, apply them to SDP in all central transfers. They are found in the study span with the greatest impact reported in the 1961-71 decade to be evidence of unconditional convergence. By fact, adjustment for other factors does not affect these outcomes. The findings also show that convergence in developed countries such as the US and Japan is much slower. This means that, when the center-state transfers were included (when dispersion is greater when they were excluded), cross-sectional distribution of per capita incomes across states significantly increased over the three decades examined. The role of internal migration in convergence is also examined by Cashin and Sahay and found low. The argument for the alteration of the transmission formulae is equally applicable to the portion of transfers of the Planning Commission measured according to the' Gadgil' formulation of 1969. The unnecessarily limited reach of the finance commissions was one of the problems in the past, far narrower than what India's Constitution requires for their position. Avoiding this constraint, the consideration of the overall fiscal status of the federal system in India was a welcome breakthrough in the recent Finance Commission mandate. This role is to become a matter for the finance committee.11 The most recent report noted also a serious muddle of planning transfers, with financially insignificant differentiation between plans and non-plan categories of expenditure. The Committee recommends the reformulation of the schedule transition formulas. This proposes reform of the program funding so that the spending on the program revenue is funded by available tax receipts following completed non-planned expenditures and not by loans for investments. Finally, a multi-year budgeting suggestion may presumably be a change from the artificial cycle of five-year plans implying temporal anomalies in transfers in Raos, Singh, and Vashishta (2001).

CONCLUSION

We argued in this paper that the federal institutions of India are an important component of its political and economic system. We have attempted to assess the economy, the growth, the changes over the last decade and what still remains to be done of these federal structures. Several suggestions have been illustrated. Firstly, central-state transition is a political element, rather than a technocratic utopia. This idea is not new, but recent empirical evidence has been shown for India. The use of many networks for explicit and implied transfers has been also a topic: this is very consistent with a story that highlights political economic factors. A third argument was that the transfer mechanism did not (or was not sufficient) to handle intergovernmental inequalities. Evidence shows that this weakness would matter more because of the expansion of regional economic inequalities over the past decade. We have addressed many facets of reform on the basis of our analysis of the situation in India. We suggested simplifying the center-state transfers and giving the Finance Commission a greater role in handling such specific transfers. We proposed that tax reform requires a realignment of tax allocations in order to remove inequalities and to reduce the extent of vertical transfer and we gave some thoughts about what policy proposals might be politically feasible. We have analyzed some aspects of the local government reform and concluded that, while very positive, it is very promising to encourage efficient public spending. We addressed how to help local governments better change the centre-state transition mechanism and the position of the planning commission. Finally, our discussion of central-state transfers to financial sector reform has connected us with the concept that privatization, which is motivated by efficiency considerations, can effectively complement a simplified explicit transfers program that addresses inter-state inequalities or the needs of poorer states. We also tried to point out the political issues that may occur during negotiations on these measures, in particular with the transition of ownership of capital from the state to the private sector. We took this as an instrumentalist viewpoint which also forms our understanding of the federalist political economy in general.

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