



RESEARCH ARTICLE

IMPACT OF FISCAL DECENTRALIZATION ON POLICY OF LOCAL GOVERNMENTS.

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Abstract

The present study investigate the impact of the fiscal self-reliance or fiscal independence of local government on policy-orientation. The higher the fiscal decentralization level and political awareness of citizen, the greater the growth-orientation weight. The present work has shown that the more autonomy local government has strong fiscal independence, the more economic development expenditure the government expenses and the fiscal decentralization is closely related to the dynamic efficiency of economy, especially economic development.

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Introduction:-

The introduction of the local self-governing system in India has produced many changes since the election of the local government head came into effect. However, the evaluation of this system can be interpreted in different ways. Two different positions are available, one position emphasizing a positive point of view and one emphasizing a negative point of view. The positive point of view advocates making great contributions to the advancement of democracy, improvement in public services for inhabitants, revitalization of participation between inhabitants and citizens' groups and so on. Thus, the positions critical of the local self-governing system usually focus on economic feasibility and efficiency, whereas the position advocating positive points focuses on value-oriented points interested in equality and democracy.

This study would like to analyze how the level of a fiscal decentralization or autonomy affects policy-orientation and the Main attention is paid to the effects that fiscal decentralization influences on the ratio of economic development expenditures and social development expenditures.

Conceptual framework:-

Fiscal decentralization means that the authority of tax collection or expenditure is transferred from superior offices to subordinate offices for the purpose of producing appropriate public-services for improving the public welfare of residents. There are those who believe that there is a ratio of total national finance to local finance, or that a local government has the power of decision making for adjusting finances, whether or not.

Although many studies have empirically analyzed the policy-orientation of local governments, it is difficult to find studies based on fiscal decentralization in general. Chamlin(1987) says that social welfare expenditures in local governments each year are proportional to the size of financial power. King & Ma (1999) analyzed macro-economic effects of fiscal decentralization and concluded that countries that accomplished fiscal decentralization obtain better

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results than fiscally centralized countries. They also said that the central government undergoing decentralization can devote itself to its macro-economic policy more efficiently.

The allocation of resources by central government has been a core factor for the growth of industrial sectors and space-development. The centralizing financial structure was recognized as an important factor that expedited economic growth on both national and local level before the local self-governing system was institutionalized. And then, although there was the opinion that fiscal decentralization would expedite economic growth theoretically since the local self-governing system was begun, there has been a lot of controversy about whether or not that is true.

This study practices the cross-section analysis on the fiscal decentralization and the causal relationship of the policy-orientation to local governments for verifying those controversies. The fiscal decentralization played a positive role on regional economic development. The most important basis of fiscal decentralization is efficiency, and fiscal decentralization can contribute to economic development on a dynamic aspect. Jung, et al. (2001), state that fiscal decentralization has negative effects on economic development in data from 1990 to 1999, and to Davoodi and Zou(1998). Kang's study that the stronger the financial power, the higher the growth-orientation, this study can also estimate the following trend that the higher the level of local self government and fiscal decentralization, the higher the level of the growth-orientation.

Conclusion:-

This present study concluded that the level of a fiscal decentralization or autonomy affects policy-orientation and also influences the ratio of economic development expenditures and social development expenditures.

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