

Fiscal federalism in India: An appraisal

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Received : 08.10.2013; Accepted : 28.03.2014

ABSTRACT

India pursues a federal form of government with strong unitary features. Institutions of federalism have helped the country to reach great heights in socio-economic development. Notwithstanding those achievements, disparities have been increasing across the States. Hence the study attempted to explore the inherent problems of Indian federal fiscal set up. Constitutionally, the States are left in a disadvantaged position in exercising their borrowing powers. Decreasing budgetary support and increasing discretionary transfers from Centre have severely constrained them in drawing and implementing schemes of their priorities. Moreover, the compliance and enforcement cost of central legislations are largely borne by the States. Low tax buoyancies and exclusion of certain taxes from the divisible pool further exaggerates their miseries. Such disproportional assignments of resources and responsibilities have caused a high degree of vertical imbalance against the States; even as they struggle to meet their expenditures with transferred revenue. To rectify such imbalances, successive Finance Commissions thrive to achieve maximum equalization among the States through efficient horizontal transfers.

KEY WORDS : Fiscal federalism, Regional imbalances, Fiscal deficit, Vertical imbalance, Horizontal imbalance

How to cite this paper : Varadan, R. Jayakumara, Jhajhria, Abimanyu and Kumar, Pramod (2014). Fiscal federalism in India: An appraisal. *Internat. J. Com. & Bus. Manage.*, 7(1) : 191-198.

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