

INTRODUCTION AND RESEARCH METHODOLOGY
OF THE STUDY

I. INTRODUCTION

Indian federal set-up has led to centralisation of resources with the Centre. On the other hand, the State Governments, due to the nature of functions envisaged to them as per the Constitution, as well as due to the impact of the execution of the process of planned economic development which makes the states equally responsible to finance increased plan outlays, have to maintain a higher level of expenditure. This has increased the overall budgetary resource needs of the States in India and led to the problem of 'Non-Correspondence' between ever increasing aggregate budgetary expenditure and 'own revenue potentials of the State Governments'. Growth in quantum of Central fiscal transfers to States helped the States to meet this problem, but the process has led to increased States' fiscal dependency on the Central fiscal transfers. The process of decision making, and the composition of these Central fiscal transfers have an impact not only on the nature and consequence of this fiscal dependency but has also created certain problems and irritants in Centre-State financial relations in India. The present study makes an attempt to study the Nature and Growth of Fiscal Dependency of Maharashtra on Central Fiscal Transfers during the period 1961-62 to 1990-91.

II. TITLE OF THE DISSERTATION

The title of the present dissertation is, "Nature and Growth of State Government's Fiscal Dependency on the Centre : A Case Study of Maharashtra 1961 - 1991".

III. OBJECTIVES OF THE STUDY

The following are the main objectives of the study :

- a) To undertake a brief review of the theory of fiscal federalism, nature of Indian Fiscal Federalism and review the growth and process of Central Fiscal Transfers to States in India.
- b) To study the growth and composition of Central fiscal transfers to Maharashtra during the period 1961-62 to 1990-91.
- c) To measure the extent of 'Resource Gap' in the Budgetary Operations of the State and Study the Extent of Fiscal Dependency of Maharashtra on Central Fiscal Transfers in its Budgetary Operations.
- d) To analyse the Consequence of Fiscal Dependency of Maharashtra on Central Fiscal Transfers.

IV. METHODOLOGY OF THE STUDY

This study, a library dissertation, is essentially based on secondary data collected from the following sources :

- a) Reserve Bank of India Bulletins : Issues related to Finances of State Governments.
- b) Finance Accounts, published by the Government of Maharashtra, Ministry of Finance.
- c) Reserve Bank of India : Report on Currency and Finance.

The data collected from the above secondary sources, is tabulated and for interpretation of the data the following methodology is adopted in the study.

- i) Compound Growth Rates are calculated to measure the extent of Growth in the Total Central Fiscal Transfers to Maharashtra and the Growth Rate of each component of these transfers during the period under study.
- ii) To measure the Level of Fiscal Dependency of the State in its Budgetary Operations on Central Fiscal Transfers two methods are used.
 - (a) We have calculated the extent of percentage contribution of Central Fiscal Transfers to the Aggregate Revenues of Maharashtra (Revenue and Capital Receipts) as well as the percentage

of Aggregate Budgetary Expenditure of the State (Revenue and Capital) financed by Central Fiscal Transfers.

b) In addition the level of Fiscal Dependency of Maharashtra on Central Transfers in the mobilisation of Revenue Account Receipts and financing of Revenue Expenditure, as well as extent of fiscal dependency of the State on Central transfers in the mobilisation of Capital and Debt Receipts and Financing of Capital Expenditure is studied separately.

iii) Consequences of the Fiscal Dependency is analysed mainly by studying the issue of rising Central loan outstandings of Maharashtra, Growth of Gross Interest and Repayment Burden of Central loans and its impact on the revenues and expenditure of the State.

In the study statistical tools like Annual average growth rates, Ratio Analysis (Percentage) are used wherever necessary.

V. SCOPE OF THE STUDY

The scope of the study is narrow, in the sense that it makes an attempt to study the nature and growth of Fiscal Dependency on Central Transfers of one State, that

is Maharashtra only. The scope of the subject, thus puts an automatic limit to the extent and nature of conclusions that can emerge from the study, though the researcher has arrived at few conclusions and suggestions which are general in nature and which the researcher feels are applicable in the broad perspective of Centre-State fiscal relations in India. The period of the study is from the fiscal year 1961-62 to 1990-91, for which necessary comparable data is available.

VI. CHAPTER SCHEME OF THE STUDY

The present dissertation is classified into the following chapters :

- CHAPTER-I : Theory of Fiscal Federalism and the Process of Central Fiscal Transfers to States in India.
- CHAPTER-II : Central Fiscal Transfers and the Level of Fiscal Dependency of Maharashtra on Central Transfers : 1961-62 to 1990-91.
- CHAPTER-III : Extent of Fiscal Dependency of Maharashtra on the Central Fiscal Transfers in the Revenue and Capital Account Transactions of Its Budgetary Operations : 1961-62 to 1990-91.
- CHAPTER-IV : Consequences of States' Dependency on Central Fiscal Transfers : Problem of States' Indebtedness to the Centre : Study of Maharashtra : 1961-62 to 1990-91.
- CHAPTER-V : Major Conclusions and Suggestions of the Study.