

ABSTRACT

With many countries moving towards decentralizing their political structure, it becomes imperative to study why and how such a move is beneficial. Do the benefits of efficiency in provision of differentiated local public goods outweigh the costs of running a sub national level of government? In the Indian case especially, while the Constitution mandates a three-tier federal government structure, the sub-national governments have limited autonomy with respect to their revenue-raising and spending capabilities due to greater central allocation and control over funds and functions. The strong presence of intergovernmental grants like in the form of central allocation of funds for Centrally Sponsored Schemes (CSS), leave no scope for local specialization of public good provision and hence a similar expenditure pattern can be observed across all states. Also, as participatory institutions like the *Gram Sabha*¹ are not strengthened, voters do not get platforms to voice their preferences, hence further supporting the case for convergence in expenditure patterns.

This study is an attempt to test for convergence in development spending patterns across nineteen Indian states for the years 2005-06 to 2009-10. It also studies the relationship between fiscal decentralization and growth of development expenditure at state level. The conditional convergence model put forth by Barro and Sala-i-Martin have been slightly modified to empirically test the convergence hypotheses.

The results show a strong evidence for convergence and the fiscal decentralization index is negative in most cases and insignificant otherwise. Both these findings together support the hypothesis that the convergence in expenditure patterns across states exists as the development functions under consideration are largely performed by the centre through the Centrally Sponsored Schemes (CSS), which is uniform throughout the country. Recommendations for decentralized provision of local public goods and institutional reforms to augment the benefits of decentralization are made.

¹Village Council