

## **ABSTRACT**

‘All Politics is Local’ and there is a distinct shift towards democratic decentralisation. With this shift, it has become important to analyze the nexus between revenue and expenditure of local governments. This paper examines the temporal relationship between revenues and expenditures for the 150 municipalities in Tamil Nadu during 2006 to 2010. This exercise is done for the municipalities as a whole and for grade wise division. Using a Panel Vector Autoregressive Model and a system - GMM estimator, it has attempted to determine which nexus hypothesis best characterizes the municipalities. The empirical results suggest that the tax-to-spend hypothesis is supported for the municipalities studied as a whole as well as for Second Grade and Third Grade division of municipalities. For the other grades there is evidence of neutrality.