

Fiscal Decentralization and Economic Growth Role of Democratic Institutions

- This paper attempts to analyze the impact of fiscal decentralization (FD) on economic growth. FD involves shifting some responsibilities for expenditures and/or revenues to lower levels of government. It is an effective strategy to promote economic growth by increasing the efficiency of the public sector.
 - This procedure reinforces the government's responsibility to the residents by including them in checking government execution and requesting remedial measures. This procedure moreover makes governments responsive and responsible, prompting lower defilement and improved conveyance of open administrations. The certain presumption behind the positive commitment of FD is the presence of an overall characterized institutional system. This expands the responsibility and straightforwardness in the political framework and henceforth bringing down corruption. That, at last, prompts a significant portion of open assets and, consequently, financial development.
 - Since autonomy, the Niemeyer Award 1947, the Raisman Award 1952, the One-Unit Formula 1961 and 1965, and seven NFC grants dependent on the 1973 Constitutions for income sharing have been reported. As of late, the administration of Pakistan has attempted two significant improvements by marking the National Finance Commission (NFC) grant and bypassing the eighteenth Constitutional Amendment. These improvements would cause a major move in the division of forces between the inside and the provinces. The need for FD in Pakistan arose due to the mismatch between expenditure requirements and the revenue generation capacity. This mismatch necessitates the inter-governmental transfer among the federation and provinces, which is a vital part of the decentralization process.
 - The empirical analysis shows that revenue decentralization is growth-enhancing in Pakistan. The decentralization of revenue generation responsibilities generates positive externalities that increase the per capita income of the country.
 - On the other hand, it is found that expenditure decentralization has a negative association with the growth rate of per capita income. This is mainly due to the low institutional quality, which may increase the corruption level and make public officials less accountable.
 - Few policy implications emerge from these empirical analyses to enhance economic growth. Firstly the tax to Gdp has a positive association with economic growth. In Pakistan, the tax to GDP ratio is very low as compared to other developed and developing countries. Due to a low tax base, Pakistan is consistently facing the problem of a high budget deficit. Increasing the tax to GDP ratio has two advantages: it directly contributes to economic growth and, it mitigates the negative impact of budget deficit on economic growth through reducing budget deficit. In Pakistan the main source of tax is the general sale tax on goods and services (GST) which is non-distortionary in nature. Thus, there is a need to further broaden the tax base and tax rates.
 - Secondly, The process of FD especially revenue decentralisation is beneficial for the economy of Pakistan. To achieve long term economic growth, revenue decentralisation should be better streamlined through making the provinces more reliant on their own resources.
 - Lastly, expenditure decentralisation can only be effective when the provinces have sufficient administrative capacity and are made accountable and transparent through good institutions.