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DECENTRALIZATION, THE DELIVERY OUTCOMES OF HEALTH AND EDUCATION, AND THE ROLE OF INSTITUTIONAL SETTING: EVIDENCE FROM INDIAN STATES

Abstract:

Purpose: The paper examines the impact of fiscal decentralization on critical development outcomes like health and education in India measured in terms of infant mortality rate (IMR) and gross enrolment ratio in higher secondary education (GER), respectively. The choice of India stems from the fact that it is not only one of the world's fastest emerging economies but also one of the most populous nations exhibiting stark disparities in health and education.

Design/Methodology/Approach: We employ feasible generalized least squares (FGLS) on a balanced panel of 18 non-special category states of India for the period 2002–2020. We control for institutional quality that encompasses the governance aspect of the judicial system. We also control for several state-specific time-varying control variables that capture important development and socioeconomic parameters to analyze the impact of fiscal decentralization on the chosen delivery outcomes.

Findings: Our findings, which are robust to alternate model specifications, uphold the positive role of fiscal decentralization and institutional quality on two critical delivery outcomes. We also find mixed evidence on the impact of political competition and socioeconomic channels of accountability, like the freedom of the press, on the chosen development outcomes. While political competition fails to induce desirable effects due to the rent-seeking behaviour of the governments, freedom of press has a desirable impact on GER but not on IMR. It is worth mentioning that the freedom of press should ideally generate awareness and accountability in delivering welfare policy outcomes; in practice, however, it suffers from clientelism.

Implications: The study has three critical policy implications. First, the positive impact of various variants of decentralization supports the implementation of fiscal decentralization measures as a reformative intervention. Second, augmenting a sound institutional quality environment captured in terms of judicial governance is critical for ensuring greater accountability in public service delivery. Third, it is vital to ensure the freedom of press in exacting accountability to improve the delivery of public service.

Originality/Value: Our paper makes two important contributions to the literature. First, while existing studies in India majorly focus on the unidimensional aspects of fiscal decentralization, our focus is multidimensional, considering that decentralization is a multifaceted concept. Second, from a methodological perspective, we construct an 'institutional quality' index to capture the

governance aspect of the judicial system that is critical not only for ensuring accountability in the decentralization processes but also reducing transaction costs.

Keywords:

fiscal decentralization, infant mortality rate, gross enrolment rate, institutional quality index, India

JEL Classification: C23, H77, I38