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Chapter 3: Federalism, fiscal space, and public investment spending: do fiscal rules impose hard-budget constraints?

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The core emphasis of rules-based fiscal legislation at the subnational level in India is to achieve debt sustainability through a numerical ceiling on borrowing and the use of borrowed resources for public capital investment by phasing out revenue deficits. Using the Arellano Bond Panel estimation, this chapter examines whether the application of fiscal rules has resulted in an increase in the fiscal space for public capital investment spending in major Indian states. This analysis shows that by controlling other factors, there is a negative relationship between fiscal rules and public capital investment spending at the state level during the rules-based fiscal regime.

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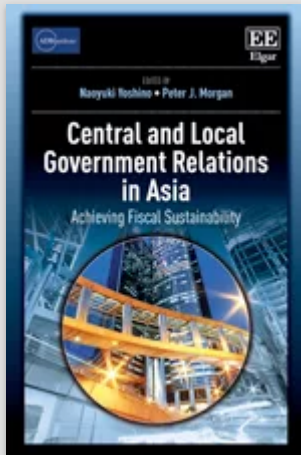


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^ Table of Contents

Front Matter

[Copyright](#)

[Contents](#)

[Contributors](#)

[Preface](#)

[Abbreviations](#)

PART I: Frameworks for Central–Local Government Relations



central–local government relations and fiscal sustainability.

Chapter 2: Looking beyond conventional intergovernmental fiscal frameworks: principles, realities, and neglected issues

PART II: Mechanisms for Promoting Fiscal Sustainability at the Local Government Level

Chapter 3: Federalism, fiscal space, and public investment spending: do fiscal rules impose hard-budget constraints?

Chapter 4: Fiscal equalization schemes and subcentral government borrowing

Chapter 5: How well do subnational borrowing regulations work?

PART III: Country Studies of Central–Local Government Relations

Chapter 6: The fiscal risk of local government revenue in the People’s Republic of China

Chapter 7: Key issues of central and local government finance in the People’s Republic of China

Chapter 8: The government decentralization program in Indonesia

Chapter 9: A case study of central and local government finance in Japan

Chapter 10: Fiscal decentralization and local budget deficits in Viet Nam: an empirical analysis

PART IV: Behavioral Implications of Central–Local Government Relations



[Chapter 11: Debt dynamics,
fiscal deficit, and stability in
government borrowing in](#)

[India: a dynamic panel
analysis](#)

[Chapter 12: Forms of
government decentralization
and institutional quality:
evidence from a large sample
of nations](#)

[Index](#)

Subjects

[Asian Studies](#)

[Asian Development](#)

[Asian Economics](#)

[Development](#)

[Asian Development](#)

[Development Economics](#)

[Economics and Finance](#)

[Asian Economics](#)

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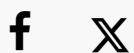
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