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

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**Category:** Monograph Chapter

**Published:** 29 Sep 2017

**Page Range:** 103–129

**Collection:** [Economics 2017](#)

**DOI:** <https://doi.org/10.4337/9781786436870.00011>

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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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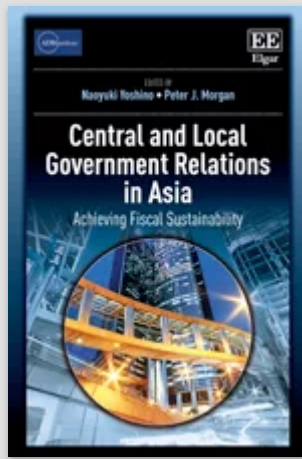
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## Central and Local Government Relations in Asia

Edited by Naoyuki Yoshino and Peter J. Morgan

### Monograph Book

Published: 29 Sep 2017

Print ISBN: 9781786436863

eISBN: 9781786436870

DOI: <https://doi.org/10.4337/9781786436870>

Pages: c 448

Collection: [Economics 2017](#)

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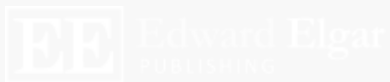
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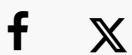
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