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NATURE AND SIGNIFICANCE OF LOCAL FINANCE IN INDIA

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MEANING OF LOCAL SELF-GOVERNMENT:

Local self-government may be defined to denote the structure and operations of the smaller public bodies which are needed to supplement the actions of central and state governments. These units are called local because they are very close to the common man and their problems. They are governed by their own local representatives on adault franchise basis.

In the Constitution of free India, the term local government is used. The subject of local self-government figures under Entry 4 in the List III (state list) of the seventh schedule of the Constitution, "The Local Government, that is to say, the Constitution and powers of municipal corporations, improvement trusts, district boards, mining settlement authorities and other local authorities for the purpose of local self-goverment or village administration".¹ But the local self-government appears an appropriate and embarrasing phrase for these democratic institutions. There are local bodies in Bareilly Urban Agglomeration like Northern Railway Colony, Cantonment Board and in Shahjahanpur also Cantonment Board which provide separate roads, transporation system, water and electric works

educational and recreational facilities. Yet they cannot rightly be called local, self-government.

They function under the supervision and control of the Central Departments of Railways and Defence. New Delhi Municipal Committee which is not representative in character seems to be local. Development authorities of many cities of U.P. for instance Ghaziabad Development Authority (GDA), Aligarh Development Authority (ADA) are local bodies but not self-governing bodies.

The essential attributes of local self-government are firstly, its statutory status, secondly, its power to raise finance by taxation in the area under its jurisdiction; thirdly participation of local community in decision making in specified subjects and their administration; fourthly, the freedom to act independently of central control; and freedom to act independently of central control; and lastly, its general purpose, character. William A. Robson elaborates these points as, "Local Government may be said to involve the conception of a territorial, non-sovereign community possessing the legal right and the necessary organizations to regulate its own affairs. This is in turn presupposes the existence of a local authority with power to act independently of external control as well as the participation of the

local community in the administration of its own affairs. The extent to which these elements are present must in all cases is a question of degree"²

According to Clark, "Local Self-Government is the 'smallest unit' under which the people of the locality posses a certain responsibility and discretion in the administration of local affairs and in the raising of money to meet the expenses."³ In the urban sector of Local self-government, towns and cities are considered the local points of economic activities, social and cultural progress. Urban areas are supposed to be an important barometer or symbol of the development of a nation.

SIGNIFICANCE OF LOCAL SELF-GOVERNMENT AND LOCAL FINANCE:

India, being a vast country with diversified local problems which have necessarily to be tackled at the local level. The role of urban local self-government thus assumes importance in providing services like drinking water, roads, sanitation, education, health and street-lighting. These services can better be performed by the urban local self-government with the participation of the local people. In the first place, local self-government institutions are better conversant with local situations and problems. As for the local inhabitants, they being vitally concerned, would respond to efforts at local development more readily.

It is physically impossible to administer effectively all points of a large modern state from a distance centrally. Sidney Webb pointed out to another important thing, "If we consider the most progressive countries of the world such as the U.K., Germany, France or the U.S.A., we find that by far the largest part of their governments is now that which is not carried on in the capital cities by the dignified departments of state under the control of Central National Assembly or Parliament, but that which is being administered locally in villages, or parishes, or commune, in municipality or county, or district under the control and in the interest of local people in their limited area." 4 4

Constitutionally, the central authority's power extends over the whole territorial jurisdiction. However, for convenience of administration, the Central Government took over only such functions as appeared to be an overall nature and where coordination is required. The local self-government, the third tier in the administrative structure constitute a part of the state government, and its power and its authority delegated to it extend over only a particular areas as stated in the state statute. 5 5

Local self-government involves indirect decentralization and the administrative functions are performed efficiently because of territory divided into divisions, layer upon layer till it reaches the lowest rung of

administrative ladder from centre , state to the city (in rural areas down to the village panchayat, district, state and centre in that order). Local self-government are the units of state governments. Central authority confines its responsibility to spheres of an overall nature, leaving functions of local importance to be performed by the local self-governing bodies. Local bodies exhibit dual process of centralization and decentralization. Lord Bryce describes the process as follows: small localities form states and big nations either by conquest or treaty, leading to centralization. Once the nation or state is constituted, the reverse process of decentralization takes place, without, however, jeopardizing the overall authority of the Central Government.⁶

As the population increases and the localities expand, more problems like regulation of trade and commerce, control on dangerous and unhealthy occupations, extension of facilities for education, public health etc. arise and become more intense. Man's conception of minimum amenities for acceptable living conditions under-goes changes with the advance of science and technology. Thus, the functions to be performed by a local governing institution continue to increase . Existing facilities have to be enlarged, functions

have to be continuously improved, and new functions undertaken. In other words, all those amenities which make living better physically, economically, socially and culturally constitute the responsibility of this local body. These important functions, from the people's point of view, are supposed to provide the linkages between the citizens on one hand and administration on the other.

Indeed, there has been an impressive increase in the functions of urban local bodies. These bodies have been undertaking new activities, which either regulate the conduct of the citizens or are in the nature of services such as provision of mass transport, construction of houses for the poor, street-lighting, health centres, parks, play grounds, etc. In fact, local self-government is today much more important in the daily life of the citizen than the state or central government. A man in the street is more acquainted with the sanitary inspector and the vaccinator than the sales tax or income tax official. With the rapid urbanisation new and complex problems arise of education, health, housing, sanitation, maintenance of civic disciplines etc.

From the administrative point of view, it is important that the civic services which any community of

people would need are planned, programmed and integrated in terms of region or area inhabited by them. Local self-government involves distribution of responsibility on the territorial basis. It is necessary because the nature and magnitude of different requirements and services tend to vary from area to area. This enables state governments to concentrate on the larger issues of the country. However, an overall monitoring of the activities is essential on the part of state governments. At times it may be required to intervene and if necessary come to the assistance of local bodies to overcome problems of institutional, technical and management procedures and practices.

The local self-government is a well established instrument of political education. It mostly concerns itself with tangibles ----- park, water supply, sewage disposal, educational facilities, health services, roads, lighting etc. In view of the functions performed, members of local bodies are given the opportunity to become action oriented. Britishers introduced these institutions as the training ground for politicians and they handed over first the local administration for the convenience of the administration which unobtrusively signalled Indians to enter the administration of the country. During the last days of British Raj Pheroz Shah Mehta, Chittaranjan Dass and

Satyamoorthy stood up as the champions of municipal liberty and lent dignity to municipal policies. These public spirited men looked upon municipal bodies as avenues of services. They stressed the cultivation of sense of responsibility through participation in these bodies.

Further, since the functions are performed within a restricted locality, each person sees for himself how the local tasks are being performed by the local council. This facilitates active participation of local representatives in the administration of the community and also enlist the interest, cooperation and support of the local people. The people of the locality also serve as critiques and influence the action of their representatives on the local board. This provides for healthy interaction between the administration and the local people. Being closest to the people, local self-government is easily accessible to them, and people can generally expect to exert influence to a greater degree on it than on the remote state or central governments. Decentralization of areas of administration pave the way towards a better understanding between citizens and officials.

Local self-government ensures two-way communication between the state government and itself. Desires and aspirations of the local community are articulated and carried

upward to the state government. The plans and programmes of the state and central government, after taking into account their views, are submitted to local bodies for necessary action. The relationship is thus, participative and not bureaucratic, though it often tends in the latter direction which needs to be safeguarded against. In the times of emergency local bodies act as the field post of the distant centre, transmit national decisions to farflung areas. It also mobilises the people for national tasks and keeps the centre informed about happenings in the locality.

These local bodies contribute to the resilience, strength and richness of democracy by promoting diversification of political experience, and by setting itself as yet another centre of civic activity through democratic action. In countries where the organs of local self-government are under the thumb of the central authority, although the efficiency of administration may be greater, the political character of the people in general will be weak; it will be apathetic for long periods. On the other hand, a country of strong local self-government may be expected to function satisfactorily in the long run-learning from experience and taking initiative instead of helplessly looking up to the higher authorities for succour. This would contribute to the democratic process, self-reliance and intelligent harmonisation of the relationship between the centre, state and local bodies.

Local finance is the life blood of local self-government. Ursula Hicks stoutly emphasized the growing importance of local finance. She states, "Local self-government is the engine on the path of development.⁷ This engine requires fuel to run. Ultimately the fuel, that is, local finance becomes the core of the problem of local self-government.

Local or municipal finance plays an auxilliary role in the finances of a developing nation like India, provided the mobilization of local resources is systematically organized in anrosg local enthusiasm. National and local finance can supplement each other. The successful conduct of local affairs affects to a great extent, the working of the whole economy.

According to K.K. Shah, Ex-Minister of Health, Family Planning , Works, Housing and Urban Development, "The interest in local finance and in local administration has grown. The building up of social over heads so necessary for development in the real sense cannot take place fast enough unless the local bodies are entrusted with the responsibility.⁸

Prof. Gyan Chand rightly stressed the need and importance of local finance in the context of national life. He regarded local finance as interwoven with the entire

national life and the remaking of national life bases itself on the re-orientation of local finance.⁹ Similarly, the Taxation Enquiry Commission has viewed local finance as the crucial problem of civic bodies.

In the advanced countries of the world local finance plays a major role in the political, economic and social life of the people. The outstanding examples are those of New York (USA), Paris, Tokyo, Berlin and London which have their well developed local self-governing institutions. In addition to the normal functions the widest authority of police-maintenance of local bodies, they also exercise authority in the matter of maintenance of civic order and the police force function under their direct jurisdiction.

HISTORICAL BACKGROUND:

Modern local self-government in India is of British origin and had lacked, until recently, the impace of indigenous customs and institutions.¹⁰ Early British rule which persuaded a policy of excessive centralization (upto the Crown) had to modify it subsequently. They realized the necessity of relieving the over-burdened departments of the central government which had assumed the responsiblity with state and local administration who were being used merely to carry out the behest of the central government.

Britishers established a system of local self-government entirely different from that of traditional Indian systems. Sir Josia Child introduced modern local self-government on the British lines by a Charter at Madras in 1687; one and half century before the same Charter was introduced in Manchester (1842).¹¹ It was not intended to hand over the administration of civic bodies to Indians. Keeping in mind the convenience of administration of a vast country they had no alternative but to decentralize authority to local bodies. The Directors with the consent of the Crown advised the setting up a municipal corporation for the presidency town of Madras, observing that, "The people would more willingly and liberally disburse five shilling towards the public good being taxed by themselves, than six pence imposed by our despotical powers (notwithstanding they shall submit when we cause!"¹² They accordingly handed over municipal administration to local bodies and thereby to secure public participation in day-to-day administration.

This approach has been followed by even smaller countries like Brazil, Venezuela, Poland, Turkey, Srilanka and Burma to secure public participation, so to say, in day-today administration.¹³

The course of development of local self-government from the commencement of British rule upto the achievement of Independence may be divided into four distinct phases. The first phase began with the establishment of municipal corporation at the presidency town of Madras in 1687. In 1882 Lord Ripon issued his famous Resolution on Local Self-Government. The second phase covers developments since 1882 until 1919 when the Reforms of 1919 made local self-government a transferred subject. The third period extended upto 1935, when the grant of provincial autonomy gave a further impetus to the development of local self-government. The fourth and final lasted until 1950 when the Indian Constitution came into effect. These four phases of the evolution of local self-government in India may now be reviewed in somewhat detail.

The First Phase -

A beginning of local self-government may be said to have been made in 1687 when for the first time a local self-government was set up for the township of Madras. In the earlier stages efforts were directed to developing local bodies in the presidency town of Bombay and Calcutta and in the later stages it gained currency in smaller towns of administrative significance like hill stations viz, Mussorie (1842), Nainital (1845), Dehradun (1857) and for the military

point of view like Bareilly.¹⁴ These bodies were primarily empowered to levy taxes for constructing a guild hall, a jail and a building for the school, and such other buildings, construction of which were deemed to be essential for rendering services or for prestigious purposes. Revenues were also to be utilized for administrative expenses, including salaries of the municipal personnel and school masters.

A statutory base was given to these bodies in 1793. The Charter Act of 1793 established municipal administration in three presidency towns of Madras, Calcutta and Bombay by authorising the Governor General of India to appoint Justices of Peace in these three towns. These Justices of Peace were authorised to levy taxes on houses and lands to provide for scavenging, police and maintenance of roads. The municipal administration was extended to the district towns in Bengal in 1842, when the Bengal Act was passed, which enabled the setting up of a town committee for sanitary purposes upon applications made by two-thirds of house holders in a town. This Act however, proved to be an abortive attempt. As taxation was to be direct, it encountered resistance everywhere to the setting up of municipalities. Once the scheme was voluntary, no town came forward to establish such a body.¹⁵ In 1870 Lord Mayo's Resolution,

which advocated a measure of decentralization from the centre to the provinces, emphasised the desirability of associating Indians in administration and indicated the municipal government as the most promising field for this purpose.

Thus, local self-government was introduced more as a measure of strengthening British rule in India by inducing the cooperation of Indians, rather than self-government of the people. The taxation Enquiry Commission (1953-54) correctly points out; "It was the need for the association of Indians with administration (in order, for one thing, that taxes could be more readily imposed and collected) that prompted the early British Indian Administration to embark on the introduction of local self-governments in the country. The Resolution of Mayo (1870) on financial decentralization also visualised the development of local self-government, but this was subordinated to the need for tapping local sources of revenue and of effecting economy by decentralized administration!"¹⁶

Since these institutions were dominated by the Britishers. Accordingly, most of the Indian population remained deprived of true participation in their functioning. Until 1881, eighty percent of municipalities were nominated bodies. They were to a large extent neither local nor

self-governing. The dominant motive appeared to be to provide relief to the Imperial Treasury by raising funds through local taxation.

The Second Phase -

Lord Ripon's historic Resolution on local self-government of 18th May 1882 marks the beginning of a new chapter in the history of local self-government in India as it laid the foundations of the system that exists in present day India. According to the Taxation Enquiry Commission (1953-54), "It was Lord Ripon's Resolution of 1882 that paved the way for the development of local self-government specially in urban areas, with the accent on local self-government."¹⁷

Lord Ripon's Resolution enunciated the following principles which were henceforth to inform and guide local self-government in India:-

1. Local bodies should have mostly elected (2/3) non-governmental members and chairman.
2. The State control over local bodies should be indirect rather than direct.
3. These self-governing bodies must be endowed with adequate financial resources to carry out their functions. To this end, certain sources of local revenue should be made

available to the local bodies which should also receive suitable grants from the provincial budget.

4. Local self-government personnel should operate under the administrative control of the local bodies. The government personnel who are deputed to the local self-government must be treated as employees of the local government and subject to its control.

5. The Resolution of 1882 should be interpreted by the provincial governments according to local conditions prevalent in the provinces.

The reforms proposed by Lord Ripon were significantly whittled down by the provinces which enjoyed the freedom to interpret the Resolution according to local conditions.

Another significant feature of the period was the publication of the Report of Royal Commission on Decentralization in 1919. It made recommendations for the establishment of municipalities in urban areas. Municipalities were given the necessary authority to determine the taxes and to prepare their budgets after keeping a minimum reserve fund. The provincial government sanctioned grants in-aid for public works, water supply, drainage schemes etc. The responsibility for primary education rest with the municipality and if it so desires and if resources permit, it may spend some amount on secondary schools also.

The Third Phase -

With the out break of First World War the British Government felt it necessary to gain support and cooperation from the people in India. The Britishers accordingly endeavoured to seek increasing association of Indians in every branch of administration. It also indicated that there could be gradual development of self-governing institutions with a view to progressive realization of responsible government in India. This marked the beginning of a new era. The Government of India Act of 1919 was enforced in 1920 to lead the country towards this goal. Certain functions which were of developmental nature like local self-government, agriculture and cooperation were transferred to the control of the popularly elected ministries at the provincial level. They would be responsible to the legislature and elected on the basis of a wider franchise. This period witnessed a series of amending Acts on local self-government in every province. Men like Nehru, Patel and Purusattam Dass Pheroze Shah Mehta, Chittaranjan Das and Satymoorthy felt the need of Local Self-Government and entered the municipal councils and gained insight into the functions of democratic institutions. It was observed that while democratization of local self-government became a well established fact, certain unwelcome features also raised their head. Favouritism and nepotism gradually emerged with local politicians asserting their newly acquired powers, local civil

service came under the influence of local politicians and administrative efficiency tended to decline. Nehru - who was the chairman of the Allahabad Municipal Board in 1924-25 expressed, "Whatever the reasons, the fact remains that our local bodies are not, as a rule, showing example of success and efficiency though they might even so compare with some municipalities in advanced democratic countries. They are not usually corrupt; they are just inefficient and their weak point is nepotism, and their perspective are all wrong--- There is no mass educational system, no effort to build up public opinion based on knowledge. Inevitably public attention turns to personal or communal or other petty issues."¹⁸

The Fourth Phase -

The Government of India Act 1935 gave impetus to provincial autonomy. The national movement for independence was also reaching new proportions. With the growing strength of the national movement and the achievement of provincial autonomy, local self-government in India ceased to be a mere experiment. It became, indeed, a constituent part of the democratic administrative structure of the country. Although local self-government had become well established by now certain deficiencies and drawbacks from which it suffered also came to the surface and called for urgent attention. Accordingly, during this period the provincial governments launched investigations into the workings of

these institutions with a view to making them effective institutions for conducting local affairs. The Central Provinces set up an Enquiry Commission in 1935, the United Provinces in 1938, and Bombay in 1939. Although the recommendations of the Municipal Enquiry Commissions were unevenly carried out in various provinces, there was a definite trend towards democratization of local self-government by the abolition of the system of nominations. Also, the deliberative and executive functions were separated to improve administrative efficiency.

The Independence of the Country in 1947 ushered in a new period in the history of local self-government in India. With the termination of alien rule self-government functioned at all levels..... central, state and local. The local self-government was, thus enabled to function for the first time under an atmosphere of national aspirations. In 1948, the ministers of local self-government in the states met under the chairmanship of Central Minister of Health. This was the first meeting of its kind. The chairman of the Conference observed: "I believe this is the first time that the Government of India has called a conference..... of those responsible for the conducting local self-government. The subject of local self-government is of such vital importance to the general well-being of the people that I felt it would be definitely beneficial if a forum could be provided where those responsible for this important arm of the administration

could meet to exchange ideas and discuss problems of common interest.¹⁹

Post Independence Period -

Independence opened a new chapter in the socio-political reforms as embodied in the Directive Principle of the State Policy enunciated in the Constitution. A federal system of public administration established universal adult franchise was adopted and the concept of welfare state was accepted. Article 40 of the Constitution of India say that the State should take steps to organise village panchayats and endow them with such powers and authority as may be necessary to enable them to function as units of self-government."²⁰

During the post Independence period the rural sector received priority attention of the Government.

Administrative reforms have been introduced in the form of Panchayat Raj, Zila Parishad etc... in the rural areas and also large powers have been delegated to the local bodies in rural areas.

As compared to the dramatic changes in the rural sector, the development of urban local self-government was relatively slow and unimportant. Local Finance Enquiry

Committee in 1952 and the Taxation Enquiry Committee in 1953 were set up to examine the status of local finances of urban local bodies. It is only more lately that urban local self-government attracted the attention of the Government of India. The Third Five-Year Plan took note of the significance of urban local government and stated, "In the next phase of planning, urban areas, with a population of one lakh or more, should come into the scheme of planning in an organised way. Each state was expected to mobilize its resources and to create conditions for a better for its citizens."²¹

Many state governments set up committees to enquire into the functioning of local institutions and to suggest remedial measures. The Central Government also appointed committees to this end. Maharashtra, Madhya Pradesh, Punjab and Gujrat constituted committees to examine the functioning of urban local bodies and reforms. The Central Government has itself set up the following committees to report on urban local self-government.

- (a) Local Finance Enquiry Committee, 1951.
- (b) Committee on Training of Municipal Employees, 1963.
- (c) Committee of Ministers on Augmentation of the Financial Resources of Urban Local Bodies, 1963.
- (d) Rural-Urban Relationship Committee, 1966.
- (e) Committee on the Service Conditions of Municipal Employees, 1968.

LOCAL SELF-GOVERNMENT IN OTHER COUNTRIES: -

Almost in all the countries of the world there is some type of local administration for a particular area. It is well known fact that control and administer satisfactorily from a distant countries which are big in size, and whose jurisdiction cover areas which vary in culture, language and local needs is difficulty.

Generally, we find four basic patterns of local self-government in the world today; the French, the English or Western, The Soviet and Traditional.²² These do not have a uniform pattern. In some places there is a combination of two patterns and others share features of more than two or three but they essentially operate in the main in accordance with the characteristic features of one of them only. For example, the Turkish feature is not exactly that of France, but it belongs to that category. The same case is in communist countries. The Yugoslavia is much more decentralized than U.S.S.R., but unmistakably both are communist in nature.

Undoubtedly, the Soviet pattern indicates a closed economy and centralized in practice. However, Soviet administration with all its revolutionary and socialistic

institutions and practice has borrowed much more from nineteenth century continental Europe.²³ The most ancient civilized countries like Greece and Rome had established Greek city-state and Roman municipalium when Europe was still in 'darkness'. But with the passage of time both of them lost their own characteristics.

Therefore, at present all the local self-institutions in the world have their roots in Western or traditional pattern. Except for the traditional ones local self-government is a **product** of western civilization, particularly urban local self-governing institutions, whether they are municipalium, or borough or commune or soviets.²⁴

United Kingdom -

All the big towns in England and Wales except London have a county. Scotland has its own form of local government which differs from other bodies in several respects. The county borough form was deemed suitable for large, wealthy, independent and energetic towns imbued with a sense of community.

Japan -

The local self-government is carried on by local representatives of the central government, the cities or

commune derive their powers from the central government. The system of administration in Tokyo seems to have been copied mainly from New York.

France -

The French local self-government is based on two territorial units, the commune and the department. In the commune there is one elected municipal council with one elected Mayor to enjoy all powers of decision in all matters of local nature. Mayor is authorised to issue police ordinance for regulating the activities of the citizens.

U.S.A. -

The fundamental principles and institutions of local self-government are common throughout the U.S.A. Broadly speaking there are several major classes of local self-governments in U.S.A. The municipal corporation of New York alone and its annual budget is more than that of many Asian and Latin America Countries. The municipalities consist of half of the population of the States. The functions of U.S municipalities are the same including the maintenance of the police administration. A municipality of 5,000 persons may be capable of operating a water supply system in an efficient and economic manner. Municipal Housing is another major function of U.S. municipalities. A sizeable portion of municipal revenues is accounted for by house tax or estate duties.

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to a village or group of people in a local contiguous geographic area. This is similar to village panchayat in India.

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