

Chapter – II

Theoretical review of the growth of Public Expenditure

CHAPTER NO. - II

THEORITICAL REVIEW OF THE GROWTH OF PUBLIC EXPENDITURE

2.1 INTRODUCTION :-

In this chapter, we propose to discuss first the theories of public expenditure of Wagner & Peacock and Wiseman.

These two theories have been specifically selected as they deal with increasing functions of governments. The theory of local finance then is also discussed.

2.2 THEORIES OF PUBLIC EXPENDITURE IN GENERAL :

The word public is used to signify government. There are three types of governments such as Central, State, Local Governments. Therefore, expenditure that is incurred by the Central, State & Local Governments is known as public expenditure.

There are two well-known and important theories of Public Expenditure. The first one is connected with Wagner's name and the other with Wiseman and Peacock.

2.2.1 WAGNER'S LAW OF INCREASING STATE ACTIVITIES :

Adolph Wagner was a German Economist whose theory purely depends on historical facts of Germany. According to this theory, functions of government increase both intensively and extensively. Therefore,

expenditure of Central, State & Local Governments also increases continuously. But at the same time, sources of revenue of Central, State & Local Governments are not sufficient to meet this increasing expenditure.

Causes of increasing public expenditure :-

- (a) Increasing population
- (b) Problem of Urbanisation
- (c) Rising trend of prices
- (d) Increasing debts
- (e) Welfare programmes
- (f) Eco-planning.

CONCLUSION :

According to this theory today's government are not police state. But today's government is known as "Welfare State".

Therefore, functions of governments are not limited just like a police state, but functions of Central, State and Local government are increasing day by day, therefore, expenditure of all governments has been increasing continuously.

2.2.2 WISEMAN-PEACOCK HYPOTHESIS :

According to this hypothesis public expenditure does not increase in a smooth and continuous manner; but in jerks of step like fashion. At times, some social or other disturbance takes place which at once shows the need for increased public expenditure.

The existing sources of revenue is not sufficient to meet current expenditure of Central, State and Local Governments. Therefore, problem of finance is very difficult problem in front of all Governments.

These days, in underdeveloped countries like India the state is deliberately trying to increase its activities and make an effort to finance those activities through tax efforts. Even in developed countries, the states find that it has an increasing regulatory duty towards the economy to protect it against instability and excessive inequalities of income and wealth. Thus, Wiseman-Peacock hypothesis is still a description of a particular tendency and does not isolate all the relevant causes at work.

It must be remembered that apart from various factors like population growth, defence expenditure, Urbanisation, rising prices etc. failure of market mechanism is the only one important cause, which is responsible for increasing public expenditure. In a number of cases, the market mechanism is not able to pull the economy out of its vicious circle of poverty, unemployment, economic instability, income inequalities. Therefore, government activities have increased and public expenditure has also increased in the same manner.

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CONCLUSION :

According to Wiseman and Peacock hypothesis, it is clear that, functions of government are increasing.

As a result expenditure is also increasing continuously.

2.3 THEORY OF LOCAL FINANCE :

The term public finance refers to finances of the public authorities or the governmental bodies at all levels - Central, State and Local. Public finance is a compound word, comprising of public & finance. In public finance, the word public is used to signify government such as Central, State and Local governments. The word finance deals with money. Therefore, the word public finance deals with income and expenditure by the public authority.

In short, public finance is a science which deals with financial operations of the government conducted for attaining certain socio-eco. objectives fixed by the government.

The principle of local finance is the same as that of national finance. One of the principles of public finance, is the Principle of Maximum Social Welfare. The principle of maximum social welfare is universally applicable to the entire field of public finance.

There are some economist who maintain that local finance is different from National Finance in many respects such as national finance tries to impose tax burden according to the principle of ability to pay, while local finance on the basis of benefit. But this view is not satisfactory. In both the cases, the base

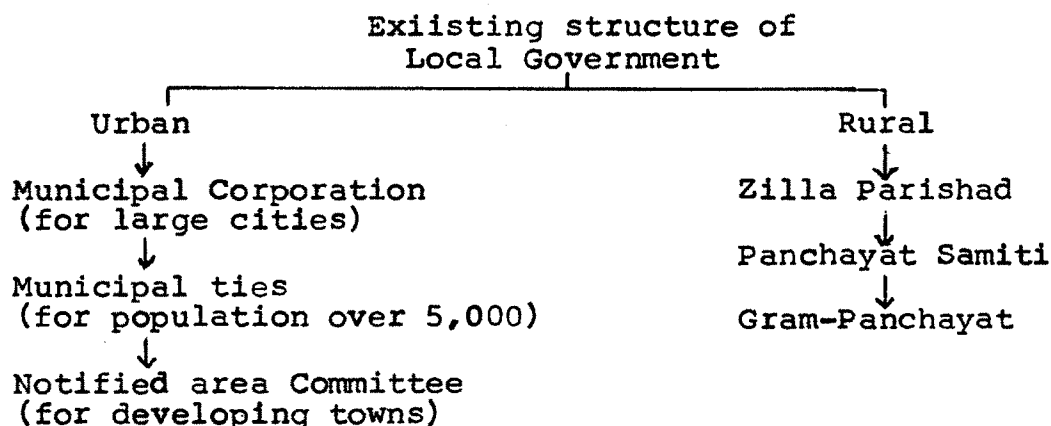
of assessment is the same because both the branches of public finance seek to achieve maximum social benefit.

In the world of today local government is an integral part of national government. Local government is created by national and state enactments and within a limited jurisdiction as provided by various statutes. Local government is that part of the government of a country which deals with those matters which concern the people living in a particular locality. The local governments jurisdiction is limited to a specific area and its functions relate to the provision of civil amenities to the population living with in its jurisdiction. It has no legislative power.

In India, local government is widely known as local self government. The terms local self government and local government are synonymous in general. Local self government may be said to involve the conception of territorial, non-sovereign community possessing the legal right and the necessary organisation to regulate its affairs. This term originated when the country was under British Administration. In fact, in the Indian Constitution, local government that is to say that the Constitution and powers of municipal corporation, improvement trusts, district boards and other local government or village administration, the term used is local government.



There are two types of local governments. One is at Urban level & the other is at Rural level.



Here, we are considering only rural local governments. There are three layers of local government. Zilla Parishad works at a top level and Gram-panchayat works at a bottom level. There is one Panchayat Samiti, which works between Zilla Parishad and Gram-panchayat.

2.3.1 (a) ZILLA PARISHAD :

There is a Zilla Parishad at district level. Zilla Parishad is an elected body of members. There are at least 40 to 60 members, and they are elected from ZP area.

METHOD OF ELECTION :

Election is taken with the recommendation of District Collector.

- (1) Members are elected for five years.
- (2) Members are elected on the basis of open and secret election.
- (3) There is one Zilla Parishad member for 15,000 population.

FUNCTIONS OF ZILLA PARISHAD :

Zilla Parishad works for a development of Z.P. area which controls and regulates over the whole working of Z.P.area. There are various samities which are appointed for the development of Zilla Parishad area.

Following committees are working under Zilla Parishad Act of Maharashtra.

- (a) Standing Committee
- (b) Finance Committee
- (c) Construction Committee
- (d) Agriculture Committee
- (e) Co-operation Committee
- (f) Education Committee
- (g) Health Committee etc.

2.3.2 (b) PANCHAYAT SAMITI

There is one Panchayat Samiti for each block and Panchayat Samiti is an agent between Zilla Parishad and Gram Panchayat. Panchayat Samiti works for Zilla Parishad.

In short, Panchayat Samiti is not an autonomous body of local government. But it is purely dependent upon of Zilla Parishad.

STRUCTURE OF PANCHAYAT SAMITI :

- (1) Panchayat Samiti is an elected body of members.
- (2) For every 15,000 population, there are two members of Panchayat Samiti and one is for Zilla Parishad.

- (3) Members are elected for five years.
- (4) At least one or two ladies are elected from block area.
- (5) At least one member is elected from the scheduled caste or tribe from block area.
- (6) At least one member is elected from co-operative societies from block area.
- (7) From elected members one is elected as a Chairman/ Sabhapati and other is elected as a Vice-chairman/ Upa-Sabhapati.
- (8) There is one block-development Officer who is appointed by the State government for the post of Secretary.

METHODS OF ELECTION :

Panchayat Samiti Election is taken at the recommendation of District Collector.

- (1) Election is taken for every five years.
- (2) Election is taken on the basis of democratic and open method.
- (3) In case of Election, all rights are reserved for Collector.

2.3.3 FUNCTIONS OF PANCHAYAT SAMITI :

Panchayat Samiti has been doing following works.

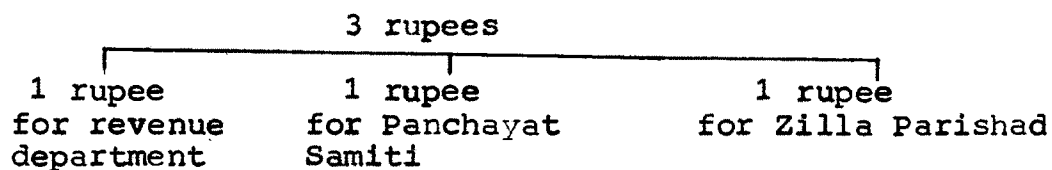
- (1) Panchayat Samiti makes rough estimate for the planning of Zilla Parishad.
- (2) Panchayat Samiti makes estimate on the basis of local natural and human resources.

- (3) Panchayat Samiti controls and regulates over the whole working of Zilla Parishad programmes and planning.
- (4) Panchayat Samiti works for Zilla Parishad.
- (5) Panchayat Samiti makes recommendation for block development works.
- (6) Under Act 261/(1) of Maharashtra Zilla Parishad, Panchayat Samiti can reinquire any work of Chairman, Vice-chairman and B.D.O.
- (7) Panchayat Samiti must send his meeting report to Zilla Parishad for every three months.
- (8) Panchayat Samiti can control and regulate over the working of B.D.O.
- (9) Panchayat Samiti can recommend to Zilla Parishad for increasing rate of land revenue grants.
- (10) Panchayat Samiti must work with the suggestions of Zilla Parishad.

2.3.4 SOURCES OF REVENUE OF PANCHAYAT SAMITI :

Sources of revenue of Panchayat Samiti has been very limited.

(a) Land revenue is an important source of revenue of Panchayat Samiti. The method of collecting land revenue is as follows. When there is only one rupee, land revenue at the same time, government collects three rupees in the form of land revenue and the collected amount will be distributed as follows :-



In short, Panchayat Samiti is entirely dependent upon Zilla Parishad and State government for the purpose of grants. Therefore, grants is the only one source of revenue of Panchayat Samiti.

2.3.5 HEADS OF EXPENDITURE :

Panchayat Samiti has been doing expenditure on following activities.

- (a) Construction of primary school buildings, staff quarters, village roads and small bridges.
- (b) Agriculture
- (c) Animal husbandry
- (d) Irrigation
- (e) Education
- (f) Health
- (g) Social Welfare
- (h) Miscellaneous

However, Panchayat Samiti is not autonomous in case of public expenditure because sources of revenue of Panchayat Samiti are very limited. Therefore, Panchayat Samiti has been purely depend upon Zilla Parishad grants and government grants.

The other point is that, whenever grants will be provided by the government, only after that Panchayat Samiti will spend that amount on various heads of expenditure.

In short, Panchayat Samiti's expenditure is limited by the government grants.

2.3.6 EFFECTS OF PANCHAYAT SAMITI EXPENDITURE :

There are favourable effects of Panchayat Samiti expenditure on various heads.

- (a) Construction
- (b) Agriculture
- (c) Education
- (d) Health
- (e) Social Welfare

It may be stated that, generally Panchayat Samiti's expenditure is not unproductive. Therefore, Panchayat Samiti's expenditure helps to increase the rate of economic growth of block area.

Following are the merits of Panchayat Samiti's expenditure.

- (1) Panchayat Samiti expenditure helps to remove vicious circle of poverty.
- (2) It helps to reduce unemployment in block area.
- (3) It helps to control animal diseases.
- (4) It helps to control various epidemics and various diseases.
- (5) It helps to reduce income and wealth inequality.
- (6) It helps to increase the rate of literacy.
- (7) It helps to solve the problem of communication and transport.

- (8) It helps to control and regulate various diseases on crops.

2.3.7 DETERMINANTS OF PANCHAYAT SAMITI EXPENDITURE

At the time of determining expenditure on various heads Panchayat Samiti takes into account following.

- (1) Last three years' expenditure.
- (2) Demands of the Gram-panchayats.
- (3) The grants provided by the government.

2.3.8 CONCLUSIONS :

- (1) Expenditure of Panchayat Samiti has been increasing.
- (2) Sources of revenue of Panchayat Samiti has been very limited.
- (3) Panchayat Samiti is not an autonomous in case of expenditure.
- (4) Grants are not provided by the government in time.
- (5) Panchayat Samiti has not any legislative powers.

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