



## CHAPTER - I

### I - THEORETICAL APPROACH

#### A) MEANING OF A PUBLIC FINANCE:

Satisfaction of wants is the ultimate aim of all economic activities. When these wants are satisfied on an individual level by adjusting personal income to expenditure it is known as private finance. But certain wants like police, protection, defence etc. have to be satisfied by collective provision. Satisfaction of these collective wants through the income and expenditure of the government bodies is known as public finance.

Public Finance discusses the financial operations of the fiscal or public treasury. The term fiscal is derived from an old Greek word which means basket<sup>1</sup>. It symbolizes the public purse.

Public Finance deals with the financial aspects of Central, State and Local Governments. The word 'Public' denotes that it is concerned with finances of public as an organised group. The word 'Finance' signifies money matters and their management. The term 'Public Finance' is defined by different economists in different ways.

According to Dalton, Public Finance lies on the border line between economics and politics and is concerned with the

income and expenditure of public authorities and their adjustment with each other<sup>2</sup>.

While defining public finance Bastable has expressed a slightly different view. He includes financial administration and control as well as expenditure and income of public authorities of the state and their mutual relationship in the subject matter of public finance.

Modern economists like Musgrave are of the opinion that public finance is not only restricted to the revenue expenditure process of the government but is also concerned with the effects of the State financial activities on the economy.

These views on the public finance make it clear that (i) public finance deals with the income and expenditure of public authorities, (ii) fiscal policies of the government and (iii) its impact on the economy.

#### B) SUBJECT MATTER OF THE PUBLIC FINANCE:

The subject matter of the public finance is divided into following parts.

##### i) Public Income:

This part includes the methods of raising public revenues. Taxation, Public debt and creation of additional currency are the important resources of raising public revenues.

##### ii) Public Expenditure:

This part refers to the expenses of the public authorities. It also studies the principles and effects of public expenditure.

iii) Public Debt:

Causes and methods of public borrowing as well as public debt management are studied in this part.

iv) Financial Administration:

It includes the preparation and sanctioning of the budget, auditing etc.

v) Fiscal Policy:

This part studies the use of public finance operations in bringing about economic stability and growth in the country. "The taxing and spending, borrowing and lending, buying and selling are the six instruments of fiscal policy<sup>3</sup>".

These five parts of public finance are not distinct and separate from each other but intimately related to one-other.

C) GROWING IMPORTANCE:

As public finance is concerned with the financial aspects of the state. There is a close relationship between increasing activities of the state and growing importance of public finance.

The history of the 'State' shows that initially the functions of the state were very limited, i.e. to maintain internal law and order, peace and protect the community from external aggression. There was also a fear that autocratic rulers will misuse the funds placed at their disposal. Hence the people tried to restrict the funds given to the Government<sup>4</sup>.

This restriction had its impact on the functions that the State could perform and it acted as a check on their expansion. So there was very limited importance to the public finance.

Due to the influence of laissez-faire policy the importance of public finance had been considerably neglected. According to Adam Smith duties of the Sovereign fall into three classes, (i) Defending the society from the violence and justice of other independent societies. (ii) Securing internal justice between citizens and (iii) erecting and maintaining those public institutions ..... and works .... those for facilitating the commerce of the society, and for promoting the instruction of the people<sup>5</sup>.

No doubt, Smith advocated public institutions. But classical economists were the strong supporters of the market mechanism. They insisted for the least intervention by the government in economic life of the people. Their idea of police state restricted the sphere of government activities and also restricted the significance of public finance.

In the 20th Century, and especially after the great depression the government activities began to expand. Lord Keynes strongly advocated the policy of state intervention to cure economic ills. Fiscal measures were assumed as the most effective weapon of recovery from depression. The classical idea of balanced budget was set aside. The concept of functional finance-fiscal measures by the way they work in economy - was developed; by A.P. Lerner. Musgrave insisted that to satisfy merit wants the Government must intervene in the private activity.

Wanger, Wedgeworth and Pigon expounded the 'socio-political theory' of public finance<sup>6</sup>. In this theory, they insisted to reduce the income inequalities through the fiscal policy. The object of this theory was to maximise the welfare of community through public expenditure. This concept of welfare state expanded the functions of the state. With the advent of economic planning the extent of government activities further widened. To fulfil the objectives of economic planning raising large amount of revenues and its proper disposal through government expenditure became necessary. Thus, the sphere of the government activities has expanded from mere maintenance of law and order, securing justice and defence from external aggression, to provision of all the merit wants, including educational and health facilities.

As state has started playing an important role in the economic life of the people public finance has assumed a significant place in the modern economy.

## II - FRAME WORK OF THE STUDY

### A) INTRODUCTION:

Municipality is the most important form of urban local-self government of India. Municipal government is getting added importance in recent years mainly because of tremendous growth of urban areas and complexity of their problems. Municipal government executes development plan on the basis of its annual budget mainly to take care of the well-being of the people under its jurisdiction. Sound finance is the vary basis of the municipality without a continuous, sufficient, regular flow of income and well-planned expenditure welfare of the citizens cannot be promoted. Municipal finance is the means through which growing needs of the expanding city are to be met satisfactorily. But inspite of its importance, municipal finance has remained a somewhat neglected aspect in the study of public finance. Most of the studies undertaken So far in public finance are concerned with the finances of central government or the state government. Taking into consideration the importance of a municipal finance and at the same time relative neglect in its study the present work has been undertaken.

### B) RESEARCH METHODOLOGY:

#### i) The Problem :

As noted above the central theme of the present study is an analysis of the financial aspects of a municipality. The

ever increasing financial operations of any municipality needs a close examination in order to find out whether the increase in income has been accompanied by an addition in local services and amenities. This is the main problem towards which the entire study is directed.

ii) The case:

Our intention here is to study the case of Gadhinglaj Municipality. Gadhinglaj is a small taluka place with a population of 18,535, according to 1981 census. It is situated in Kolhapur district of the Maharashtra State. The selection of this particular Municipality has been made mainly because of three reasons; First this municipality has a long history of about hundred years and therefore it is a well developed Municipal institution. Secondly, because of the various factors (as described later) it can be regarded as a representative case of the municipalities in semi-urban areas in our country. And the third reason is a practical one, that is, the research student resides in Gadhinglaj and hence can have easy access to the required data. Our study has been confined to the period 1979-80 to 1988-89. This is because the data pertaining to a period of ten years can be regarded as adequate for our purpose. Moreover the details, figures required for our analysis are available for this period only.

iii) Objectives:

The main objectives of study are -

- 1) To study the main sources of revenue and their mutual proportions.



- 2) To scrutinise overall pattern of expenditure of the Gadhinglaj Municipality with emphasis on provision of some important facilities like health and education.
- 3) To suggest, wherever necessary, remedies for a better financial operations.

iv) Data Collection:

The study relies heavily on the data collected from the Municipality office. As this information is based on office records, it is of secondary type. However, the necessary details have also been collected through personal talks with all the concerned authorities. Whenever necessary the work shown on office record is verified through personal visit. However, some of the facts were also elicited from the information among the responsible citizens.

v) Chapter Scheme:

The present study includes six chapters as given below:-

- 1) The first chapter is divided into two sections.

The first section deals with the theoretical approach towards the meaning, subject matter and growing importance of public finance. The second section deals with the frame-work of the study. It includes introduction and research methodology of the study.

- 2) The second chapter includes the structure and functions of Municipalities. It covers, existing pattern of local self-government in India, necessary

conditions to form a municipality, Classification of municipalities in Maharashtra and duties and functions of municipalities in Maharashtra.

- 3) The Chapter third deals with the historical review of local self government in India. It includes history of local self-government in India, history of municipalities in Maharashtra and brief history of Gadhinglaj Town Municipality.
- 4) The fourth chapter is divided into two sections. The first section deals with the meaning and importance of local finance, municipal finance, and revenue sources of municipalities in Maharashtra. The second section includes classification and analysis of revenue sources of Gadhinglaj Municipality.
- 5) The chapter fifth is also divided into two sections. The first section includes the nature of municipal expenditure and the second deals with the evaluation of expenditure side of Gadhinglaj Municipality.
- 6) The sixth chapter includes conclusions from the study and suggestions made by the researcher.

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R E F E R E N C E S  
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