

PART - ONE

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CHAPTER - I

SUBJECT ORIENTATION

- A) Finance and Finance Function
- B) Public Finance
- C) Role of State in Welfare Activity
- D) Need of Local-Self-Government for Social Welfare
- E) Need of the Study of Financing Local-Self-Governments.

CHAPTER - I
SUBJECT ORIENTATION

A) FINANCE AND FINANCE FUNCTION :

Finance is the life-blood of any economic system. In an organism composed of a myriad of separate enterprises, each working for its own ends but simultaneously making a contribution to the system as a whole, some force is necessary to bring about direction and co-ordination. Something must direct the flow of economic activity and facilitate smooth operation. Finance is the agent that produces this result.

Finance function is an area of financial decision making harmonising individual motives and enterprise-goals.

The developments during the last four decades have proved the finance function as foremost important managerial function. So Financial Management is an application of general managerial principles to the area of financial decision making.

In modern money-using economy, finance may be defined as the provision of money at the time it is wanted. But from broader point of view it includes financing decisions, investment decisions as well as dividend decisions. This view is concerned with private sectoral finance function. The term finance can also be explained in the context of public finance.

B) PUBLIC FINANCE :

'Money makes the mare go' is a very common saying. Everybody realizes the necessity of money in all he does. The strength of a nation is reflected in its budget. The extent of state activity and its efficiency are primarily dependent upon the length of its purse. Kautilya, the earliest of Indian economists, writing more than 2,000 years ago, said : " The beginning of every undertaking is finance."¹ Public finance is now regarded as a powerful instrument of social justice.

1. Shirras Findlay - Science of Public Finance, 1939, Vol. 1, P. 2.

In modern times, taxation has a dual purpose :
(a) to raise funds for the state, and (b) to achieve its social economic objectives. Such purposes of Public Finance have today assumed a very great importance. From this it can be said that the investigation into the nature and principles of state revenue and expenditure is called Public Finance. But in modern context it also includes financial administration and public debt-management.

In a developing economy like India the state must play a very active role in promoting economic development and social welfare. Democratic states must rely on indirect methods of control and regulation through fiscal and monetary policies. In modern democracies, to raise the standard of living (economic and social welfare) is the first concern of the state. Public Finance is of crucial importance in accelerating all types of infrastructural activities.

There is a strong swing towards socialism in the modern view of state activity. The statesman of today places no limitation on the authority of Government to interfere in the economic and social welfare activities. Leon Duguit says, in his Law in the Modern State ;
"Whatever is essential to the smooth running of society is a public service."

C) ROLE OF STATE IN WELFARE ACTIVITY :

State is a political organisation and its aim is promotion of human welfare. As such state must take notice of economic activities of its citizens. The economic aim - welfare of the people - is the more important aim and the political structure of the state must be so shaped as to assist this aim. Constitutional arrangements must be supplementary to it. This is how the politics must be subordinated to economics. Mahatma Gandhi had prescribed Local Government System (Punchayat Raj) for the dream of modern India.

Why the researcher has directed his attention towards the study of public finance ? The answer is that, in private enterprises for their survival and growth finance function becomes important due to competition and uncertainty of success in market conditions. On the other hand Government and Semi-Government bodies are not enterprises with profit motive but are functioning for general economic welfare of the society as a whole. Misutilization of public resources is a national waste.

Researcher has made an attempt to disclose the facts as far as possible with proper perspectives in the subject of Public Finance.

Another point is, modernisation of the system of financial administration in India has gathered considerable momentum since Independence. Decentralisation of responsibility and delegation of financial powers were the first major steps towards modernisation of financial administration of India. In this context study of public finance is the need of the time.

D) NEED OF THE LOCAL GOVERNMENT :
FOR SOCIAL WELFARE

Researcher has adopted micro-level approach to the subject of public finance. Justification for this is illustrated further in introductory form.

The components of public financial systems comprise the machinery of a system, system itself, process of revenues collection, custody of funds, disbursements and control of expenditure which are closely interrelated with one another.

Public finance reached advanced stage of development as early as 4th century B.C. This is evidenced by Kautilya's Arthashastra which is a treatise of public finance and its administration.¹

1. Shirras Findlay - Science of Public Finance. PP. 55-85.

Local Self-Government is an institution created by representatives of the people by election. It is the bottom at which all policies and plans of the Central Government (through State Government) are implemented. These plans are economic and social welfare measures. These welfare services could be provided by the various tiers in the Government. That is Zilla Parishad, Panchayat Samiti, Gram Panchayat, Municipality and Municipal Corporation etc. This pattern will be explained later on.

Local Self-Government is a system under which Government by the people is a reality. "Public Welfare services might as well be administered by the states through local authorities, with suitable grants-in-aid from centre. Local Authorities should be recognised as the principal welfare agencies in urban as well as rural areas. Local Authorities must be involved in the planning process of the states. Local Authorities being the grass-root Governments it would be appropriate to orient these to the tasks of administering the social welfare services directly instead of relying on a medley of voluntary organizations."² So the micro study of local bodies is essential for knowing the whole situation of grass-root level.

2. A Datta - Municipal Finance - Municipal Affairs Quarterly -
Oct. - Dec., 1972. PP. 36-37.

E) NEED OF THE STUDY OF FINANCES
FOR LOCAL-SELF-GOVERNMENTS :

At the Municipal level, (Urban Local-Self-Government) the financing of welfare services is done primarily from the internal revenues of the authorities concerned, unlike the states where most of the schemes are partly financed by the Centre.

Decentralisation Commission of 1907-08 commented how inadequate were the resources placed at the disposal of the local bodies.¹ Taxation Enquiry Committee (1925) also reported the fact that finances of local bodies were inadequate for the services they are required to perform.² Recently data published by the directorate of economics and statistics of the Government of Maharashtra in the Annual Economic Survey of Maharashtra, revealed the fact that local bodies are constrained in their developmental and social welfare activities by resources at their disposal and apparently are not able to undertake the developmental tasks set before them.³

1 & 2. Dev Raj - On Municipal Finance - Municipal Affairs
Quarterly - Oct. - Dec., 1971, P. 5.

3. Reporter - Weekly - Commerce dated 3/8/1985, P. 220.

From the quotations cited above it is clear that finances of local bodies all over the country were and are inadequate for the services which they had to perform. The same article³, in the magazine states the fact that smallness and inelasticity of local revenues and expenditure and difficulties involved in designing new forms of taxation. There is no separate list of revenues and expenditures relating to local bodies in the Constitution. Provincial autonomy did not bring about any noticeable improvement in the finances of local bodies. According to Local Finance Enquiry Committee of 1951, changes envisaged under the 1935 Act, were unfavourable to local authorities. It led to increasing dependence on grants-in-aid from the Government.

Today we see the burning problem of Centre-State financial relations. State local financial relation may be the result of Centre-State financial relations.

On this one can say that the grass-roots of democracy (Local Bodies) in India are undernourished. Researcher thinks that the health of the nation depends

upon the health of the local bodies at the level of which we see the success of plans for the welfare of the people. These financial problems are obstructive to the growth of democratic environment and social welfare of the citizens.

In these circumstances researcher has taken insight into the problem of finances of local bodies. In this project-work researcher has tried to explore the difficulties involved in and ways to enhance the financial resources of local bodies.

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