


CHAPTER 1



CHAPTER - ONE

Introduction and Research Methodology

Introduction

The constitution of India, sets forth (IV) in details the Political and governmental structure of the country. We have adopted a federal form of governance. There are two important layers of the government, that is central and state. The constitution envisages a three fold classification in the division of expenditure and responsibilities between the central and state governments, that is Union list, the state list and the concurrent list.

States have important functions and responsibilities in various economic and social sectors. To accomplish the function assigned to them, they have access to substantial revenues flows, including both taxes they collect themselves and shares in certain taxes collected by the central Government. Mobilisation, Sharing and utilisation of financial resources plays a very crucial role in the federal governments across the world and can give rise to difficult problems unless handled in a spirit of mutual understanding and accommodation.

A number of difficult issues and problems are evident regarding State finances in India. State Government has been facing a worsening budgetary squeeze; which has adversely affected their development expenditure. Rapid growth of current expenditure mainly on administrative service, servicing of debt, and Interest payments, pensions and miscellaneous general service have been major factors which are responsible for the squeeze States revenue receipts do not reflect commensurate growth on account of the State Government failure to mobilise the source of revenue to the optimum level. Similarly subsidies and

declining cost recovery rates for economic and social service provided by the state Governments have been responsible for the sluggish performance of state non tax revenues and has contributed to the budgetary, problems in a major way. Also the problems have emerged from the structure of centre state transfers and the incentives and distortions created there by.

Rising fiscal deficit has been a major macro economic problem in India in 1990s. Fiscal deficit growth has been noticed in the finances of the Centre as well as the State Governments in India. Combined Gross fiscal Deficit of both the Central and State Governments has risen from Rs. 53,580 crores in 1990-91 to Rs. 1,50,470 crores in 1999-2000 (BE). As a percentage of GDP the combined gross fiscal deficit was 10.0 percent of G. D. P. in 1990-91 and in 1999-2000 (BE) it stood at 7.5 percent. At the State Government level the Gross Fiscal Deficit of States increased from Rs. 18,787 crores in 1990-91 to Rs. 77,894 crores in 1999-2000 (BE). Rapid increase in public expenditure more so non-developmental expenditure at the State Government level has led to increased financial problems for the States. Total Expenditure of States in India increased from Rs. 91,242 crores in 1990-91 to Rs. 3,11,286 Crores by 1999-2000 (BE) of this, growth in Non developmental expenditure has been from Rs. 22,600 Crores in 1990-91 to Rs. 1,09,422 crores in 1999-2000 (BE) and this expenditure was 5.6 percent of GDP. In the recent few years revenue expenditure of States has risen due to implementation of the Fifth Pay Commission Scales for employees of government and other aided institutions of the State Government. It is against this background that the present dissertation makes an attempt to review the

Growth and Composition of the Public Expenditure of the Government of Maharashtra for the period 1990-2000.

Title of the Dissertation :

The present dissertation is entitled, "Growth and Composition of Public Expenditure in Maharashtra : 1990-2000"

Scope of the subject :

The study is basically related to the analysis of the growth and composition of the public expenditure of the State Government of Maharashtra. Wherever necessary All States' data is also be analysed. The study however pertains to the analysis of the public expenditure pattern in one State of India only.

Duration of Study

The study studies the pattern of public expenditure in Maharashtra for the period 1990-2000 for which comparable data is available.

Hypothesis of the Study

Rapid increase in public expenditure in Maharashtra has led to rise in the fiscal deficit of the State. Growth in revenue expenditure in the 1990s is the main reason for rise in total public expenditure and this has resulted in a situation wherein the State Government has entered into a financial crisis situation. In the overall context of budgetary policy making it therefore becomes imperative that expenditure, reform measures more so on the revenue account will have to be undertaken by the States Government.

Objective of the study

1) Study the growth trends in the public expenditure. In Maharashtra for the Period 1990-2000

2) Analyse the Composition of the Public expenditure of the Government of Maharashtra.

3) Study the Revenue expenditure trends and capital expenditure trends.

4) Suggest Ways and Means to Consolidate fiscal situation in Maharashtra.

Research Methodology

This library work based dissertation relies on Published secondary data Necessary secondary is data collected from the

- i) Budget documents Government of Maharashtra
- ii) Reserve Bank of India Bulletin and
- iii) Report on Currency and Finance published by Reserve Bank of India.
- iv) Special issue of "Public Finance" of center for monitoring Indian Economy, March 2002.

Necessary data collected from above sources is Tabulated and interpreted with following Statistical method

- 1) Addition, subtraction, multiplication, Division
- 2) Percentage
- 3) Ratio Analysis
- 4) Growth rates
- 5) Compound Growth rate.

In recent years correcting fiscal imbalance has become the crucial task of macro economic management. In India, A series of measures towards this end

have already been initiated and some more are contemplated by the Union Government as per the recommendation of the expert committees. One on tax reforms and the other which looked into the financial sector reforms. While there has been a lot of discussion and research studies in the area of Union Government finances. Reviews of State finances and fiscal reforms of the state level are important in the overall context of fiscal stabilisation policy.

It is against this background that the present study entitled "Growth and Composition of public Expenditure in Maharashtra 1990-2000" is undertaken.