CHAPTER-I

INTRODUCTION

1.1 Introduction:

"No system of federation can be successful unless both union and the states have at their disposal adequate financial resources to enable them to discharge their respective responsibilities under the constitution."

(Constitution of India)

Finance is an integral part for any institution to run its administration. Running of public administration is not an exception to this. Mahatma Gandhi in his works on Ram Rajya, emphasized on the reciprocal obligation of the ruler on the ruled. In Ram Rajya he stressed upon the need for generation of revenue by the ruler and the same shall be appropriated for welfare of the citizens of the country. In the same way, Prof. A.C. Pigou in his book 'Welfare Economics' advocated the need for levying of taxes as a source of public revenue for meeting public expenditure. Similarly Kautillya's Arthasastra also stated the need of public resource for meeting the need of public welfare.
The Chairman of the Drafting committee of the constituent Assembly elaborated the provision of our constitution in Article 180, 181 for levying taxes by the states as a source of public revenue.

Our constitution empowered both central & state Government to mobilize public resources for the purpose of meeting social welfare. Once a Government ventures into raising public revenue and that is to say the public receipt, it must be duly endorsed by the legislative body. Similarly the amount of primary resources spent by the Government must be duly authorized by legislative body. The estimated sources of public receipts and public expenditure are prepared in a budgetary form and placed before “the legislative body” for the approval. This becomes fundamental element of Government budgetary and accounting system.

The receipts and expenditures of a state Government can be classified as revenue receipts and revenue expenditures and capital receipts and capital expenditures. The revenue receipts comprise of all tax and non tax receipts. The tax revenue includes both the direct and indirect tax. Non tax revenue includes interest receipts, profits of state enterprise, Grant received from Central Government etc. All loans received, recovery of
loans issued and amount received due to interstate settlement are included into Capital receipts.

Revenue expenditures are incurred to maintain services, fixed facilities and assets. Capital expenditures include repayment of loan, issue of loan and disbursement for creation of assets.

The Government expenditures can also be categorized as plan and non-plan expenditures. The plan expenditures are related to five years plan of the Government. All expenditures other than plan expenditures are known as non-plan expenditures. Besides that there is another classification of the Government expenditures i.e development and non development expenditures. As per the Reserve Bank of India – "development expenditure leads to creation of human capital and general economic assets". Usually, development expenditures include expenditures related to social and economic services. Non development expenditures comprise of expenditures under General Services.

General services include the Government spending on organization of the state, general administration, servicing of debt and fiscal services. Social services include the activities related to education,
sports, health, family welfare, welfare of S.C, S.T, O.B.C, water, sanitation, social welfare, nutrition information & broadcasting, and labour employment etc. All other expenditures related to the agriculture and allied activities, rural development, special areas programmes, irrigation and flood control, energy, industry, minerals, transport and other economic activities come under Economic Services. The Government of Assam is to discharge its duty by realizing and spending the resources collected from various sources. During the year 2005-06 to 2007-08, the Government of Assam received revenue amounting to Rs. 12045.39 crores, Rs. 16017.55 crores and Rs. 16988.22 crores respectively. In the same period, the state Government incurred Rs. 10536.31 crores, Rs. 16647.65 crores and Rs. 16090.81 crores respectively.

It is seen that during 2005-06 there was a revenue surplus of Rs. 1509.08 crores but in the next two financial years and in 2008-09 there have been continuous revenue deficit of the Government of Assam.

Under the above situation, our endeavour is to study the nature of revenue surplus and deficit of the Government of Assam. The Government has to spend a huge amount of money for the socio-economic development
of the state. The expenditure on general administration has been increasing over the years due to the social uprising and insurgency problems. In this situation, the state Government can’t spend adequate resources for the economic development of the state. The revenue earning capacity of the Government of Assam remains static. Therefore, the present financial condition of the state requires an innovative study for modification of revenue management policy of the Government.

The need for proper fiscal resource management on the part of the ruler, king, royal authorities has been emphasized in Manusanghita as well as kautilya’s Arthasasthra. From the ancient publication that the subject and the citizen assume a moral responsibility and financial responsibility to contribute to the exchequer of the royal authority which in turn empowers the rulers to provide securities and protection to the ruled. It is further revealed that the revenue administration shall make a judicious appropriation of fiscal resource for the common good for the subjects. The same analogy is equally true and applicable in the present day contest to see what is the total fiscal revenue generated by the state administration and various heads under which these resources are utilized for achieving
the common goal for the state for its entire citizen. Hence the present study assumes the great significance in conducting research survey to evaluate the matter with special reference to the state of Assam.

1.2 Some Accounting Terms with Different Meanings of the Government Account:

It may be desirable to familiarize oneself with some terms used quite often in accounting but with different meanings and nuance attached to them in Government as distinct from the commercial world. These terms are briefly discussed below.

1.2.1 Consolidated Fund:

All revenues received by the Government by way of taxes like Income Tax, Central Excise, Customs and other receipts flowing to the Government in connection with the conduct of Government business i.e. Non-Tax Revenues are credited into the Consolidated Fund constituted under Article 266 (1) of the Constitution of India. Similarly, all loans raised by the Government by issue of public notifications, treasury bills (internal debt) and loans obtained from foreign governments and international
institutions (external debt) are credited into this fund. All expenditure of
the government is incurred from this fund and no amount can be withdrawn
from the fund without authorization from the Parliament.

1.2.2 Contingency Fund:

The Contingency Fund records the transactions connected with
Contingency Fund set by the Government under Article 267(2) of the
Constitution of India. Advances from the fund are made for the purposes of
meeting unforeseen expenditure which are resumed to the fund to the full
extent as soon as Parliament authorizes additional expenditure. Thus, this
fund acts more or less like an imprest account of Government of India and
is held on behalf of President by the Secretary to the Government of India,
Ministry of Finance, Department of Economic Affairs.

1.2.3 Public Account:

In the Public Account constituted under Article 266 (2) of the
Constitution, the transactions relate to debt other than those included in the
Consolidated Fund of India. The transactions under Debt, Deposits and
Advances in this part are those in respect of which Government incurs a
liability to repay the money received or has a claim to recover the amounts paid. The transactions relating to Remittance and Suspense shall embrace all adjusting heads. The initial debits or credits to these heads will be cleared eventually by corresponding receipts or payments. The receipts under Public Account do not constitute normal receipts of Government. Parliamentary authorization for payments from the Public Account is therefore not required.

1.2.4 Charge Expenditure:

In India's democratic system, the government cannot spend from the Consolidated Fund unless the expenditure is voted in the lower house of Parliament or State Assemblies. However according to Article 112 (3) and Article 202 (3) of the Constitution of India, the following expenditure does not require a vote and is charged to the Consolidated Fund. They include salary, allowances and pension for the President as well as Governors of States, Speaker and Deputy Speaker of the House of People, the Comptroller General of India and Judges of the Supreme and High Courts. They also include interest and other debt related charges of the
Government and any sums required to satisfy any court judgment pertaining to the Government.

1.2.5 Voted Expenditure:

The government cannot spend single of money from the Consolidated Fund unless the expenditure is voted in the lower house of Parliament or State Assemblies. These expenditures are called voted expenditure except those under charge expenditure.

1.2.6 Revenue Expenditure:

All expenditure for maintenance of existing services, assets and facilities are entered as expenditure on Revenue Section. Revenue Expenditure is expenditure concerned with the costs for running on day-to-day activities of the organization. When department make Revenue Expenditure, the expenses provide immediate benefits, rather than long term ones.
1.2.7 Capital Expenditure:

The expenditures incurred for creation of assets, repayment of loan and the issues of loan are recorded under Capital Accounts. A Capital Expenditure is an outlay of cash to acquire or upgrade assets. The common examples of a capital expenditure include the purchase of new buildings, Machineries or the cost of significant upgrades to an existing facility.

1.2.8 Plan Expenditure:

The government expenditure can be divided as Plan and Non-Plan Expenditure. The system of planned development of the country has made it necessary to distinguish between expenditure incurred under five year plan and the other expenditure which is called Non-Plan Expenditure. The Plan Expenditure may not necessarily be Capital Expenditure in the sense of creating physical assets. Malaria Eradication Programme, Adult Education Programme, Child Care Nutrition Programme and Education Programme are a few such examples. These expenses lead to national wealth. Any improvement in health, skills and abilities of citizens is an addition to national wealth.
1.2.9 Non-Plan Expenditure:

The expenditure incurred for five years plan comes under the Plan Expenditure and all expenditures other than the Plan Expenditure enter under Non-Plan Expenditure. Non-Plan Expenditure which is in the nature of continuations of earlier schemes, like primary, middle and higher education is developmental expenditure though it is not called Plan Expenditure because it involves only continuation of the old schemes.

1.2.10 Development Expenditure:

The government classified its entire department into two broad groups developmental and non-developmental. The government considered the Economic Services and Social Services under Development Expenditure. These expenditures build national wealth and add better services for the society.

1.2.11 Non-Developmental Expenditure:

The General Services is considered as Non-Developmental Expenditure in the government account because it adds nothing in the economy and it diverted fiscal resources into unproductive channels.
1.3 Review of Literature:

The review of the literature is based on various articles published in leading journals, and in some available published books. While reviewing, an effort has been made in understanding some of the important works having a great significance and relevance to research study.

There are innumerable books on the Government Financing and Expenditure written by different authors. The following are some of the works done earlier by various authors.

Hicks. V.K (1955) "Public Finance" ,James Nisbet &Co. Cambridge, analyzed the classification of Government budget and its necessity. He only discussed the budget proposal of the Government.

Chatterji Amiya, in the book named “The Central Finance of State Plans in the Indian Federation.” (1971) has explained that central Government plays a very vital and important role in funding the state plans and future development in general and Indian federation in particular. He has specifically explained the central Government in grant-in-aid for the Indian federation of the state.
Pigou. A.C in his book named "The Range of Government Expenditure" (1973) made description of the different expenditure made by Government of India in plan and non-plan expenditure and their comparison in the different years of each department.

Dae J.F. and Friedlaender, in their combined paper entitled "Government Finance & Economics of the Public Sector" (1973), brought on the light the government financial management and system of financing towards the different sector of the government. It is described that the Government is the ruler, decision maker, controller of the public sector undertaking.

Bhargava R. N. in his book entitled, "The Theory and Working of Union Finance in India." (1977) has highlighted the theoretical concept and union finance for the growth and development of the nation. In the paper he has described how the centre is raising fund and allocating fund in the budget of the centre as well as the state.

William L. Clayton, in his book "Public Finance" (1985), has made a detailed study of public revenue of Government as tax and non tax revenue collection and public expenditure of Government for the boosting
of the economy. He has also observed the linkage of public expenditure with development.


Similarly, M.P. Gupta (1999), also described the classification of the Government accounts and budgetary system of the state and union Government in his book, "Government Accounting".

Dhar.P.K (1999), "The Economy of Assam" Kalyani Publisher, stated the problems and opportunities of Assam for economic upgradation.


In the Ph.D. dissertation (2004) of Prasanta Sarma entitling the "Impact of the state Government budget on socio-economic development of Assam", the comparison of budgeted target and actual achievement of the state Government has been made to interpret the implementation of budget and its affect on economic development.

Yadav N. & Bhardwaj R.N., in the book "Indian Economic Development" (2006), exposes some of the key issues facing the Indian
Economy and critically assesses the role of the government in various economic spheres. It also provides opportunities for knowing what economic resources are and how these resources are being utilized in different sectors. Key issue of rural development, various infrastructures, health service, education and socio-economic events are thoroughly discussed.

Singhania.V.K & Singhania Kapil in their book “Direct Taxes Law and practices”(2007) described the ways of tax collection from different heads of income .They highlighted of the direct tax and indirect tax collection by the Government from various heads and also explained of the tax planning of the Government, because tax is the major source of the Government funds.

Sikidar, S. & Sharma, P. in their articles entitled “The budgetary support of the state government in conservation of biodiversity in Assam” (2010), analyzed the problem faced by the conservation of forestry & wild life and soil & water conservation of Assam and scrutinized the revenue allocation and its utilization towards them. It is also expected in this article
that the prudent budgetary support of the government may contribute the conserving biodiversity and sustainable development.

Basu Anuradha in her books—“Public Expenditure, Decision Making” (Sage publication India Pvt. Ltd), revealed the policies of the Governments regarding different public requirements. She also suggested how an ideal Government should participate to decide for public expenditure.

1.4 Gap in Existing Literature:

Though the aforesaid publications make explanation on different aspects of national economy and Government financial discipline, no discussion has been made till today on the revenue receipts and expenditures of the Government of Assam for suggesting against burgeoning revenue crunch of the Government. The present research study undertaken is an attempt to fill up the gap and it is expected that the study will definitely contribute to the creation of a new state of knowledge.
1.5 Significance of the Study:

The government is the custodian of the public resources and at the same time, it is cast upon the duty to act as a regulator and promoter of various facts of the economic development of the state. The tax revenue contributes to the fiscal resource of the state as a prominent state holder and obviously they earn a legitimate right to act as a watch dog upon the funding of the Governments.

The various developmental programmes financed out of public resource may be considered for a research investigation to focus on the appropriateness or otherwise of the fiscal resources. The state Government has been forming fiscal resources out of tax source, Non-Tax source, Grand in Aids, Developmental assistance from multilateral lending agencies, international lending agencies, in order to promote infrastructure creation, assets acquisition, assets creation, investment avidness of the state.

The study of revenue receipts, revenue expenditures, capital assets, capital expenditures, forms a total comprehensive examination of the fiscal resource management of the Government. Considering the pastiness of the subject the present researcher in the study has concentrated to undertake a
research enquiry relating to revenue receipts and revenue expenditures incurred by the Government of Assam during the study period 1999-2000 to 2008-09. Along with these how far the resource allocation was appropriate, how much could it contribute to the meaningful achievement and development target have been focused in this study.

1.6 Objectives of the Study:

The study on 'Revenue Receipts and Expenditures of the Government of Assam (1999-2000 to 2008-09)' has been undertaken with the following objectives.

1) To examine the pattern of revenue receipts with different sources.

2) To study the revenue expenditures on different head of accounts of social services and economic services.

3) To measure efficiency of the Government departments on revenue collection and disbursement.

4) To study the utilization of budgetary grant for revenue expenditure of social and economic services.
1.7 Hypothesis:

In order to undertake research investigation on the objectives stated above, the following hypotheses have been framed.

(1) The revenues have not been raised adequately to meet the increasing Government expenditures

Vis-à-Vis

The revenues have been raised adequately to meet the increasing Government expenditures

(2) Revenues have not been collected and utilized as per the budget target

Vis-a-Vis

Revenues have been collected and utilized as per the budget target

(3) The cost of collecting revenue has not increased with the increase in revenue collections

Vis-à-Vis

The cost of collecting revenue has increased with the increase in revenue collections
(4) The increasing rate of developmental expenditures is not lesser than the increasing rate of non development expenditures

Vis-à-vis

The increasing rate of developmental expenditures is lesser than the increasing rate of non development expenditures

1.8 Problems to be Investigated:

The researcher shall investigate the following problems during the course of the study.

1) Problems of the imprudent allocation of budgetary grants in different activities

2) Problems related to inadequate collection of revenue

3) Problems related to under utilization of revenue in different activities

4) Problems related to expansion of non-development expenditure

5) Problems related to management of revenue expenditure and it’s affect on development of the state
1.9 Research Methodology:

The revenue receipt and expenditure with budget targets have been compared to measure the efficiency of the Government departments on collection and utilizing revenues. The researcher has also evaluated the economy of the state Government in collecting revenue.

1.9.1 Source of Data:

The study is based on both the primary and secondary data. Primary information were collected to study the problems related to the government expenditures and revenue collection.

1.9.2 Primary Data Collection:

The researcher prepared questionnaires to collect information from the Government officers. The researcher contacted the Heads of various departments of the Government of Assam.

1.9.3 Universe of Studies:

The universe of the study comprises of all 71 numbers of departments of the Government of Assam (As per the information received from the Appropriation Accounts of the Government of Assam)
1.9.4 Method of Sampling:

The researcher selected randomly 17 departments of the state Government by applying random table. The departments selected for the study are as follow.

1. Higher and Technical Education

2. Secondary and Elementary Education

3. Forestry and Wild life

4. P.W.D

5. Irrigation

6. Agriculture

7. Medical and public health

8. Cottage industry

9. Industries

10. Fisheries

11. Tourism
12. Flood Control

13. Power

14. Water Supply and Sanitation

15. Soil and water conservation

16. Labour and Employment and

17. Rural Development

The researcher contacted the Secretary/Commissioner of the aforesaid select departments. Besides that the heads of the Revenue and Finance Departments were also contacted to know the problems related to revenue collection.

1.9.5 Sampling Frame:

The list of the state Government’s departments available in Appropriation Accounts of the Government of Assam was undertaken as sampling frame.
1.9.6 Sources of the Secondary Data:

The researcher collected secondary information from the following documents.

1. Annual Financial Statement of Government of Assam
2. Demand for Grant of Government of Assam
3. Finance Accounts of Government of Assam
4. Appropriation Accounts of Government of Assam
5. Reports of the Comptroller & Auditor General of India
6. Reports of the Estimate Committee
7. Reports of the Public Accounts Committee
8. Statistical Hand Book of Assam
9. Economic Survey of Assam
10. Economic survey of India

1.10 Periodicity of the study:

The study covers ten years period i.e. from 1999-2000 to 2008-09.

1.11 Limitations of the Study:

The research work has following limitations.