Chapter 1

INTRODUCTION

State financial system being a part of the economic system is a functional system concerned with the adaptive problems of the society that is providing facilities to satisfy varied needs of the society to change the atmosphere in favourable direction and to adjust to its rigid realities to survive, grow and achieve advancement. It is a function shared with private sector of the economy having identical economic process in their activities and economic principles used in corporate sector are also applied for management of state finance. Yet, voluntary exchange mechanism is used in private sector whereas public choice as an outcome of active interaction of politicians, bureaucrats and society is used in public sector to translate peoples preferences and cost of producing into economic provisions. Private sector equation of efficient supply by voluntary exchange mechanism cannot be solely relied for social objectives. It does not provide things necessary for life to those who do not have requisite factors of production, a situation considered undesirable by society. Motives of profits involved in private sector may not take into account the third party effects of its activities and it may not function efficiently when economic preferences are not revealed clearly.

Management of the state finances has to impart efficiency to government activities comparable to corporate sector in production of facilities to be provided to the society in consideration of social benefits. Consequently the scientist, bureaucrat or the politician is not considered as seller of services in economic market in terms of demand and supply forces but as provider of services to have desired effects on the society. It becomes an act of self-consumptions for society wherein exchanges occur with other functional systems of the society. It has certain expectations of counter contribution on fair basis that is in best manner possible for the system to contribute to other system. By such mutual contributions various systems of the society could gain in strength to perform their functions. For greater part it depends on value that is standard culturally cathected and used by members
of the society to judge and compare things as more meritorious, desirable or important for the society. Most of the financial activities of the state are of this nature, difficult to quantify for numerical measurement.

Every society has certain values, which influences the activities of people and could become part of ideologies, which could fuel the advancement of the society. It could not be measured empirically but it could influence the variables used in economics affecting outcomes of the economic activity. Therefore state financial management has to take into account financial principles for efficiency and in addition it requires to take into account social benefits, which necessitates consideration of particular society, it has to care and serve. Therefore management of state finance need to include measures to face challenges and to avail opportunities not only of economic nature but also of social, political and cultural nature so that it could best address the varied present and future needs of the society.

Most of the present financial management models involve economic principles to predict the optimality of inputs and outputs on the basis of simplified but strict presumptions about different variables and its behaviour in desired manner, which may not exist in any actual society. No doubt efforts could be made to mould conditions to bring it closer to the presumed ideal conditions but it could also involve issues of changing socio-cultural as well as political conditions. Such models are useful to understand the things in and around government but could not lay down calculated steps to be followed by every state, which could be required to face peculiar environmental forces. All available models exhibit dominant economic principles of utilitarian calculus, which has concerns for disadvantaged but lack in objective effectivity while dealing with actual conditions.

Failure of the government to follow economic principles as laid down in various models could give rise to expanded state activities, absorbing resources of the society. In the largeness of the activities it could become difficult to locate inefficiencies, excessive administrative charges, leakages and wastages, which could remain hidden in the working of the entire public sector. Nothing worthwhile could be gained for the society in return for such
burden imposed on it due to unwanted expenses and wastages of resources including human resources. Instead of creating impact to improve conditions in appreciable manner it could risk long-term benefits and growth. It could entangle people in socio-economic obligations losing its individual and community initiative to achieve economic success on which state financial system could crucially depends.

Entrenched government activities could offer many chances for opportunistic behaviour, corruption, dispensing and exchanging of favours, greed and intellectual dishonesty that hurts the economy and society in several ways causing greatest hardship to the disadvantaged people instead of offering them the required safety nets. Dolling out subsidies and populist programmes to maintain popular support to the ruling power could have the unintended results of creating weaker citizens with dependency syndrome and inertia. It could also hold back the ability of the society to exercise correct options and choices further harming the economy and the society. Economy and the society could be found denied benefits of contributions from large number of people with their cultural peculiarities of skill of doing the things in simple and cheaper manner, knowledge of existence of local resources along with its local uses and of motivation to value community purposes and morals. In such prolonged situation state resources could go on depleting and society could not have accumulation of resources and capacity to offer contribution of taxes to sustain state apparatus and its activities.

Yet there could be found inherent emphasis of government to do everything, but for want of resources and to consider its every act as righteous avoiding value choice pushing every criticism under the rag in a manner to refuse change for improvement. Such attitude tend to permeate through political system into power structure of governance which could use and mend government administrative framework subverting major institutions of the society including institution of the state. Society which has entered into political agreement to constitute itself into state to control fierce competition amongst people to gain scarce valuable things and power by establishing government organisation to usher in cooperation, coordination and integration could find to deliver contrary results. This could take a turn for
extreme prompting fierce conflicts for political power itself where government organisation could be put to use to serve pretty, narrow and personal interest. In the process society could be found to have lost social and political stamina to exercise control over government to restrain its wrong doings infavour of discharge of responsibility to the society. Government could be found heading towards bankruptcy and state towards dissolution. Status of state financial management could be the reflection of such on going socio political interactions as well as the means and mechanism to generate desired socio political conditions beside economic prosperity.

Understanding the status of management of state finances is important to consider introduction of change for improvement. It calls for detailed understanding of the institutional, structural and organisational components for its functional contribution, effects on each other and on actual outcomes. In such context even if consideration of all financial activities as a whole becomes important because each of the activity could not be neglected for its possible impact to create conditions favourable for securing proper alignment of all activities and common orientation of different activities. The fact that basic frame work of different government activities remains the same and every action, activity and functioning of various department has financial implications in consumption of revenue provides the clue that detailed analysis of any major activity of the government could become useful to understand its basic constraints. It offers many advantages of proportionate manageable smaller arena so that basics involved in larger all encompassing model could be understood in details for its intricacies. It helps to focus attention on specific peculiarities, which could be found impacting on the activities of government that is interrelationship and interactions of various components among themselves and outside environment. Land revenue management system of the state has the relevant dimensions to touch upon various aspects of the management of the state financial system. Its analysis in greater details could be of certain help to gain deeper insight into various factors that could go in the making of effective management for state finances.
REVIEW OF LITERATURE

The foregoing discussion explained in brief the importance and different nature of Management of State Finances. It may be mentioned that the system evolved along with the institution of state. Since it is dynamic the process (of change) may continue to adapt to societal needs in future. This necessitates its objective analysis from time to time. For this purpose, review of literature is necessary, as it would help in understanding trends in the development of state financial system and provide clues for improvement.

Ensuing era of knowledge world has enhanced the importance of management of the state finance. The growing concern for it has led to number of studies, which are increasing in number with each passing day. It becomes practically impossible to consider every study in present attempt because of the limitations of time and scope of the present study. Therefore what is considered important and relevant for the study has been briefly reviewed. Principles expounded by Adam Smith (1776) in analysing various types of public expenditure and means of financing it became the guiding principles for public finance. Cannons of taxation are famous and are considered in every important study. J. S. Mill (1848) has explored comparative effects of different taxes. Pigou (1928) has discussed the ways government may influence the aggregate income by fiscal measures. Keynes (1936) advocated the measures to be adopted by government during recession and boom phase. Taylor (1948) analysed problems of various taxes and importance of government expenditure for promotion of national product and employment. R.A.Musgrave (1959) assigned importance to public finance for distribution, allocation and stabilization of resources in economy. Charles Schultie has analysed the decision making for government expenditure. He concluded that it is not well organized to encourage economic and social change.

G. Becket (1964) has demonstrated the importance of expenditure on education in promoting development. Anshen (1965) has indicated imperfection and deficiency in quality of information and organization. He showed that often it becomes impossible to stress relationship of means and
ends, cost and results. Peter Lynn (1968) highlighted that minimizing human hardship is more important than fiscal orthodoxy. Wallace Oates has studied the fiscal federalism and indicated that in coming years importance of decentralized finance would be enhanced.

Work by Bennis (1973) demonstrated and predicted smaller, less hierarchical and more professional organization for efficiency. Krishna Bharadwaj (1982) pointed out that most of the problems could stem from colonial interests during pre-independent era that can not be accounted as deliberate choice exercised by state. Robert L. Higgri (1984) has shown that fund base has to grow proportionately with use of fund for sustainable growth.

Abhijit Datta (1984) has shown the unsatisfactory status of fiscal tiers below state level and little research in this direction. Robert A. Stallings (1986) indicated that research should provide usable knowledge presented as pragmatic steps. Ashok Mitra (1987) concluded that political conformity has caused severe misallocation of resources and lack of local initiatives that has cost economy heavily in terms of progressively aggravating income inequalities.

Peter Drucker (1990) pointed out that government activities are required for bringing change in the lives of the people and the society. It needs management because it did not have fixed functions. Present management practices pay little attention to the distinct characteristic of the non profit and its specific needs. Available material even has less focus on specific human and organizational realities. The challenge is to provide opportunities to the people for self-realization and to give community the common purpose. Himmat Patel (1992) highlighted that sound financial base is required to the local institutions. It needs some alternatives arrangement for strengthening the resource base of the society.

The subject of management of state finance has become very vast and diversified. There are volumes of literatures on each of the varied dimensions dealing with conceptual as well as applied aspect. It has mostly
followed the lexicon of corporate discourse but yet it has not imparted commercial logic for contribution to social goods without which there could be no motivation to achieve success in public activities. There could be found number of studies for fiscal rectitude, low inflation, reduction in expenditure, low tax rate, simpler tax system, reducing red tape, faster development, growth in employment. These are all about noble intent and good governance which could not provide motivation for success of public interest. The problem is not about the principles but is of no clearly defined steps to achieve social goods. Still there are no tangible steps about what government should do to contribute for strengthening of the society on which depends the financial strength of the state. It requires better understanding of the underline complexities that perpetuates socio-economic inequity in the state. The question for which solution is required is that what needs to be done to convert social sensibility of the state into tangible steps. Without further engagement raising and spending of more fund could be counter productive generating long term dependency amongst the poor. When the goal could be to elevate the poor people to higher level of economic and social standing. Activities of the government could in fact result in absorption of resources in the society. Levy of taxes have influence, which can limit the option of people about choice of food, shelter, health, education and employment that is everything that could have the effect on standard of living. The benefits of government activities are difficult to be traced for relief and benefits expected from it. Moreover studies could not provide appropriate answer to the need of every state because each state could have different socio-political condition, which need model appropriate to their conditions. Therefore the study is needed to device method, which could be implemented in practical manner in consideration of socio-political realities of the state. The present study is undertaken as an attempt in this direction.

The question that needs to be addressed is what could be done to convert sound financial and social principle in to tangible steps for building a sustainable future. The solution could lie in conceptual as well as specific step. Conceptual step to develop insight in underline complexities that perpetuate economic and social inequity that is to broaden the scope of social responsibility to more than provision of funds. It is to emphasise that
state has to be ready to support and take part like partner of communities in creating employment and economic opportunities at local level and grass root capacity amongst the locals for availing opportunities. Specific step could be by identification and promotion of projects across the state to evolve and deploy diverse strengths in management, technology and marketing to address long term causes of poverty by creating commercially viable activities. Assets, abilities and cultural traits of locals could be uniquely combined to bring upgraded technology, market access and management know how bit by bit, locality by locality to create training, education and other facilities across the state to generate income in the society for accumulation of resources in which government could share to enhance its financial resources.

Financial system of the state could not be a product devised deliberately to suit the socio-political conditions in the state. It could be conditioned by economic, social and political exigencies of the past, which could go on arresting the onward march in right direction. Land revenue system, which concerns land and associated resources, could be the expression of social, economic and political conditions and ideas about it. The system has long history therefore it offers the mechanism to venture improvement from within that is holistic measure to achieve long lasting success instead of considering problems and solutions in isolation. Therefore land revenue system is put to study for evaluation of its strength and weaknesses for possible improvement. Literature on land revenue system and its numerous aspects could be found in abundance difficult to be covered within the limitation of time and space in present study. Important studies are briefly reviewed as given below.

Duperron showed that ancient Indian states were not despotic and there existed codes obeyed by subjects as well as the rulers\textsuperscript{20}. However British rulers could not grasp it and followed what they thought about the situation at that time. There are number of proceedings about the process of British rule. It gives authentic and contemporay record of what was observed, interpreted and happened during those days\textsuperscript{21}. 

British mind was filled up with ideas and thinking prevalent in Europe greatly influenced by Roman empire. Western traditions made a great deal of shaping of concept about property in land. Most men of Europe would regard Indian conditions as common sense of looking at things Indian. This element of British thinking found their way in writing of historical accounts of that time. Locke had postulated that private ownership was the law of the nature. It found its way into India through immensely systemization of laws the germ of which could be found in writings of Sir William Blackstone’s and Bentham’s. To the Britishers such approach has practical importance in India. It also influenced formulation of laws by British in India.

Important contribution in understanding of British administration was made by writings of administrator of East India Company. Contribution from great authors in nineteenth century opened the doors for proper understanding of the Indian conditions. Large number of studies could be found dealing with understanding of the native systems and practices introduced by British rulers in India.

H.C. Irwin wrote about the Indian ways of land possession that is without recognising anything like property right. H.S. Maine compared the material available in different countries. He convincingly demonstrated the existence of ancient Indian customs and traditions having the force of law in ancient India. He has shown that British adopted the view of Lord of the Manor neglecting and replacing native law which was distinctly different than western law and which was widely practiced than generally thought to be. The emphasis was on actual practice than keeping a written law. His assumptions were based on the ancient writings of Manu and other sources of Sanskrit literature. A.C. Burnell translated the writings of Manu for better study.

B.H. Baden Powell wrote extensive account in big volumes. He expounded the various practices of different types found in different parts of India and even doubted it to treat as different nations. He indicated the weak existences of Muslim practices of religious nature and noted that mostly predominantly native practices were followed in different parts, which has
remarkable similarities. He found a report of 1796 describing the real natural tenures of the Benarous districts. He denoted zamindari as the latter development in land interest as a outcome of a dying and corrupt system of land management. He disproves the theory that all land had been owned by the rulers and tried to show that right out of original use was universal and conquest, grant or superior might claims were recognized land holdings. He brought together the facts regarding provincial and local forms of land holdings, rules and laws framed by Britishers. He lamented that native systems evolved to its climax could have been better than what Britishers introduced in India. It was misfortune that the native system which came down to British ruler was fragmented and corrupt. Kenelm and William has studied British law of property and its evolution. The tenure systems of European countries which shows its traces in the practices adopted by Britisher in India is studied by Lefevre. Importance of land in economic and taxation was made clear by Gide and Rist in their early studies. The writings of French travelers had made contribution in showing the effects that followed when British converted their political power into administrative control. British land revenue administration was studied by Ray. The history behind occupancy right of land was studied by Mookerjee. Evans studied the land using activity for Agriculture and demonstrated value of its produce.

Significant contribution was made in understanding the land systems of Medieval period of India by administrator Moreland. Land lordism prevalent during Hindu, Muslim and British period and measures adopted to protect peasant proprietorship was studied by Datta. Similar studies in tracing the agrarian unsettlement and origin of communal land ownership leading to Landlordism was done by Mukherjee. Landlordism in London and its effects were enumerated by Muirkhead. Sengupta in his lecture in Indian institute of Economics evaluated the effects of land system of Bengal. Sachin Sen studied the land economics of Bengal and expounded that life has a material basis which depends on land tenures because it forms the basis of production and gives energy and credit necessary for
undertaking productive activities related to land\textsuperscript{45}. Study to understand relation between conditions of land and life was done by Read\textsuperscript{46}.

The development of economic ideas and nature of property in land was studied by Whittaker\textsuperscript{47}. Important study about the land management of Mughals was done by Saran\textsuperscript{48}. Renne had evaluated the land booms and land tax administration for its effects\textsuperscript{49}. Charan Singh wrote about the effects of Tennures on economy and Society\textsuperscript{50}. The relation of land withdrawn from cultivation and urban uses was examined by analyzing data of urbanization by Clawson and others\textsuperscript{51}.

Number of studies was conducted to evaluate importance of land tenures in socio-economic advancement of the society. Land tenures and related problems of different countries were presented by different workers in international conference held at Madison\textsuperscript{52}. Land reforms carried out in India by different laws and acts was enumerated along with objectives of such reforms by the administrator Malaviya\textsuperscript{53}. The importance of land in individual and social context was studied by Davis\textsuperscript{54}. Taxation and exemption of land from taxation, resumption of leases of 100 and 199 years and related matters were dealt by inquiry commission\textsuperscript{55} in 1954.

The abolition of zamindari, jagir and other subtenures by legislation, and problems relating to land revenue, tenure, tenancy, fragmentation and unification in Bombay State from historical, legal and administrative aspects and question of unequal assessment was studies by Patel, Chief Officer, Taxation Inquiry Commission\textsuperscript{56}. Important contribution was also made by Thorner\textsuperscript{57}. The concept of property was expounded by Ely and Wehrwein\textsuperscript{58}. Past and present use of the land by critical survey of statistics of land use, land location, parcel identification and classification of Man's activities using land to grasp the importance of land in future was studied by Clawson and others\textsuperscript{59}.

In contrast to repetitive methods followed by many writers and in official studies for generations, the subject of agrarian process in India was made more clearer by addition of fresh descriptive data on local conditions,
leadership and commercial activities by Mukherjee\textsuperscript{60} and by Neale\textsuperscript{61}. Irfan Habib added much than the European sources of information to understand and clarify agrarian system and conditions during Mughal period\textsuperscript{62}.

More light was thrown upon the complex interrelations of social structure and land control by Sulekha Chandra Gupta\textsuperscript{63}. Ranjit Guha has shown the influences that worked to mould British Ideas as applied in India\textsuperscript{64}. Erykenbery contributed significantly in these methods of new dimension in organizing and analyzing data for easy understanding\textsuperscript{65}. Dharma Kumar also made contribution in such approach\textsuperscript{66}.

Research workers, policy makers and administrators had exchanged their views on problems in implementation of land reforms, which were needed in India for agricultural production and for new and different interest\textsuperscript{67}. Imtiaz Hussain carried out the work showing the results of British land policy on land holding and tenancy. It indicated the importance of utilitarian theory in British policies during first 30 to 50 years of British rule. Political consideration was of primary importance to the British and there was a insignificant role to pragmatic economics in British policies. This work was first among these type of analysis\textsuperscript{68}. Lance Brennan demonstrated that Rohilla dominance had destroyed existing land holding groups in Rohilkhand. Distuction of Rohilla power by British created a vaccum and in an attempt to fill the vaccum British encouraged pattern of landlord which created landlord tenant conflict\textsuperscript{69}.

After independence of India large number of land reforms were carried out in different parts of India. Reforms carried out in the Vidarbha region of Maharashtra was studied by Nanekar\textsuperscript{70}. The papers of prominent researchers in a symposium on Indian Land Tenure in Berkeley in 1966 had adopted new approaches and aspects to the question of social structure and controls in India, Neale concluded that land relation in India was confused by centuries of accretion in overlapping terminologies and western frame work of reference. Contrary to the western concept of "ownership" land in India has not been a possession largely insulated by law from the fluctuation of status. Land was not looked upon as land, therefore it has to be looked upon at what
people “hold” in relation to it, including cultural as well as economic “elements” in the holding.

Zamindars in a perceptive view, was a crucial intermediaries linking village to the empire. Embree Ainslie T. reviewed the influences of British Institutions particularly those of the eighteenth century and nineteenth century upon the landholdings in India. Tapan Raychaudhary analysed the operation of permanent settlement within one district of East Bengal. Thomas Metcalf analysed that the requirement for survival and success under the British affected role and status, aspirations of Talukdars caused due to the requirement for survival and success under the British. Urban development trends and its effects has been studied by Bhardwaj. Vashishta examined the administration of Marathas of Medieval period which exhibited keen financial outlook.

Studies in Tribal communities in different parts of the country about alienation of land was carried out by different workers throwing light on the problem of land restoration to tribals. The role of landlords in British India was analysed by Metcalf. The relation of landlords and peasant was studied by E. Whitcombe.

Changes in land ownership due to selling of land in rural areas was studied by Baldev Singh. Fischel studied the economic effects of urbanization. Andre Wink had evaluated the social and economic conditions after the fall of Mughal Empire in 18th century. It indicated the exhibition of balanced redistribution of the resources and continuity of political and administrative ideas, which refers back to the preceding centuries of Muslim domination.

Studies indicated above highlight the importance of land revenue system as significant determinant of cultural and economic systems of the society. It shows that land revenue system has many varied aspects indicating many possibilities that existed for improvement. However the consideration in these studies was found to be limited for particular
component and there could be found no comprehensive study of the contemporary system as effective mechanism to impart inherent strength to the society. No attempt could be found in evaluation of Maharashtra Land Revenue System and there could be found no consideration to it as remedy to improve management of the state finance from within. The present study is an attempt in this direction to explore the potential of the land revenue system as bearer of cultural traits which if allowed to groom in proper manner could transform the present state into throbbing society which could afford many opportunities to the people to gain in world emphasising knowledge and populism that is people are more important than any other resource. The next chapter describes research objectives and methodology.

References:

27. Kaye’s Sir John: The administration of East India Company: A History of Indian Progress: London: 1853 pp 128-129
32. Powell Baden B.H. : Land systems of British India: Oxford:1892,
The Indian Village Community: London: 1896;
Manual of Land Revenue Systems and Land Tenures of British India:
Calcutta 1882;
The Origin and Growth of Village Communities in India: London: 1896.
33. Bigby Edward Kenelm and William Montagu Harrison: An Introduction
to the History of the law of Real Property: Oxford University Press:
35. Charles Gide and Rist Charles: A History of Economic Doctrines :
London:1913.
36. Constable Archibald : Trans:Francois Berniers Travels in the Mughal
Empire: London:1914 pp.204-232.
38. Mookerjee Radharaman: Occupancy Right : Its History And Incidents:
40. Moreland W.H. : The Agrarian Systems of Moslem India :
Cambridge:1929.
41. Datta Dvijadas: Land Lordism in India : Bombay:1931
42. Mukherjee Radhakamal: Land Problems of India : Longmans, Green
Company Ltd.: 1933.
44. Sen Gupta Mare Chandra : Land System of Bengal : New India
Publishing Co. Ltd.:1936.
48. Saran P: The Provincial Government of the Mughals, 1526-1658:
Allahabad :1941
49. Renne Ronald: Land Economics: Principles Problems and Policies :
New York : 1947

52. Parsons Kenneth H; Penn Ronald J. and Raup Philip M.[Ed.] Land Tenure; Wisconsin: 1951: P.629-651.


The Land Problem of Reorganised Bombay State: Bombay: 1957


60. Mukherjee Milamani: Ryotwari system in Madras: 1792-1827: Calcutta: 1962


77. Metcalf Thomas: Landlords and British Raj: New Delhi: 1979