Chapter 3

THE CONCEPT AND PROBLEM IN MANAGEMENT OF STATE FINANCE

Management is a dynamic process, which is universal in nature, and hence covers within its scope all activities of organised nature. Management of finance basically deals with planning and utilization of finance. Like any profit organisation the need for management of finance in government has become more important because state and its government exist to fulfill the needs of collective life of the people in the society and there is growing demand for developmental activities.

State finance, commonly referred as public finance, deals with financial activities of government and its organs that is authorities of state. It comprises principles and technique in raising and spending of financial resources for the state. It uses objective analysis to describe actual existing condition and normative analysis is used to prescribe things as ought to be. For financial activities of the state affect people and the society in numerous ways either promoting or limiting chances and opportunities of people to secure advancement of life. However activities of government could get influenced by economic, political and socio-cultural aspects of the society mostly synthesised by many past centuries, which could not be controlled and moulded completely. Therefore management of state finance could not remain entirely a financial matter but becomes comprehensive measure to bring favourable change in government activities to create impact on social, cultural and political conditions of the society at needed points. In it productive utilization of resources by adopting sound activities calculated to accelerate up gradation of all resources including human resource, development with highest degree of welfare and contentment of all sections of society could play crucial role. Thus whether the revenue as well as expenditure is being objectively managed is basic question, which needs to be investigated and the present study, which focuses on Land Revenue Management is an attempt in this direction. For this purpose it is necessary to understand concept of management of state finance and related problems
to search appropriate model. The subject has become very vast with large volume of work on each of the varied dimensions, which ranges from specialised scientific theories to detailed descriptive analysis. To comprehend varied aspects in limited space it has been given consideration into important parts for easy treatment of the subject.

Concept

Public finance has long history of evolution and change as ideas and principles in disciplines of political economics, economics and public finance. Adam Smith (1776) described the activities of state as provider of public goods and services, which has highest degree of advantage for the people. It comprised activities like administration, justice, law and order, works and institutions of public nature. It could not be expected from private individual efforts for high expenses involved may not be recouped by profits. To meet such expenses he advocated maxims of taxation that taxes should not be inconvenient, arbitrary or uncertain to tax payer and that it should be proportional to income and economical to collect. This valuable insight and perspective about highest degree of public advantage with economic efficiency as well as equity remains a guide to good sense in the design of a state financial system\(^1\). Subsequently few more principles were added to the cannons of taxation that particular tax or system should not depend on few sources but on diversified sources capable of raising required amount of revenue for the state. Its economic effects should not prevent economy from growing at acceptable rate. It must not use valuable resources in administration and compliance. Mill (1848) studied effect of taxes and differentiated taxes into direct and indirect taxes on the basis of whether the tax is paid by the people on whom burden fell or not\(^2\). Today those based on receipt of income are termed as direct taxes and on expenditure are called as indirect taxes. Those based on wealth are variously called as wealth or property taxes. Edgeworth highlighted the importance of taxation for its incidence that is money burden\(^3\). Saligman emphasised that tax should be administratively workable otherwise its good intensions and harmony with economy could fail\(^4\).
Dalton (1922) extensively used mathematical and algebraic calculations to analyse maximisation of social advantages of government expenditure and taxation, which could not be derived from private activities. He also gave consideration to public debt and its effects. He explicitly defined public finance as concerned with income and expenditure of public authorities with adjustment of one to the other. Pigou (1928) followed a fundamental change from earlier practices and assigned more active role to public finance to influence aggregate economy by fiscal measurers. Keynes (1936) advocated the judicious use of deficit public spending during recession to stimulate growth of economy and creation of fiscal surplus during boom phase by more taxation or slowing down of expenditures to prevent inflation.

Taylor (1948) analysed various problems in terms of various types of taxes and importance of expenditure for promotion of national product and employment considering economic and political setting. He said that public finance deals with activities of government concerned with problems in processes of raising as well as spending of money by government. Musgrave emphasised that various problems involved in receipts and expenditure of government highlighted the importance of public finance. But economic policy evolved in operation of public budget particularly in relation to distribution, allocation and stabilisation of resources in economy is of basic importance in public finance. Lynn pointed out that economic principles have little to indicate timing, public psychology, political decisions and equity that become the very essence of democratic society. Relief operations, public works, increased employment, support to agricultural productivity are favoured for social benefits and not merely for economic gains or reasons but to relieve the human hardship rather than preserve fiscal orthodoxy. According to Buchanan "government considered as unit is the subject of study of public finance, more specifically economic activity of the government as unit". Institutional arrangement, structural organisation and behavioural patterns, which could affect out put of government and economic activity of the society could not be neglected.
Attempt has been made to demonstrate conditions necessary for optimal supply of public goods and processes that could undermine government efficiency. Financial structure of government could put limit on options, choices, strategies and capacities of government to face political resistance and to manage thousands of micro changes essential to achieve economic growth\textsuperscript{12}. It deals with efficiency and also consider the ability of an economic system to produce mix of goods and services that people wants. In its most general aspects it deals with potential and ability of the society to match its wants with its productive capacity with equity of economic chances that is things socially desirable\textsuperscript{13}. It has to consider the principle challenges of environment its significant variables and their relationship to take advantage of opportunities to maximise returns consistent with level of risk acceptable to the organisation. Considerable progress has been made in project cost benefit analysis to take into consideration externalities of benefits and costs as social benefit and costs. It allows discount rates to decide value of capital, which takes into account avoiding of crowding by private investment and also value of the resources in its best alternative satisfaction including consideration of private benefit forgone. For use of unutilised neglected or wasted natural resources, generation of benefits to backward communities and to generate high employment opportunities high discount rates are offered taking the input cost of raw material as zero\textsuperscript{14}.

Effort has been made to indicate that efficiency criteria could take care of social benefits as organisations very existence depends on its social usefulness and such value of the business firm get indicated by market price of the firm’s stock. Despite such efforts subjectivity still exists in quantifying social benefits and no ready measuring scale like stock prices could be available for evaluation of public sector activity\textsuperscript{15}. For efficiency purpose principles used in corporate finance are used in public finance. Theory of firms that is principles and assumptions in microeconomics which studies decisions of rational person about pricing and production and also models in macroeconomics that is forecasting overall economic situation of a state are used to predict the prior course of action to obtain the best results\textsuperscript{16}. Cash flow analysis, financial plan, assets and capital structure management are used to generate optimum cash flows as sound financial criteria. It permits
the identification of need for a decision as well as the character of the
decision that must be made. Social desirability indicated value placed by the
society on the organisation for achievement compared to the social goals. It
has important consideration in public sector and becomes the assumed
objectives for public financial management. It highlighted that efficiency
criteria alone is not sufficient for management of the public finance and in
addition it depends more on sensibility to social responsibility. Therefore
finance as a positive or quasi natural science with iron laws is not the
purpose of financial activity but its outcome is related to the goals of the
societies set by them. Such social value criteria could not be found as clearly
laid down principles as it could depends on culture to which it belongs which
varies from society to society.

Public Goods

Goods and services provided by government have public
characteristics. That it could be availed by number of persons without
significantly affecting its availability or cost of supply called as non rivally or
joint consumption. Similarly it is available to totality of population where it
cannot be denied by any individual called as non-excludability or non-
exclusion. These aspects have been emphasised variously by different
workers as most relevant feature for deciding government activities. Pure
public goods have all the characteristics of publicness and government
involvement could become necessary. Impure public goods provide direct
benefit to the user and external benefits are available to others and
government can enter to provide certain amount of external benefits for the
society. Goods which has the characteristics of pure private goods that is
complete exclusion and rivalness in consumption and government
intervention may be to protect the society against fraud, discrimination or
uncertainty in supply and for efficiency in pricing. But there are many goods
and services, which has attributes in parts across the spectrum from pure
public to pure private goods. It does not provide the criteria for prior
judgment. Positive approach should be on case by case basis considering
organisational and institutional arrangement for their effect on the success of
the activity.
Taxation

Public goods and services could be availed by people irrespective of amount paid or not paid and those who pay consider only benefits accruing to them. Therefore its cost or expenditure is required to be recouped by differing amount which people could pay in taxation as compulsory exaction without definite quid pro quo. The amount of tax is a formal incidence or money burden and effects of taxation including cost of compliance represent the effective incidence or real burden. Burden of taxation could get transferred from one to another through interaction of elasticity of demand and supply forces called as shifting of taxes. When such burden reduces the income it could prompt people to change their preferences for goods called as substitution effect but it could also induce people to work more to maintain level of income producing income effect. But nothing could be said in advance about which of the two effects will be pronounced and much depends on availability of resources and conditions prevailing in society.

Income, consumption and wealth in economic system are the three fundamental resources, which could be respectively taped for various types of direct, indirect and property taxation. Ideally absolute income or consumption as equivalents indicates taxable capacity that is maximum tax that might be collected from a given tax payer, economy or state. Where as taxes imposed by government indicates the tax efforts of the government. It could be calculated as ratio dividing total tax revenue by total personal income received in the state under personal income approach. To know about what could be yielded by taxation state has to judge its revenue capacity as well as tax efforts. For the purpose measurement of absolute taxable capacity and tax efforts is essential to judge under taxation or over taxation. However objective estimation could become almost impossible because incidence of taxes could be difficult to calculate considering its shifting phenomenon. Therefore most of the time issue has to be supplemented by judgment of known under taxation and laxity of efforts. It is important considering the fact that even though in theory government has absolute rights for taxation in practice it could be limited by effects on
Economy, people and administrative difficulties. More significantly, history of origin and development of the tax could have its own impact to be considered in proper perspective to decide about its proper role. In these respects, land tax offers many peculiarities and could be an important consideration in any discussion of taxation systems. It highlights the importance of particular tax to be considered for its effect though tax systems as a whole could be the important consideration to state to generate required financial resources with minimum of unwanted effect on economy and the society.

Economists have analysed effects of various types of direct, indirect and property taxes on stock, supply, and degree of utilisation of factors of production for willingness to work, save and invest. For tax efforts are principally concerned with tax effects on forthcoming of labour and capital for productive uses in which capital is similar to labour and labour could cover land and enterprise in it. Pair of taxes were compared for effect on cost of products in comparison to most preferred position i.e. equilibrium where marginal cost of production becomes equal to marginal cost of inputs. Certain assumptions are made like there is no deviation in social and economic cost, benefits, constant expenditure conditions, investment and consumption depends on disposable income, saving and on autonomous factors, demand reveals true preferences of the people and supply reflects the true cost of production.

Expenditure

Benefits from government expenditure activities are mostly spread over the population and there can be little notion about their initial impact for social costs and benefits. Benefits are mostly considered, as intangible and exact schedule could not be constructed for benefits flowing from government expenditure to the people. Expenditure comparisons are difficult, more complex and problem involved are less amenable to economic analysis. A favourite assumption is that benefits of government expenditure are distributed equally or in relation to income of the people. Rise in government expenditure results in direct addition to total spending and as a secondary result it has the effect of consequential spending by those who
received the benefits. Government expenditure may have a long run consequences in that people may prefer money income, which can be used as per the wishes, over such utilities like parks, garden or road which may be either taken or left. In subsidy expenditure there could be loss of efficiency due to absorption of more resources. But when the effect is to cheapen the goods to leisure more work will be encouraged. Expenditure on other goods and services actually reduces the share of private sector by the amount absorbed by the government. Large expenditure programmes, public works, roads, bridges and irrigation posses merit in direct addition of money as well as has indirect effects and can also limit involuntary unemployment. However lengthy planning, difficulties in quick execution, inefficiencies in organisation and narrow concentration may not lead to rapid expansion of the economy as a whole. In contrast to this variations could be manifold and useful particularly in large number of small schemes offering great flexibility and more wide spread effects. Exhaustive expenditure could improve productivity and growth particularly in long run. However no determining principles could be found like equal and even distribution of goods and services. Government expenditure if increases the wealth in society than personal income then it changes income distribution among individuals and also rate of returns of capital that could promote economic growth. Expenditure on education, health care programmes, hygiene and expenditure on social overheads has great effect on development as has been shown by researches in number of countries.

Budget

Government policies and decisions are translated through the instrument of budget, which formally list expenditures and revenues of a government. It is arrived through political interactions of citizens, legislatures, bureaucrats and public executives. Each has some check direct or indirect on the other. But rigid separation and absolute balance between different organs of government governance is almost impossible and personalities play crucial role in coming to a decision. Strategic behaviour of individuals cost of information cycle, budget procedure, lobbying, relationship among politicians and bureaucrats could affect the effectivity of budget. Imperfection in the
organisation and deficiencies in quality of information often get reflected in budget. Decisions about allocations of funds to meet public objectives are often ill judged, improvident or poorly timed, and it becomes difficult often impossible to build meaningful relationships of means and ends, cost and results. This led to occurrence of indeterminate areas between policy and administration leading to wasteful expenditure. Increased budget allocations can be demanded instead of improvement in quality, competitiveness and reduced costs. It is easier to incur government expenditure than to encourage necessary economic and social changes. Expenditure decision-making is often not well organised and reliance is placed on the rule of the thumb approach as the process of muddling through. The outline portrayed above offer some idea about general difficulties that could be observed to exist in budget.

Growth of Public Sector

Upward drift of government activities and expenditures has long been predicted by number of workers. With increasing wealth amount of public goods is likely to rise by simple rule of marginal optimisation. The relative price of the public good i.e. the tax on individual taxpayer can be expected to fall as the size of population sharing the good rises. The fall in price stimulates demand-increasing expenditure directed at such goods. The scope of government activities would increase as a natural result of long run growth, economic expansion and the continued demand for social progress. As income goes on increasing the relative percentage of outlay for subsistence becomes smaller and the percentage outlay for sundries becomes greater like recreation facilities, domestic programs and purchase of goods and services. Relative high wages in productive sector could get transported in non productive sector that is public sector because it is sheltered from the competition found in market economy. Peacock and Wiseman explained that large scale social disturbances like war results in new higher level of expected government activities pushing the expenditures and revenues to higher levels called displacement effect. Oates believed that there was general trend towards centralism because of relative importance of defense and social security which increased expenditures and
observed the reversal of trend has renewed emphasis on labour intensive local sector\textsuperscript{34}.

\textbf{Fiscal Decentralisation}

Each public activity could have a range of area where it could be effective. Public goods intended for the locality or which has wider geographic and population dimension with same cost in each local jurisdiction and distribution then function could best be administered at local level. It has the advantage to match the supply with preference, which could be well known to people who has to contribute to the program. Various tiers of government has more or less fixed territories and duplication of efforts, absence of efforts, interference or inaction and different capacities of unit in various tiers of government could produce inefficiency in public finance\textsuperscript{35-34}. Measures to achieve price stability and high level of employment can stimulate expenditure with difficulties of pinning down external benefits and it could prompt free rider behaviour. Such activities could be the function of central unit of government, which could also be entrusted to locals unit granting them management and by providing grants with imposition of certain conditions. But the doctrine of financial responsibility holds that a government should itself realise the funds it spends to put a check on wasteful expenditure\textsuperscript{36}.

\textbf{Competitive Model}

The competitive model is built on the principle that open competition with indefinitely elastic demand and supply produces equilibrium position. Where rate of substitution in consumption is equal to rate of substitution in production. It gives certain result that all participants in the transaction could maximise their benefits. Consumer has the satisfaction, which could overweight price of goods and producer has revenue from sell which equals marginal cost of production. It has number of assumptions like single ownership firm, decision of a rational person, complete and consistent system of preferences with perfect information about operations, diversity of inputs, outputs, variable costs and behaviour of all variable in desirable
manner. But in practice it could mean to optimise under certain constrains because of imperfection in commodity or factor market and success may depend on alternatives tried for number of combinations of inputs. There may be difficulties due to multiple product to allocate costs. One could predict that an industry composed of small numbers of firms with declining unit cost could gain the advantage of internal economies of scale. In large scale organisation there could be no communication between vast majority of shareholders requiring them to accept candidates proposed by management and firm may not bother for cost reduction when there is secured demand even at higher price.

Despite little concrete evidence to support the theory of firms efficient functioning of firms could be a observed fact. It is common for top management to be small group and act in dual capacity of salaried employees and "trustees" of the investors fund. Wherein non-salary component like stock option could be important. Firms usually decide on surveys for market potential for know how, raw material and sales. It works out number of partial solutions auxiliary to main objectives taking in to consideration both the past and future values of variable. Such dynamics is relatively more concrete and useful for practical purpose. It looks at unit phenomenon in totality rather than loosely connected sets of functional areas. Strategy along with quality, brand name and decision making powers at appropriate level could alter the given adverse conditions. Impact of reputation, name, choice of technology, factors of production and innovations particularly in use of labour, work allocation, organisation and continuity of up gradation could impart great capacities and strength to face market. Besides being integrative it takes into consideration both the internal and external efficiency while suggesting some course of actions.

**Rationality and Bureaucracy**

Max Weber has developed the model functionally connected with rationality and efficiency of organisation called as bureaucracy. It's devised rules, communication channel and training is expected to give common orientation and predictability of behaviour imparting rationality to the
organisation. Incumbents are offered assured positions and career to develop keen interest, detailed knowledge, expertise and identification with the organisation. It has hierarchies of power and there is rational freedom in spheres of authority of superiors as well as subordinates. For rationality and efficiency systematic balances are provided between power and authority of superior and subordinates and is reinforced by their reciprocal checks. Line authority i.e. authority to issue orders is not considered separate from staff authority i.e. superiority in knowledge. Superior that is higher officials are supposed to maintain their authority by maintaining superiority in knowledge, which could be put to test by subordinates. Lower official are not supposed to obey and acts on orders of superiors without independent investigation of its wisdom and knowledge. Wrongs and contradictions are required to be pointed out by subordinates for correction and hence superiority of knowledge, information, freedom and record of facts, could result in manifestation of rationality in action. Though difference is made between political and administrative offices they are alike as scope of responsibility and authority of each position is defined by law.

Martin indicated that wrong doings of bureaucracy and its investigation is not as appetising as rampant mal-administration for fear yet available studies indicates serious wrong doings of bureaucracy. There is no cautious approach relying on Murphy's Law that "if something can go wrong, it will and nature always sides with the hidden flow". Working culture is such that it follows Parkinson's Law that "expenditure rises to meet income", "officials multiply subordinates not rivals", and "work expands to fill the time available for its completion". Knowledge authority is such that it supports Peter's principle that "in a hierarchy every employee tend to rise to his maximum level of incompetence". Bureaucratic virtues soon degenerates to its vices as "dynamic inaction", "active inactivity in relaxed paper shuffling", and "career to mediocrities" with tendency to pass the buck. In practice momentous decisions are made in the absence of validating evidence in allocation of resources making virtue of ignorance. Generally laws, rules, regulations are never used for orders and things are mostly carried by impressions rather than knowledge of facts. It could carry out political lines, which do not have authority.
It discourages innovations and assuming responsibilities. Energetic or imaginative bureaucrats are supposed to be motivated by self seeking, self achievement or private gains. Innovations are labeled as defective, unpractical, weak without judgment and even as harmful. The greatest obstacle is that work is performed in a style of complacency and inertia and everything on the surface looks fine.

Achievement criteria is violated in a wholesale manner on political consideration without maintaining stable boundaries between administrative and political authorities. There is also inherent tension between career bureaucrats and elected representatives that may lead to a certain amount of arrogance on both sides. The administrative bureaucrats may or may not carry out programs in the manner intended by legislators. There are role conflicts, non accountability, undue sense of importance of offices, obsession with inflexible departmental decision, disregard of cost imposed on state due to political problems, inappropriate mandates, preoccupation with particular units and failure to recognise relationship between governors and governed as an essential part of democratic process. State is increasingly getting inaccessible and remote from the rest of community. Lack of initiative, imagination and effective organisation structure, which can avoid wastage of resources and manpower, is common.

No explanations of decisions, disregard to facts, different people dealing with the same matter, having multiple files and multiple responsibilities without cross reference and coordination and referring to be overworked are the maladies affecting bureaucratic organisations. Trivial matters are handled promptly and important matters are not solved immediately, misbehaviour, blunders, gamesmanship, settling personal scores and malfunctioning becomes consistent and accelerating such that great institutions are out of control. Studies of postcolonial administrations in independent states had indicated that systematically sick administrations did exist which caused societies badly to fail to develop and even deteriorate.
Studies by Warwick indicated that the people in bureaucratic organisations are not lazy on the contrary they are efficient, intelligent, working hard to cope with the demands on them. Everybody is fully occupied and willing to do a good job. They personally are willing to try something different. They agree about unsatisfactory performance capable of improvement. Often initiative is taken, suitable design, feasible and acceptable proposals are made but any how nobody knows and hear again what happened to proposed changes. When organisation changes slowly or incrementally it may not be the right direction. It is as if the organisation has a mind of its own, averse to doing things in simplified way, in any other manner and any how nothing changes.

Critics consider increased institutionalised reliance in human arrangements of bureaucratic form that is process of bureaucratisation a wrong step for humanity. It is associated not with rationality but to industrialisation, urbanisation and the need to deliver uniform goods and services on larger and larger scale. Model of production, the technique of administration and nature of organisation in future will be smaller, less hierarchical, more professional and more innovative structures providing more creative, meaningful and stimulating atmosphere. Management will be responsive with decentralised decision making and broader effective participation.

Environment

Environment is the influence that exists outside the unit under consideration. It could consist of many sub sets each of which may be having many subunits. Each of such components of environment could go on interacting with each other and also with subunits of organisation or unit in consideration producing complicated influences which could affects inputs, outputs and also the sub units of the organisation. Its effects could be far pervading to be found in the various facets of the state finance that is system, functions, structure, policies, execution, control and monitoring. Moreover various subsets of environment and its sub units, and subunits of the organisation other than under consideration become the part of environment.
Government and Business Environment

Source: M. Dharmadhikari in Managerial Economics, Trivedi
producing complicated relationship and constraints. Though strict separation is not possible for convenience environmental forces could be grouped into broad economic, political and social categories.

**Economic Sub Set:**

Economic environmental forces could become most important directly or indirectly getting reflected in economic behaviour of the people that could play decisive role in shaping societies, its values, norms and goals. Economic growth rates and per capita income could be important contributor in the development and prosperity of the state. Industries, its types, geographical location, kind of technical competence and labour demanded determines the development of the region and rate of growth of economy. Economic system dominated by public sector have a negative impact on individual levels of motivation and flexibility of administration. Developed regions form the core and underdeveloped and developing regions form the periphery of economic system. Such external orientation of it generates internal distortions and contradictions distorting growth. Outside investment, aid and assistance could stimulate growth by providing opportunity to develop competence in budgeting, planning and management skills.

**Political Sub Set:**

Type of political system, number of political parties, their composition, and relations with each other affects economic system and social arrangement. It could be said that ballot box has financial and social implications. Mass franchise majority system could produce results as median preference from alternatives presented but it could also produce ambiguous results and with shifting alliances among elected legislators could yield number of combinations each offering majorities. Members could extent mutual support to each others project as logrolling producing excessive government spending. Preference or unanimous consent voting may represent near accurate reflection of choice but it could be clumsy, confusing and with possibilities that certain people will veto everything and
anything up for vote. It has to recognise issues of cultural values, social consistency and importance of consensus. Some consider the concept of representation in democracy as action as per clear opinion of people, other maintain that it is according to the best interest of the electorate. More dignity and freedom to carry out debate among small size has replaced by much larger number controlled by rigid rules of debate. There is more conflict and orator appealed more to passion of the moment evoking mass psychology than rationality and logic in gatherings and legislative halls. It becomes impossible for elected representative to fulfill obligations to party, constituent locality, wider social issue, individual request for help and endless complex bills. It affect rationality and to rationalise easiest path adapted is of unconscious manipulation of facts and figures.

Poorly organised parties have to depend more on personal organisation and means of its members to get required number of elected posts. Elected members in turn are required to favour local constituencies and personal supporters. Parties based on concusses tend to have professional politicians drawing large benefits onto themselves. They confine membership to influential and notables close to them distorting representation which could become rigid and unrealistic. Parties having smaller units, recruiting members from all classes functioning at local levels having independent non political occupations to earn livelihood are more open, democorative and flexible in their working. In backward areas voters get identified with particular party failing to appreciate its defects or shift in the situation. Moderate to low general turnout could indicate general satisfaction and high voting turnout may be symptom of deep social conflict. The desire to promote economic interest that is higher income, security of income and better working conditions could be the main motives for voting. Ideological and sectional interest groups had only intense interactions within the group and had no interactions between different groups hampering wider integration. Overlapping memberships in organisations gives maximum political cohesion and could create potential group that favours national actions. It could cut across many actual groups in support of fair play and could act as a great source of power. It may be without any formal structure.
but interact in such a way that it reinforce each others attitudes pushing separate actions in the same direction.\textsuperscript{74}

Social Sub Set :

Social environment exerts numerous forces, which could mould the relationship between constituents of organisations as well as that of society exerting mutual influences on each other. Population, rate of literacy, composition of society, its subgroups and their relationship becomes important constituent of social environment. Social and population mobilisation causes erosion or even breaking of clusters of old social, political, economic and psychological commitments and people could be available for new patterns of behaviour.\textsuperscript{75} Rise of new competition for higher economic payouts, more prestige, power and other benefits based on standards of personal views and emotions have complicated the social relationship. It has moved from market place to business houses, committee rooms and legislative halls.\textsuperscript{76} The behavioural attributes of the society, which tends to depends on particular social and cultural values influences efficiency of organisation. The relationship suggest that social environment required organisations to structure themselves in specific ways to be matched with it and adopted strategies. Vertical structured organisation may not be suitable in many societies that view authority as horizontal concept.\textsuperscript{77}

Since social variables are in complex relationship with one another and environment, organisations whose internal design are consistent with external demands will be most effective in dealing with their environment. Effective organisation would have less formal internal structure with widely shared center of influence and authority located in the hands of those with the most relevant knowledge.\textsuperscript{78} Individual interest, consideration of others and by idea about what sort of society is wanted or by the expectation about the role of the state in building expected society, could influence the attitude of people. It could be moulded to large extent by trust and caring treatment as a consensual arrangement in the form of conventions, traditions, norms and social rules that represent "Social Capital". It could facilitate and simplify transactions and could reduce its costs dramatically.\textsuperscript{79} Perfect social
configuration that is nice blending of social roles, norms, subgroups, institutions could stimulate production, trade, art and learning to flourish with burst of creativeness. When one or more links get weaken it disturbs configuration causing particular people, areas and nations to rise or fall in competition with one another. This could be seen throughout the history of societies.

**Discussion**

The subject centers around the theory of state finance and for most part consisted of the best way to raise tax revenue for financing the state activities. Government was considered as provider of goods and services having characteristics of publicness. It has the framework that government adopts optimal policy instruments with effective means of implementation to maximise benefits to the society and availability of resources posing as the main constrain. It represented efforts to answer social needs and social benefits by using economic principles. The premise is that even firms with profit motives have to care a social benefit that is social relevance. Otherwise firms could not survive even if performance is outstanding against its objectives. Such value of the business firm could be indicated by market price of the firm stock. But even stock prices may not follow sound economic principles and may lack robust social responsibility link. Similarly market economy could be found to erode resources by wasteful utilisation. In open economy money could be found chasing instant profit and the sentiments could get high or could create panic reaction resulting in collapse of economies. It could not bring the equity on its own and could create more miseries and instability even in the mist of vast resources. This realization has given rise to numerous studies and has grown into vast science having broad dimensions that could extend across government tiers and organs and all its multifarious activities viewed as an integral part of overall management rather than legal, accounting approaches and staff specially concerned with fund raising operations. It tends to embrace not only allocation of capital, assets, creation of facilities but also goal setting process, prioritisation of competing demands and devisings of strategies.
Attempts have been made to demonstrate conditions necessary for optimal level of government activities on the basis of cost benefit analysis by impacting on some aspects of public sector decision making, budget mechanism, fiscal intricacies, administrative organisation, multtier financial arrangement and motives of various participants and process that could affect government efficiency. Therefore to have reasonable efficiency, predictability and guarantee about what government will do and will not do under specific condition competitive economic model and its variants along with institutional organisation based on bureaucratic model has been proposed by scientific studies so that large sums could be entrusted to the risk of government functioning.

Various models of management of public finance could not answer the problems in totality. Availability of public goods and services to all for social benefit irrespective of wishes or payment and emphasis on externality makes evaluation of government activities difficult by statistical methods and gives no clear notion about its true cost. This offers space to those in government to take liberty from obligation to economise and maximise benefits of government provisions and those in society has no incentives to recoup government expenses by paying taxes. Corporate financial principles as applied to public financial management do not provide required motivation for performance to achieve success in public purpose.

The reliance on public choice to achieve success crucially depends on active engagement of different section of the society and their intense interactions to produce results comparable to those of voluntary exchange mechanism. It requires a political system of a precision as to record near consensus decision, which could not be found to exist. Therefore everything could depend on human qualities like attitude, morals and capacities of individuals in the government and the society. On the other hand political mechanism could offers many weak links whereby every government actions could get politicised. While people could consider only personal benefit received from public activity those in power could be motivated to follow populistic lines or trade mutual favours to maintain themselves in commanding positions. It could generate leadership style, which could lack in
culture of knowledge, management and competitive excellence. Instead of statesman it could nurture politicians who are interested to grab government power and government administrative machinery to convert government activities to political patronage to exhibit their role as useful to the society. It in effect means subverting institutions of state to gain support of those who could matter to win elections. In such circumstances government and its organs cease to function for the society and could start bestowing favour on certain people helping them to amaze immense influence which as part of environment could impart further impact to subvert major institutions of the state. This could produce grave repercussion for society threatening its existence as state. The very mission of state finance could get subverted to raising of more and more revenue just to spend more backed by routine argument that to solve problems more money is needed. All these elements and unlimited power of sovereign tend to impart enigmatic nature to the management of state finance about how to achieve economic efficiency with social effectively. The core issues in the field are inherently difficult to be established and solved by theory and distinguishing between facts and value is not a simple task. Therefore management of state finance could be having far reaching consequences, which could be required to be grasped as of fundamental importance for survival growth and advancement of the state.

Instead of demand of the government for more money in taxation for achieving success in government activities more sensible response to needs of the people is being expected from the government activities. The function of the public sector has to go much beyond producing the product efficiently. It has to care for the effects of its activities on general population. Lack of such prudence in management of state finance could affects business, industry, the kind, quality and efficiency of production and all that which could influence not only economy but also behaviour of people to distribute time between work and leisure, income between saving and consumption but also affect individual choices of education, health care, consumption and similar facilities which are of vital importance in advancement of life. It mould attitudes, motives and moral of the individuals in government and the society. Such human qualities of high level are required to pursue activities of creative excellence, which could decide the long-term advancement of the
state. Therefore it is not entirely an economic matter but social, cultural and political issue as well.

In the light of above discussion it becomes clear that each of the varied facets of the management of state finance independent study to consider peculiarities of the needs and attendant required practice could be needed. In the context of present study the land revenue system has been put to critical examination as it act as a sort of anchoring system to sustain the overall administrative structure and financial arrangement of the state. It has long history and varied dimensions to hold a key for proper understanding of and appreciation of what need to be done to lay foundation for sound management that is making of the future state.

To put it clearly management of the state finance cannot be resolved without considering the social and political implication of the government activities. Even then it becomes necessary to isolate and study independently the functional problems of different constituents of the state financial system. Land revenue system as pointed out earlier is a source of revenue for the state government. Though in existence since time immemorial it developed well as elaborate codified system during British regime. But it lacked developmental orientation. In post independent period the state followed the system developed earlier. However the pressure of developmental needs brought to the light the weaknesses of the system. Government attempts from time to time to remedy these weaknesses have offered some solution to the problem. This also explains the need for the in depth and independent study of the problem. The present research work has basically been under taken with a view to analyses the functioning of land revenue system in the state, identify its strengths and weaknesses and to make proposal for making it effective and responsive to changing social system in the long run. Having explained the concept and problem of the management of state finance the next chapter describes Management of State Finance in Maharashtra.
References


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