

Municipal Finance in India: A Case Study of Rajasthan

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# Municipal Finance in India

## A Case Study of Rajasthan

P L Bhargava

*Municipal expenditure in Rajasthan increased considerably during the Second and Third Plans — the rate of growth being the second highest in India. Yet Rajasthan's municipal services were found inadequate and at the lowest level in the country by the Zakaria Committee.*

*The following article argues that this has happened because municipalities in Rajasthan failed to fully exploit the resources assigned to them by State statute. To make the municipalities' finances go farthest in their usefulness, municipal plans will have to be integrated with State and national plans and municipal finances with State and national finance.*

MUNICIPAL services in Rajasthan have been steadily increasing during the Second and Third Plan periods. This increase in municipal activities has led to an increase in municipal expenditure, which has been accelerated by the growth of population, industrialisation, urbanisation, inflation, enhanced pay scales, dearness allowance and other amenities to municipal staff, interest payments on development funds, system of grants-in-aid based upon expenditure, and finally by the cost of democratising the municipal administration. As a result of this the burden of municipal taxation in the State has increased. The consequence of these developments has been a persistent demand by citizens for greater and better municipal services.

A study of Table 1 indicates that the total expenditure has increased by 162 per cent, registering an annual growth rate of 16.2 per cent during the Second and Third Plan periods. This rate of growth compares favourably with the other States of India. The highest rate of growth of 19.6 per cent was in Kerala. The corresponding rates of increase in municipal expenditure in other States were 13.5 per cent in Assam, 12.4 per cent in West Bengal, 10.2 per cent in Bihar, 10.0 per cent in Gujarat, 4.3 per cent in Madhya Pradesh, 4.3 per cent in Punjab, 4.1 per cent in Orissa, 3.2 per cent in Tamil Nadu, and 2.0 per cent in Maharashtra. Thus the growth rate of Rajasthan's municipal expenditure is the second highest in the whole country.<sup>1</sup>

It was therefore to be expected that there would be corresponding improvement in the standard of civic services undertaken by municipalities and an extension of these. But this has not happened.

The pace of industrialisation and urbanisation in the State has brought in its wake complications like town planning, slum clearance, housing, water-supply, drainage, etc, which have strain-

ed the financial resources of the municipalities very badly. The general spurt in prices and incidental increase in the cost of living index have also made a large indent on the resources of municipalities by compelling them to spend more on wages, salaries, supplies, plant and equipment. Thus the work-load and expenditure of all municipalities have been increasing so rapidly that, in almost all cases, their budgets have been precariously balanced and have had to be accommodated by a further fall in standards of performance.

On the other hand, with the spread of literacy and growth of civic consciousness among tax payers, there is a demand for greater amenities and improved service standards.

City fathers are today confronted with two conflicting demands from their constituents: one for more and better services, and the other for reduced taxes. Both these demands are often made by the same set of people at the same time. The revenue receipts have not been enough to cope with

these demands, and this has undermined the efficiency of the municipal services.

The Committee on Augmentation of Financial Resources of Urban Local Bodies (Rafiq Zakaria Committee) was of the opinion that the existing level of all-India municipal expenditure is not even adequate for the performance of obligatory services. The Taxation Inquiry Commission came to a similar conclusion in 1953-54. What is true of other municipalities in India is also true of municipalities in Rajasthan.

The Zakaria Committee estimated in 1960-61 that an expenditure of Rs 8.71 crores by the Rajasthan municipalities was necessary if they were to achieve a minimum level of municipal services. Assuming that the cost of the minimum level of municipal services would remain at Rs 8.71 crores in 1965-66, with the actual expenditure of Rajasthan municipalities in that year at Rs 4.12 crores, the unprovided Rs 4.59 crores indicate the extent of unprovided municipal services in 1965-66 even at a minimum level. There is thus urgent

TABLE 1: GROWTH OF AGGREGATE, AVERAGE AND PER CAPITA MUNICIPAL EXPENDITURE IN RAJASTHAN AND INDEX NUMBER OF GROWTH

Year	Total Recurring and Non- Recurring Expenditure (Rs lakhs)	Average Municipal Expenditure (Rs lakhs)	Per Capita Municipal Expenditure (Rs)	Index Number of Growth of Total Expenditure	Index Number of Growth of Per Capita Expenditure
Second Plan					
1956-57	158	1.17	5.36	100.00	100.00
1957-58	194	1.43	6.42	122.64	119.79
1958-59	227	1.64	7.33	143.36	136.75
1959-60	255	1.85	8.05	161.02	165.11
1960-61	305	2.19	9.41	192.66	175.56
Third Plan					
1961-62	328	2.33	10.12	207.49	188.81
1962-63	339	2.40	9.97	214.24	186.00
1963-64	343	2.43	9.85	216.66	183.87
1964-65	399	2.83	11.21	252.51	209.14
1965-66	412	2.92	11.30	261.70	210.82

Source: Census survey by the author, of the income and expenditure of all the municipalities in Rajasthan.

TABLE 2: EXPENDITURE BY MUNICIPALITIES IN RAJASTHAN ON MAJOR HEADS AND PERCENTAGE TO TOTAL EXPENDITURE (Rs lakhs)

	General Administration	Public Health and Conveniences	Public Works	Public Instruction	Public Safety	Extraordinary and Debt	Total Expenditure
<b>Second Plan</b>							
1956-57	33.22 (21.07)	68.31 (43.18)	22.41 (14.16)	6.52 (4.15)	11.89 (7.52)	15.71 (0.92)	1,58.17 (100.00)
1957-58	39.28 (20.25)	82.69 (42.63)	40.79 (21.03)	4.77 (2.45)	14.78 (7.62)	11.67 (6.02)	1,92.98 (100.00)
1958-59	54.32 (23.96)	89.86 (39.63)	53.58 (23.63)	4.68 (2.86)	14.04 (6.19)	10.26 (4.63)	2,26.74 (100.00)
1959-60	56.70 (22.26)	97.88 (38.43)	54.87 (21.54)	5.21 (2.04)	14.52 (5.71)	25.51 (10.02)	2,54.59 (100.00)
1960-61	57.56 (18.89)	1,06.15 (34.84)	83.79 (27.50)	5.97 (1.96)	15.27 (5.01)	35.97 (11.80)	3,04.72 (100.00)
<b>Third Plan</b>							
1961-62	66.95 (20.40)	1,20.02 (36.57)	88.23 (25.06)	6.99 (2.13)	18.90 (5.76)	33.08 (10.08)	3,28.18 (100.00)
1962-63	74.97 (22.13)	1,25.06 (36.91)	73.82 (21.78)	7.03 (2.08)	20.18 (5.95)	37.79 (11.15)	3,38.85 (100.00)
1963-64	65.89 (19.23)	1,32.62 (38.70)	77.24 (22.53)	6.81 (1.98)	21.32 (6.22)	38.82 (11.33)	2,42.69 (100.00)
1964-65	79.65 (19.94)	1,48.69 (37.23)	96.38 (24.13)	8.78 (2.19)	26.46 (6.63)	39.45 (9.88)	3,99.40 (100.00)
1965-66	81.78 (19.82)	1,63.77 (39.72)	44.46 (22.91)	8.57 (2.08)	23.50 (5.70)	40.32 (9.77)	4,12.35 (100.00)
Index No	245.24	239.75	551.02	131.32	197.67	256.64	260.70

Source: Census survey by the author of the income and expenditure of all municipalities in Rajasthan as in 1965-66.

TABLE 3: AGGREGATE, AVERAGE AND PER CAPITA MUNICIPAL EXPENDITURE OF THE STATES OF INDIA AND THEIR RANKING IN 1960-61

States	Average Municipal Expenditure (Rs lakhs)	Ranking	Per Capita Municipal Expenditure (Rs)	Ranking	Aggregate Municipal Expenditure (Rs lakhs)	Ranking	No of MBs* in Existence	No of MBs Studied	Percent of MBs Studied
Delhi	155.05	1	59.17	1	155.05	12	1	1	100.0
Jammu and Kashmir	37.10	2	9.34	12	37.10	16	3	1	33.0
Tamil Nadu	9.93	3	15.44	4	635.83	5	64	64	100.0
Bihar	9.81	4	8.54	14	166.75	11	48	17	35.4
Gujarat	9.57	5	19.04	2	775.54	1	146	81	55.5
Uttar Pradesh	8.03	6	14.16	5	745.59	2	132	93	70.5
Punjab	6.35	7	17.37	3	641.28	4	173	101	58.4
Andhra Pradesh	5.67	8	11.62	8	372.92	8	67	67	100.0
Kerala	4.60	9	9.37	11	129.07	13	28	28	100.0
Assam	4.29	10	8.84	13	47.14	15	17	11	64.7
West Bengal	3.95	11	7.81	15	344.03	9	87	87	100.0
Orissa	3.69	12	11.57	10	66.45	14	19	18	94.7
Maharashtra	3.19	13	13.31	6	706.03	3	221	221	100.0
Madhya Pradesh	2.58	14	13.11	7	390.18	7	159	151	94.7
Mysore	2.48	15	12.01	8	309.58	6	165	161	94.8
Rajasthan	1.48	16	6.20	16	201.03	10	141	136	96.4
All-India	4.69		13.08		5813.57		1471	1238	84.16

\* MB: Municipal Boards.

Source: Author's own compilation from tables of the Report on Augmentation of Financial Resources of Urban Local Bodies pp 11, 346, 347, 382 and 387.

need to find resources for meeting even a minimum level of municipal services. This would require steps to be taken immediately by municipalities to inflate the revenue and expenditure by 120 per cent of the 1965-66 level.

Total municipal expenditure (recurring and non-recurring) can be classified under the following six major heads based upon the object of expenditure:

- (i) general administration,
- (ii) public health and convenience,
- (iii) public works,
- (iv) public instruction,
- (v) public safety,
- (vi) extraordinary and debt.

Expenditure on general administration includes expenditure for running the administration of the municipality, for collecting taxes, and on miscellaneous recurring activities. This expenditure should be met out of the recurring revenue receipts of the municipality.

Expenditure on public health and conveniences is on scavenging, hospitals, water charges, cattle pounds, parks, entertainment and festivals, and functions. To the above heads of expenditure can be added, expenditure on water works and power houses. All these definitely increase social welfare. The capital expenditure on these items is usually met out of grants and loans, while revenue expenditure is met out of recurring income.

Public works expenditure includes expenditure on roads, sewers, buildings, purchases of new property and public repairs. Public repairs expenditure is met out of recurring income and the items other than repairs are usually financed out of grants and loans and sometimes out of savings of recurring income.

Expenditure on public instruction includes expenditure on running schools and libraries. This should ordinarily be met out of recurring income.

Expenditure on public safety includes expenditure incurred on street lighting and fire-fighting, and should be met out of recurring revenue income. Capital expenditure in purchasing fire-fighting equipment and lighting apparatus, is to be financed out of non-recurring income, grants and loans.

Expenditure on extraordinary loans and debts includes expenditure on interest and capital payment and other non-recurring items. It is usually met out of recurring income but occasionally when recurring income is not sufficient, it may be met out of non-recurring income.

In spite of increase in total expenditure by municipal bodies of 162 per

cent, the composition of expenditure during the period of study has not undergone any material change. The pride of place is occupied by public health and convenience followed by public works, general administration and extraordinary and debt, public safety and public instruction as shown in Table 2.

The rankings of the different heads of expenditure have remained more or less the same except in public works, which has improved its ranking from third to second in 1965-66. Extraordinary and debt in 1957-58 and 1958-59 acquired fifth position in place of fourth, which was occupied by public safety during these years.

Table 2 shows up that public health, general administration, public safety, public institutions have lost in terms of percentage of total expenditure, whereas gains have been recorded under the head public works. This fact is further proved by the annual growth rate which is 45.10 per cent for public works followed by 14.52 per cent in general administration, 13.97 per cent in public health, and 19.76 per cent in public safety — thus suggesting that general amenities have received a setback at the cost of development of social overheads, making the scarce civic amenities still more scarce. Today

a great majority of the people living in municipal towns in Rajasthan do not have the prerequisites of a decent way of life.

The finances of the municipalities of the other States in India are not satisfactory as shown in Table 3. Yet, Table 3 indicates that, while the all-India average aggregate revenue expenditure for municipalities is Rs 4.69 lakhs, as calculated by the Zakaria Committee for 1960-61, for Rajasthan it is Rs 1.48 lakhs — the lowest in the country.

The per capita revenue expenditure of the Rajasthan municipalities, as calculated by the Zakaria Committee for 1960-61, is Rs 6.20, which is nearly half the all-India per capita expenditure at Rs 13.08. The per capita ranking for Rajasthan in Table 3 is the lowest in the country.

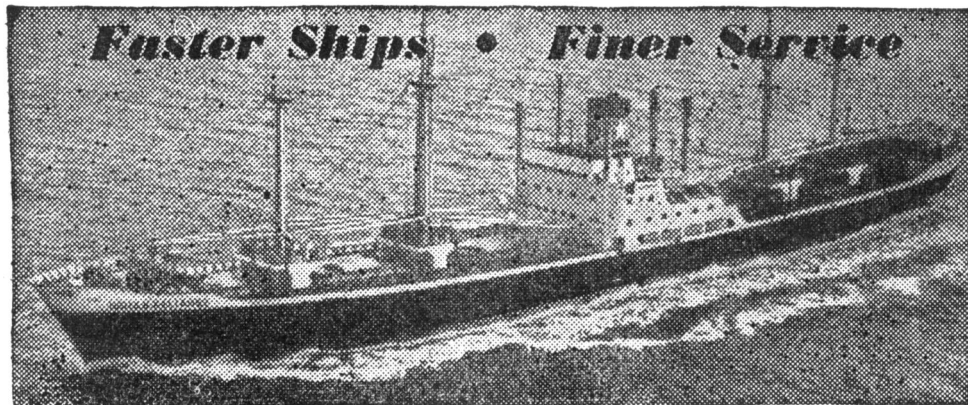
From the analysis it becomes clear that the average expenditure per municipality as well as the per capita municipal expenditure is the lowest in Rajasthan of all States. It also establishes the fact that municipal services are inadequately performed in Rajasthan.

The higher ranking of Rajasthan in regard to aggregate municipal revenue expenditure is primarily due to the larger number of municipalities in the State compared to the number of municipalities in States like Bihar, Delhi,

Kerala, Orissa, Assam, and Jammu and Kashmir.

While it is true that the paucity of funds is by far the single largest hurdle in the way of extending civic amenities, the utilisation of resources at the disposal of municipalities and possibilities of exploiting new resources, could go a long way to improve the existing state of civic amenities provided in the State. Better services cannot be rendered unless resources are augmented, but unless some visible and concrete results emerge, citizens are opposed to paying more. To add to the problem, local bodies in many States have been recalcitrant taxers and inefficient collectors.

To conclude, the central problem in municipal finance is to ensure the purposeful matching of obligations with resources, providing an equitable minimum rate of development to various localities. This could be done if municipal expenditure takes its place in a co-ordinated national effort. At present activities of local bodies are carried out in an unplanned and haphazard manner. Democratic planning can succeed only if there is a viable plan for every local body which is again integrated in the plan for the overall development of the country, and if, in other words, the system of local finance becomes an integral part of national finance.



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