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The Role of the Ministry Of Finance

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Abstract: The ministry of finance plays a very crucial role in development planning in India. It supervises the financial institution and is responsible for the overall financial management of the country. The IDBI which in the initial years was a subsidiary of the RBI was separated from it in July 1975 and since then has been operating Asian apex financial institution.

Keywords: Disinvestment, Five Year Plan, Reserve Bank Of India, LIC, New Economic Policy, Liberalization, Globalization.

INTRODUCTION:

The origin of the Ministry of Finance can be traced to 1810 when a separate Department of Finance was first set up in what was then called the Supreme Government of India. Until 1846, it did not have the services of a full time secretary. In 1843 when the joint secretariat for the Supreme Government and the Government of Bengal was abolished, the Department of Finance of the Supreme Government came under the charge of a separate secretary. In 1947, the Department of Finance was redesignated as the Ministry of Finance, consisting of three main wings, viz. expenditure, economic affairs and revenue. In 1949 the Ministry of Finance was organized into two departments, the Department of Economic Affairs and the Department of Revenue And Expenditure. The Ministry of Finance is presently organized into the Department of Economic Affairs, Department of Expenditure and Department of Revenue.

The Ministry of Finance in India consists of three departments -Department of Economic Affairs, Department of Expenditure and Department of Revenue. The Department of Revenue is responsible for raising the revenues while the department of Economic Affairs is concerned with the coordination of economic policy and the formulation of budget, and the Department of Expenditure deals with expenditure. The Department of Expenditure is not an executive agency charged with the duties of implementing any scheme, but an independent department without any significant spending of its own.

After 1947, the nomenclature of the Department of Finance was changed to the Ministry of Finance. The Ministry is responsible for the overall financial administration of the Union Government, analysing the economic trends and their impact on the economy. The Ministry functions under a Cabinet Minister who is assisted by the Minister of State and Deputy Ministers. The administrative head of the Ministry is the Finance Secretary and there is a full-fledged, Secretary incharge of each department, assisted by special secretaries, additional secretaries, deputy secretaries, directors and under secretaries.

OVERVIEW OF LITERATURE WITH BACKGROUND:

The Literature review of the project is based upon Primary as well as Secondary Data. The literature review based on Annual Report of Government of India, Report of fiscal Commission and it has been connected through several books, such as, Indian Economy, Problem of Planning, Federalism of India, Development Planning, Central Banking in a Planned Economy, Indian Public Finance, Economic Theory, Financial Administration and Management, Planning and economic Policy in India, Public Finance, Control of Public expenditure in India. History of Reserve Bank of India, It data 5 has also been taken by various Journals of (IIPA). Finance India, Kurukshetra, and the News Papers, such as ***Hindustan Times, Times of India, Economic Times, The Hindu,*** *etc.* The concept of "Development Planning in the world economy is not new. Lots of studies are available which throw light on various aspects of "Development Planning Programs. Jawahar Lal Nehru states. "Planning is a continuous movement towards desired goals..........indeed perspective planning is the essence of the planning process......... long term planning does not mean planning in terms of five years only, but planning for fifteen years and twenty years ahead, keeping a broad picture of the social structure.

CONCEPTUAL FRAMEWORK

The Industrial Financial Corporation of India (1FC1) which was established in 1948 accounted for over 8 percent of the total financial assistance to the industrial sector in 1994. The State Bank of India (SBI), set up in 1955. The objective of this major reform of the Indian banking system was that the State Bank with its large network of branches should provide directly and indirectly through provision of remittance facilities to cooperative and commercial banks and to increase banking facilities in the rural areas[2]. The financial institutions have had a long history of public ownership with) existing insurance companies being nationalized in 1956 to form the Life Insurance Corporation of India (LIC).

It highlights the 'Ministry of Finance' and its working, The Ministry of Finance is responsible for the fiscal administration of the country. It has three departments, Department of Economic Affairs, Department of Expenditure and Department of Revenue. The Department of Economic Affairs has a Budget Division and it prepares the budget of the Government. The role of the Ministry of Finance is based on 'Financial Control[1] by the Finance Ministry particularly by its Department of Expenditure. It has three main parts, control exercised during the preparation of the budget, control exercised during the execution of the budget and control on miscellaneous matters. It scrutinizes all proposals emanating from the spending department in so far as they have financial implications. This enables the Ministry to have a free hand in the formulation of policies of other departments. Generally, the scrutiny exercised by the Ministry of Finance is very broad and is more concerned with the overall financial implications of the proposals and its impact on the expenditure". The Cabinet attaches considerable weight to the opinion of the Ministry. After all the proposals have been received from the spending ministries, it proceeds to determine the priorities in the larger interests of the nation. It's main concern is to obtain "Proper balance of expenditure between services, so that greater value could not be obtained for the total expenditure by reducing the money spent on one service and a increasing expenditure on another[3]" and to secure a uniform standard in the measurement of the financial sacrifice involved in the activities of all departments". In the words of Hawtrey, the other part is, the control exercised during the execution of the budget. After the budget has been passed by the Parliament, the responsibility for the control of expenditure form thereon lies on the administration ministry and each head of the department is aided and advised by an Internal Financial Advisor again a representative of the Ministry of Finance - in the discharge of his responsibilities. During the execution of the budget, it is the responsibility of the Ministry of Finance to ensure that the amounts are spent properly and economically. It has to see that the achievement is in accordance with the plans included in the budget of the other departments to keep themselves in touch with the Ministry of Finance. The other matters on which the Ministry of Finance exercises control is related to specified field of expenditure such as granl-in-aid, write-off of losses and recoveries, inspection of establishments of other Ministries through staff inspection unit, etc, Thus we find that the control exercised by the Ministry of Finance helps in the promotion of a financial order in the country. In almost all fields where risk is involved in spending huge amounts, the shadow of the Ministry of Finance is always present though it minimizes the effect of financial delegation of powers already granted to several Ministries? Such an excessive control of the Ministry of Finance over the finances of the country resulted in excessive concentration. A.K. Chanda, then the Auditor General who undertook the task of preparing a plan for delegation of financial powers and for a recognition of the system of financial control, submitted his proposals for the consideration of the Public Account Committee. Ashoka Chanda observes, "The present conception of control extends also to the examination of technical details of developmental schemes and work programmes, even though the Finance Department is not properly equipped for this purpose. As a result, the objections raised are often elementary and informal in character. This not only acts an as irritant, but is also time -consuming. Ultimately these objections mostly come to be waived, but often only after interminable discussions; and control becomes effective only over establishment proposals, the expenditure on which forms but an insignificant fraction of the total cost."

The Estimate Committee in its 98lh report in 1975-76 also felt the need for further re-delegation of powers. Under the latest delegation schemes, the administration ministries have been given full powers of re-appropriation within a grant, provided there is no diversion of funds from plan schemes to non-plan activities. In actual practice, the administrative ministries enjoy enough freedom in the matter of re-appropriation of funds.[5]

The rationale of our present financial year has been a subject of debate ever since it was adopted by the Government of India in 1860. It has been argued that the existing budget period is responsible for the late start of public works. Under the present arrangements, soon after the expenditure sanctions reach the executing agencies, the mansoon breaks in most parts of the country, rendering it difficult to initiate construction of budgeted items. A corollary to the annual budget, is the rule of lapse. All grants which are not spent in the course of the year, lapse at the end of the financial year. If any expenditure is required to be incurred, a fresh approval of the Parliament has to be obtained. In addition an explanation has to be given to the Ministry of Finance for this lapse. Public servants in the country know that it is better to spend (or waste) money rather than allow it to lapse.[6]

India embarked on a process of planned economic development in 1951. The Planning Commission, headed by Prime Minister, Nehru, was set up to comprehensively assess the natural and manpower resources of the country and to prepare plans for the mobilisation of these resources for economic development aimed at raising the level of living of people. Nehru was committed to planning ever since 1927 when he visited Soviet Russia and saw how the plans brought about economic transformation in the country. Even before independence, he was appointed by the Indian National Congress as the Chairman, Planning Commission which produced valuable development plans for different sectors of the economy.

India has now completed more than six decades of planning. Except for the three Annual Plans during the years 1966 to 1969, which came to be described as Plan holiday. India has been following the system of preparing Five-year Plans in the context of long term perspective plans. Within the frame work of the Five-Year Plans, Annual Plans are also prepared and arc integrated with the budgetary process. Every Five-Year Plan has a mid-term appraisal. Indian plans arc comprehensive in the sense that they cover, both public investment and private investment and also all sectors of the economy. The Indian approach to planning is democratic unlike the pattern of the then USSR which was totalitarian. It gives an important place to popular participation while it envisages that public sectors would be in charge of commanding heights of economy, it gives considerable scope to private enterprise also as well as the co-operative sector which is expected to provide a sense of value and direction to the economy. Thirdly, India's approach to planning is for balanced development, in the sense that all sectors including agriculture, industry, infrastructure as well as the service sectors have been accorded their due place. The Second Five Year Plan followed the Mahalanobis model and put greater stress on heavy industry. However, the importance of agriculture and rural development was always recognised and the plan strategy was based on inter-dependent and mutually enforcing growth of different sectors of the economy Fourthly, India's approach to planning is aimed at the establishment of the developed pattern of society.

Keeping the eradiction of poverty as the main theme, Indian planning has entered its golden era. Poverty eradiction is the greatest challenge to the entire planning process. The concept of globalization, liberalisation, market friendly policies and integration into the world market was started in the late eighties and gathered momentum in the nineties had all the while kept intact the poverty ridden vicious circle oi low income, low consumption, low savings, low investment-low capital formation resulting in a rigid structural economy[7]? India is a mixed economy in which both public and private sectors contribute their mite to economic development. In the mixed economy, the Government has a positive role to play in the field of economic activity.

It is an attempt to analyse the welfare commitment of the State and the increased role of the Ministry in meeting out the hopes and aspirations of the teaming millions. The formulation of plans for the whole country is the main responsibility of the Planning Commission. The implementation of the plan is (he main responsibility of the Administrative Ministries of the Central Government and of the State Government. The new Policy of economic development adopted by the Government of India in 1991-92 has 'liberalised[1] the economy. The role of the Public Sector and government investment in many activities has been reduced considerably. Initiative for economic and developmental programmes have been left to the Private Sector. Controls and licensing of many commodities that were in the hands of the government has been relaxed. In the changed circumstances initiated by the "Policy of liberalisation", the nature of Planning by the government has changed and its scope has been reduced. Consequently the role of the Planning Commission has also undergone a change. After independence, the task of the National Government has been the elimination of poverty, and improvement in the economic condition of the teeming millions of the country who have been living in miserable conditions of poverty and starvation. The method of economic planning has been adopted to face the economic challenges of poverty, unemployment, and starvation.

Political democracy is meaningless without economic democracy. Poverty, disease, ignorance and illiteracy need to be uprooted. A new society based on liberty, justice, equality and brotherhood is an imperative to fulfill the Constitutional requirements. A boost in the national income, rapid industrialisation with particular emphasis on the development of basic and heavy industries; generation of employment avenues: and reduction of inequalities in income and wealth and a more even distribution of economic power has engaged the attention of the Government of India, more so of the Ministry of finance which is the main agency responsible for the economic Both capitalist and socialist economies may be regarded as mixed economy and a small private sector will exist in a socialist economy too. It is imperative for the Planning Commission to bring out every year a report on the performance of the plan programme both in public and private sectors. The Government has adopted Disinvestment Policy for the mess and revamping of Public Sector Undertakings. Disinvestment is an effective instrument for restructuring of the Public Sector Undertakings (PSUs). If this is not properly understood and effective and quick measures are taken, the drain on the scarce budgetary resources will be such that sooner or later most of the undertakings will go bankrupt and there will be a dead weigh; of assets and unemployment for which it is not easy to find a satisfactory solution. The mechanism for implementation and delinking of disinvestment from the budgetary needs, providing full autonomy including pricing, investment employment and revamping the Voluntary Retirement Schemes (VRS) and setting up of a Disinvestment Fund are most essential if the country is not to suffer the financial shortfalls with their consequential impact on the erosion of the network of the undertakings and increasing fiscal deficit in the central budget. At the same time, disinvestment policy should not ignore the employment needs of the country in so far as social unrest has already made its presence felt either in the form of trade union opposition to downsizing labour or to the disinvestment process itself. It appears necessary that the Disinvestment Commission and the Central Government should keep in view this threat and make serious efforts for reconciling disinvestment with social policy, especially employment policy. In line with the changed economic scenario, the role of the Planning Commission has been redefined. From a highly centralised planning system, the Indian economy is gradually moving towards indicative planning where Planning Commission will concern itself with the building of a long-term strategic vision of the future and decide on the priorities of the nation. It will have to work out sectoral targets and provide promotional stimulus to the economy to grow in the desired direction. There is a need for the Planning Commission lo play an integration role in the development of a holistic approach to the policy formulation in critical areas of human and economic development. In the social sector, schemes which require co-ordination and synthesis like rural health, drinking water, rural energy needs. Literacy and environment IN protection have yet to be subjected to co-ordinated policy formulation. It has led to multiplicity of agencies which is not only wasteful but also painful because of the long repetitive procedures involved. Many such examples exist in other sector like energy, agriculture etc. An integrated approach can lead to better results at much lower costs. The endeavour should be on maximising the output by using our limited resources optionally. Instead of looking for mere efficiency in the plan outlays, the effort will be to look .for increase in the efficiency of utilisation of the allocations. The priorities, programmes and strategies of the plan, therefore, have to take into account all these factors.

OBJECTIVES

Need of study

The specific objectives of the study are:

1. To understand people’s participation and development its role and response in the politics and developmental programmmes.

2. To understand the needs and of the economy relating to political and economic stability.
3. To investigate the working of the Finance Ministry and economics planning for removing the economic challenges.
4. To increase economic growth to remove poverty and unemployment.

Research Questions

Few research questions are as follows:

1. What are the concepts about the reasons for slow economic growth in the country? What are the major problems faced during the Indo-Pak wars and what role the Finance Ministry and Planning Commission have played in Five Year Plans and economic development.
2. How the lives of the people got affected by the economic challenges like poverty, unemployment, diseases. How the country has performed economic stability to bring political stability in the country.
3. Is the present Indian planning including globalization and privatisation seen as a cause of slow growth? How the present Indian Planning has affected lives in the country.

Research Methodology

As the proposed study tries to address a set of complex research questions, the methodology will be mixed (quantitative and qualitative) and adopt an integrated approach. Before commencement of the data collection process, will be conducted to strengthen framework and methodology at the initial level.

(a) **Coverage:** The study will cover all economic challenges affected by slow development in the country especially Bihar, Orrisa, UP state.

(b) **Data Collection:** Data will be collected from secondary sources such as previous research, government reports, official statistics, mass media materials and web information, and primary sources such as focused group discussion and expert interviews. Both nominal and ordinal types of data will be collected. Tools for techniques such as interview schedule for survey, guidelines for expert interviews and focused group discussions will be use.

(c) **Data Analysis:** Economic guidelines will be used for survey data processing and analysis. Graphs and figures will be used for content analysis.

IMPLICATION

The proposed study will be an asset for the Planning and Development. The study will also bring policy of Budget implications, which will help to increase socio economic development in the country. The Finance Ministry may play a big role in the economic development of the country as a whole. The study also may be a guideline for affairs of the budget.

Poverty, illiteracy, ignorance, diseases, unemployement, etc., are problems facing the whole country, and not limited to a few states alone. Food shortage or epidemics do not recognize state boundaries, neither do they care for state autonomy. When the problem can be solved. This is the reasons why ‘Centre has become the centre of all planning for India’, through the constitution makers had kept economic and social planning as a concurrent subject. Moreover planning involves making the best use of the available resources of the country. It involves the problem of fixing properties for achieving maximum economic benefits. This objective of planning (allocation of scarce resources, and consequently fixation of priorities) can be achieved if the Centre Government (or a central agency) performs this function. Moreover, planned economy creates the problems of ‘co-ordination’ of the economic activities of the whole country. From all these reasons it is clear that economic planning in order to be effective, has to be the responsibility of the Central Government. The very logic of planning involves centralization.

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