CHAPTER VII

CONCLUSION

In this work attempts have been made to study the pattern of public expenditure and economic development in Manipur. The following are the main findings of our present study.

1. The state has incurred huge expenditure on revenue and capital accounts during the last two/three decades. Unfortunately most of the expenditure were made on revenue account by constituting about 80 to 85 percent of the total expenditure. Capital expenditure constituted only about 15 to 20 percent. It all means that most of expenditure were made available for consumption purposes as revenue account expenditure generally implies consumption expenditure. Little was made available for capital formation which could be used as a means for rapid economic development in future. Thus the pace of economic growth can not be fastened more rapidly as it was done in other advanced states.

2. It can also be highlighted that the percentage share of non-plan expenditure to total expenditure was more than 75 percent in the whole period of our analysis. The plan expenditure constituted hardly 25 percent of the total expenditure. Even plan expenditures were diverted for non-plan purposes. It means that most of the
expenditures were made for maintenance purposes and little development activities were taken up.

3. At the time plan expenditure were not fully used and most of the plan programmes were not successfully carried out. Faulty planning is a normal feature in the state.

4. Further most of the developmental expenditures were also made available for social sectors and little attention was given on directly productive economic heads like agriculture, industry, transport etc.

5. The condition of both agricultural and industrial sectors are still deplorable in comparison with other advanced as well as other neighbouring states. The state has been facing acute food shortage and depending all the time on other states not only for foodgrains but even for other petty agricultural products.

6. The condition of industrial sector is still quite deplorable that the state has not even a medium size industry. Most of the funds were wrongly used and allocated (both plan and non-plan) on infructuous heads. The state has incurred its scarce resources in this sector in such a way that the viability of establishment of such an industrial unit is not even identified first. Also proper planning are not made for regular availability of basic requirements of these industrial units after their establishment. So most of industrial units already established remain sick and closed.
7. There has been total failureness in the power sector. The state has been facing the problem of acute power shortage for the last many years so that all the other developmental programmes are to be kept in abeyance.

8. It is also to be highlighted that the state has been incurring huge expenditure both in absolute and relative terms on the development of road and transport since its inception. Unfortunately, since the funds are misused and misappropriated, actual development hardly take place. The physical conditions of roads and bridges are still deplorable. All the interiors of the state still remain unconnected with administrative District Head Quarters inspite of huge expenditures which was made on papers only during the last fifty years or so. This is one of the important causes of the state being remain poor and undeveloped for all these decades. All the scare resources could hardly be mobilized. Amazingly most of states natural resources still remain virgin.

9. As regards expenditure on social sector it is worthwhile to be mentioning that the state has incurred huge expenditure during the last four decades or so on education. But apparently the expenditures were made on the development of school education only. The state has paid little attention on the development of higher education particularly technical education. Till today the state has no any technical institute of sustenance in this modern age of advanced information technology (IT). So the people of Manipur are compelled
to divert crores of rupees from their meager income every year to other states to receive technical and higher education from other advanced institutions. It is because there is little scope for employment opportunity in the present global employment market with the type and standard of educational qualification they receive from the state run institutions.

10. So far the expenditure on Medical and family welfare is concerned the total expenditure on both revenue and capital account increased from Rs. 4.23 crores in 1980–81 to Rs. 66.70 crores in 2004-05 that is about 16 times. During the same period the number of bed increased from 653 to 2403. Of course the bed per population which was 1:2176 in 1981 fell to 1 : 1012 in 2004-05. The decline in bed ratio per population though seems to be high is not commensurate with the increase in the total expenditure. It means that when the expenditure increased by 16 times the growth in the realm of medical services was only 5 times. In other words the medical services is still quite inadequate and inefficient. It is also to be mentioned that there is still no any Super Specialist Hospital in the state, as a result crores of rupees are spent every year for outside treatment of Manipur.

11. As regards the non-developmental expenditure, 37.80 % of the total expenditure on general services during 2004-05 was on Interest payment and Servicing of debt. It constituted only 25.7 % in 1980-81. But it rose to Rs. 266.43 crores of 2004-2005
constituting about 37.8%. It all means that the state borrowed funds are used more for unproductive purposes. If the borrowed funds for productive and self liquidating purposes, the self-generating income could easily meet the interest payments of the borrowed fund itself—thereby the problem of debt and fiscal liabilities management to the government could be remarkably reduced.

Next to it, a large chunk of the expenditure on general services goes to modernisation of police force. Out of the total expenditure on general services of Rs. 98.3 crores in 1980-91 a sum of Rs. 32.9 crores constituting about 35.3% was spent on this account. It rose to Rs. 158.5 crores in 2004-05 constituting about 22.5% of the total expenditure. Though its relative share declined, its absolute value increases by about 481.76% i.e. about five times. Such huge investment was made because of deteriorating law and order condition due to insurgency problem in the state. This all calls for an immediate amicable solution between the government and the militants. Otherwise, the state has to spent more and more on such unproductive heads by diverting funds which could be made available for productive purposes.

12. So far the financial administration of the state is concerned there is no any transparency in the financial management. Mis-appropriation, misused, theft of public money, infructuous expenditures, idle investment etc are common features of ill financial management of the State Government.
13. As regards the fiscal policy the state has not yet adopted any concrete fiscal policy and disobeyed the fiscal management rules mandated by the Central Government from time to time. Chronic fiscal deficit has become a common phenomenon in the state in all fiscal years. The fiscal liabilities has mounted high significantly outpacing the rate of growth in the GSDP, revenue receipts and states own resources. Such tendency will adversely affect the future cash flows of the government by way of servicing these liabilities, if the returns are not commensurate with the cost of these liabilities.

14. So far the growth of NSDP is concerned the State Statistics Department has compiled & published the State Domestic product data every year. As per their estimation the annual growth varies between 2.06 % to 27.2 % (Appendix -1) during 1980 - 81 to 2004-05. The growth rate is very irregular and erratic. Even then we have worked out the average annual growth rate to be 13.5 % during the same period. On the other hand, the average annual growth rate of total expenditure (Revenue + Capital) during the same period is worked out to be 14.3 %. Taking into account the per capita income data for the years 2000-01 and 2003-04 and per capita consumption data as estimated in the 5th and 6th Round of NSS during 2001 and 2004 respectively, we have worked out the multiplier value of the state to be around 1.5. At this minimum value of 1.5, the minimum growth rate of state income ought to be minimum 21 % when the annual growth of expenditure is 14 %. Contrary to this point the growth
rate of NSDP is lower than that of public expenditure. It means that there is no real economic growth in the state.

In the light of above discussions and conclusions the following suggestions can be placed as means to correct fiscal imbalances and ensure a speedy rate of economic growth within a very short time and to sustain a higher growth rate in the long run too.

1. The first and foremost step to be taken up by the “Government towards the achievement of a high and steady economic growth is to maintain strict financial discipline and its crystal transparency. People must also be adhered with a close vigil to the policies and programmes launched by the government for faster economic growth in the state. They must be honest and co-operative with the executive machinery and actively involved into the matter for actual physical achievements but not for mere financial achievement.

2. The State Government should strictly follow the Fiscal Responsibility and Budget Management (FRBM) Act, 2005 enacted to ensure prudence in fiscal management and fiscal stability by progressive elimination of revenue deficit, reduction in fiscal deficit, prudent debt management consistent with fiscal sustainability, greater fiscal transparency in fiscal operations of the Government and conduct fiscal policy in a medium term framework.
3. The State Government's recent Medium Term Fiscal Restructuring Policy (MTFRP) 2000-05 under which a Memorandum of Understanding (MOU) based on the fiscal situation of the state was signed is of course a right step towards the correction of fiscal imbalance in a medium term perspective.

The main objective of the MOU were to:

i) compress revenue expenditure,

ii) enhance revenue and non-debt capital receipts to control debt levels, and

iii) increase overall transparency and efficiency in governance.

As a measure towards the revenue expenditure compression the Government was to monitor steadfastly its decision (July 2001) to abolish 14,385 posts (Regular Establishment : 9,385. Work charged Establishment : 5,000). The Finance Department identified 13,132 posts of which orders for abolition of 12,012 posts (including 4,666 vacant posts) had been issued as on 31st May, 2003.

Such blunt step to the abolition of permanently required but temporarily lying vacant posts was not a full proof justified measure to compress revenue expenditure in view of mounting increase in unemployment lists which may be one of the important factors for the
emergence of insurgency problem in the state due to despair and frustration amongst the unemployed youths. The true logic behind real economic growth is to create more employment opportunities to commensurate with expanding economic activities. If the posts were not actually required why then they were created, why they are not required now – these are the pertinent questions to be answered by the government with proper justification. If they were created not actually required by then - it shows the evidence of breach of financial rules and ill fiscal management and lack of proper planning. Therefore, a new strategy of development must be adopted in such a way that more employment opportunities are created in other social and economic sectors that most of the unemployed persons are absorbed in these sectors. It can also be suggested that instead of abolishing the actually required permanently created posts, other unnecessary expenditure incurred on the organs of state and administrative machinery (Ministers, Bureaucrats and other high officials) on using a fleet of vehicles, a large coupon of fuels, other extra amenities etc., that are not so necessarily to be provided must be curtailed drastically. This may considerably reduce the revenue account expenditure on general services (non-developmental expenditure) Not only that all the unnecessary and less necessary items of expenditure on revenue account must be reduced.

4. All the possible measures should be taken up to bridge the gap between budget estimates and actual expenditure. Wider the gap between the two shows the hap-hazardness in the preparation of state
budget. They are prepared simply by compiling the manipulated figures of departmental requirements proposed by the Heads of the concerned Departments without verifying the actual needs and urgency of the programmes proposed to be undertaken by the concerned Department. This is the reason why there is always excess savings or deficits in the budget estimates. Such excess savings are also not surrendered in time which otherwise can be diverted to other departments where expenditure is actually needed. The excess savings available in the hands of the Disbursing Officers at the very end of the financial year creates a good room for the Disbursing Officers to exhaust the funds by spending them on all unnecessary items. Moreover as the excess funds can not be diverted to the needy departments in time, there is always unutilized savings in these departments. In short, there is no proper co-ordination and understanding amongst the various Departments at the time of preparation of the budget and also at the time of closing the budget. Such loop-holes and discrepancies must be immediately plugged in by making periodical reviews about the performance and achievements of the programmes earmarked at the time of preparing the budget. This task must be entrusted to a special Monitoring Committee under the strict vigil of the State Finance Department.

5. Revenue enhancing tax reform is critical at all levels. While there is ample room for improving tax structure, improved tax administration and enforcement remains one of the most critical areas for internal government reform. Tax reform is an essential step toward
increasing government revenue as well as reducing micro economic distortions.

6. As regards commitments made in MOU on revenue enhancing measures, the Government revised the rates of land revenue hill house tax and drinking water during 2002-03. Here it is to be mentioned that the revision of rates of land revenue and hill house tax was made almost arbitrarily. The revision rate of land revenue in valley areas was very high. It was proposed to enhance the rate by more than eight times. Such spurt increase in the rate invited stern objection from the general masses. They are not willing to pay the lumpy amount thereby rendering the revision remains unsuccessful. So the rate must be revised gradually.

7. Further it is to be pointed out that hill house tax is a very outmoded tax. It was imposed in the British regime in hill areas which constituted about 2/3 of total land areas in the state. The revised rate of hill house tax is also fixed quite arbitrarily which is comparatively very low to that of land revenue which is collected mainly from the valley dwellers. There is always an imbalance between in tax incidence between valley dwellers and hill dwellers. This violates the principle of public finance under which marginal sacrifice from the payment of tax is more or less equal to marginal benefit accrued from public expenditure incurred. The hilly dwellers are exempted from the payment of many kind of taxes such as income tax, water rate and so on. On the contrary, many special programmes were undertaken for the upliftment of their
economic condition, thereby their economic conditions, though not all, are being improved to a considerable extent during the last fifty years or so. From the principle of public finance, it is high time now for hill people also to contribute something more to the State Ex-chequer towards raising fund which should be made available for further economic development. So instead of outmoded hill house tax, land revenue system should be introduced in permanently settled hill areas by completing cadastral surveys.

8. The revision of water rate is a right positive step. But the unfortunate part on the side of the government is that there is no regular supply of pipe water throughout the year particularly in the Municipal areas (Imphal Municipality Area). There is no proper regulatory system of water supply. Most of the supplied water are wasted through leakage of pipes, uncocked household water supply system and unchecked misuse of water by households. Moreover the collecting machinery is quite inefficient and ill administered. So it calls for total overhauling of the system of regulating water supply and collecting water rate. The collecting machinery should be strengthened and all arrears of water rate must be collected at the earliest possible. Regular water supply must also be ensured for ready response to pay water rate.

9. Another source of mobilizing additional resources is Stamps and Registration. There is still lot of possibilities to tap more resources
through this source by checking the loop-holes in its administration, even without revising the rate of stamps and Registration fees. There are many glaring examples of practicing red tapism and manipulation and misappropriation of funds in this Department. One example of such red-tapism and manipulation is that at the time of registration of transfer of ownership of immovable property the sale and purchase value of these immovable property such as land and buildings are quite undervalued than the prevalent rate, and hence less stamps and registration fees are charged. On the contrary, at the time of acquiring these land and buildings by the Government for public purposes, their values are fixed sky high for higher compensation. This causes huge loss of revenue and huge investment to the state Exchequer. Such irregularities must be checked immediately so that more revenues can be collected.

10. Last but not the least more revenues can also be collected from electricity by reorganizing the collection, transmission and distribution system. The state can also tap more resources through wise use of forest resources and improving the administrative system. Besides irrigation rate can be collected more provided regular water supply is made available. The administration of state Taxation Department must be closely examined and necessary measures should be taken up to check tax evasion with the introduction of VAT. Not only that the state excise Department must be directed to collect more revenues through imposition of proper fines, fees, penalties etc. as the
state is already under prohibition. Otherwise the maintenance cost of the Department will remain very high afar exceeding its revenue collection, thereby causing extra burden to the Government to maintain the Department.

11. As a measure for debt stabilisation and its sustainability, the borrowings must be used for adding to the productive capacity of the economy that adequate funds are generated to service the debt i.e. the borrowed funds should be able to generate adequate incremental revenue receipts to service their debt obligations.

12. As regards fund allocation to the developmental sectors (social services and economic services) a balanced development strategy must be adopted. Both the social service and economic service sectors must be developed simultaneously. Because without development of social service sector like education, health and family welfare, water supply and sanitation, social welfare etc. no economic development can be brought about. Similarly, economic services like agriculture and allied activities, rural development, irrigation, energy, industry and minerals, transport, science and technology etc. are also equally important for rapid economic development. In recent years, there has been a change in the development strategy of the country as a whole. Priority has been shifted from the development of economic services to the development of social services. In nineteen eighties and beginning of nineties more priority was accorded to the development of economic
services at all India level by allocating about 60% of the total development expenditure. However, since the beginning of twenties priority has been given more to the development social services by allocating about 55% of the total development expenditure as shown in table 2.4. This new development strategy can not be adopted in a very poor state like Manipur where the development of economic overhead is still far lagged behind the all India average. As already mentioned in the previous chapters there is still acute storage of power supply in the state which poses a big hurdle to the entire development process. Most of the cultivable areas are still un-irrigated and the possibility of double and multiple cropping system is far behind the reality. There is still no railways in the state except one railhead at Jiribam, the border line of Assam and Manipur, which is about 224 km from the heart of Imphal city. Every transport system is depending on road communication through National Highway No. 39 and 53 which are passing through long hilly terrains - always disturbed by frequent landslides, economic blockades, bandhs and strikes called by different ethnic groups. This all calls for quick development of alternative means of transportation either railways or alternative roadways free from all disturbances.

Moreover, the condition of agriculture and allied activities is still far lagged behind other states. As already mentioned the State has been facing the problem of the acute food shortage not only foodgrains but even vegetables also.
Further, the development of industrial sector is almost conspicuous by its absence. The state has been importing all the industrial products from other states. So maximum efforts should be made to develop all possible kind of industries based on locally available resources.

In the light of the above facts it calls for huge investment on economic services. Otherwise, the State will persist to continue to exist as the most backward State in the Indian Territory.