CHAPTER VI

THEORETICAL SIGNIFICANCE AND POLICY IMPLICATIONS OF OUR CASE STUDY

At the beginning of our present study, we noted the well recognised phenomenon of regional dualism in India and posed the question why in spite of the Centre's policy of resource transfer to the less developed regions and special measures to reduce spatial imbalances, the inequalities showed no marked tendency to decline. In a case study of Tripura in the analytical framework of export base theory we sought the answer to this question. This also offered us an opportunity to test the efficacy of the export base theory itself to explain the process of regional change. Therefore, we may sum up the findings of our study in two parts: theoretical significance and policy implications. We take up the analysis of theoretical significance in Section A, while in Section B, policy implications are discussed.

Section A: Theoretical Significance

We observed in Chapter II that export base theory has been used to offer explanation of both short-term income determination and long-term growth of a regional economy. Though in its simplified form, the theory appears to be concerned with exports alone as the prime mover, its sophisticated versions recognise the importance of other variables as well. The theory emphasises the importance of the openness
of regional economies and points out that expansion in demand external to the region is the main determinant of regional growth. This theory has evoked great controversy amongst the regional economists as regards its efficacy. We note below some of the criticisms levelled against the theory and scrutinize them in the light of our case study.

First, it is alleged by economists like Richardson (1971) that base-theory is essentially a monocausal theory. This allegation hinges on the fact that in the earlier forms and applications of the theory, the role of export has been overemphasised. But as we have shown in Chapter III, it is possible to use the theory in a generalised form assigning explanatory role to the variables other than exports. In our export base model developed in Chapter III, we spoke of exogenous income which is more general a term than export. Exogenous income includes income from all activities the levels of which are set by external factors. The chief external influence in the case of Tripura is exerted by the government activities backed by resource transfer caused by the Central Government. We have, therefore, assigned the strategic role to resource transfer in our model by including State Administration and other sectors dependent on government finance in the basic sector and treating income generated in these sectors as exogenous income. This shows that the concept of economic base or exogenous income need not be a rigid one, and the base analysis admits of wide application. To borrow
Marshall's phrase, pure export is only the leading species of a large genus of exogenous variables influencing a region's prosperity. Therefore, economic base analysis emphasizing the role of exogenous income should not be accused of being a monocausal theory since exogenous income includes income from various sources influenced by diverse economic factors.

Secondly, the critics point out that export base models are essentially demand models and give no attention to the growth in capacity. But our experiment with an export base model shows that this type of model is not irrelevant even in stressing the problem of growth in capacity. For example, if base analysis reveals a low value of the multiplier, it means that the regional economy has not been able to build up capacity to produce goods and services urgently needed by its people. Thus base analysis can indicate the extent of capacity built up in a region and give an idea of the magnitude of the problem of capital accumulation. In our case study, base analysis has helped immensely to reveal the problem of capital accumulation or capacity creation in Tripura. In Chapter V, we observed that the factors contributing to occurrence of income leakage in Tripura are supply-restricting in nature, i.e., they inhibit the growth in capacity in the region. Massive dose of Central aid to Tripura during the

1. Richardson (1973, P. 20)
1960's lost much of its expansionary effect because of the fact that the State lacked a productive structure elastic enough to cope with the rising demand of its people.

Moreover, given the value of the multiplier, the problem of base expansion may be viewed as a question of comparative cost. Base expansion will depend on setting up of a group of industries which stand the test of comparative costs. Tripura's problem is that she has not been able to identify and establish a group of industries that can compete in the all-India market. Therefore, she does not possess a real economic base worth its name. Government services sector financed by Central aid was the main source of her external income. As we noted above, even this 'pseudo base' did not have an impressive multiplier effect because of income leakage which again owes its origin to poor capacity to meet internal demand. Thus from the base analysis of Tripura's economy, we find that the attainment of factor efficiency in production in diverse sectors is the main task before the State. This proves that base analysis may be of great help in throwing light on questions relating to the supply side and capacity generation in a regional economy.

The third allegation against the base theory (voiced by Richardson (1969)) is that the theory is separately applied to individual regions and is not an exercise in inter-regional macro-economics since it cannot provide simultaneous explanation of growth in several regions. But in studying the problem of
regional imbalance in development, the first type of study is not less important than the second. Moreover, in understanding the specific problems of small backward regions like Tripura which are influenced by national events but do not have much influence to exert on the national economy it is better to apply base technique to them individually than to include them in a generalised inter-regional study in which every region is assumed to depend on every other region. Because, in the latter kind of analysis, the true problems of the specific backward regions will get lost in a crowd of facts and figures. A study of these regions with base approach will on the other hand, be illuminating for both the local authorities and the national government to formulate appropriate policies to tackle their problems. This is borne out by the results obtained from the base model which we have constructed for Tripura's economy in Chapter III. Incidentally, it may be mentioned that our preference for simple base-analysis as distinct from an inter-regional analytical framework is supported by the findings of A.J. Brown and Associates (1970). Brown probed the nature of repercussion of increase in the income of a region 'i' on the income of other regions and on the demand for region "i's" exports. From an exercise on empirical determination of regional multiplier he came to the conclusion that the multiplier is only marginally increased by putting in the effects of repercussions.

This seems to be the likely result for all regions. If
this is so, the plea for using interregional multiplier analysis instead of one region economic base analysis loses much of its force.

R.B. Andrews (1954), C.M. Tiebout (1960) and others have pointed out several problems that haunt the process of measurement of economic base. Difficulties encountered in separating basic from non-basic income and in selecting the unit of measurement are some of the problems which are mentioned as detracting from the practical value of the base analysis. But our study suggests that while the problems of measurement are real, they need not deter the application of the base technique to understand the working of a regional economy. In the case of Tripura where exogenous sector manifests itself clearly in the form of government-controlled services sector, identification of the base is easier. Publication of State Income Accounts parallel to National Income Accounts enables us to dispense with the use of employment or any other proxy indicator for income as the unit of measurement.

The simple economic base model has also been accused of excessive aggregation. It divides the regional economy only to two broad sectors—basic and non-basic. The repercussion of changes in exogenous income on local income and employment may vary according to the sector in which base expansion occurs. Therefore, it is argued that an improvement of the base analysis may be made by disaggregating the economic
base. This is the differentiated multiplier approach suggested by Weiss and Gooding (1970). But in our opinion, a differentiated multiplier approach will be fruitful only when the exogenous sector can be disaggregated into equally prominent and mutually independent sub-sectors. In a region where the exogenous sector is dominated by one independent sub-sector with other sub-sectors playing a subservient or minor role, disaggregation is not very meaningful. Such is the case of Tripura's basic sector where government services steals the show in the generation of exogenous income. Therefore, we have preferred an aggregative base multiplier in our study.

One minor point raised against the base theory is that in base exercises it is the average ratio between exports and total income that is estimated whereas it is appropriate to use the marginal ratio. Against this criticism it may be pointed out that the average ratio between exogenous income and total income need be used only when data are available for one single year. If time-series data are available, it is possible to find the multiplier estimate through regression analysis. This is the procedure followed in our case study.

Critics like Meyer (1963) assert that export base is an inverse function of the size of a region. It is argued that we can more or less obtain any multiplier value we desire
by varying the scale of the region under study. Since our present study is confined to a single region, we are not in a position to empirically scrutinise this argument, but we may counter this criticism by a priori reasoning put forward by Richardson (1969). According to him, multiplier values are, in fact, higher for larger regions. A large region will tend to have smaller (in p.c. term) export base but it will also have a low propensity to import and this will tend to raise the value of the multiplier. Conversely, a small area will have not only a high export-income ratio but also a high marginal propensity to import both of which will tend to reduce the value of the multiplier. Meyer (1963), Sirkin (1959), Isard (1960), Richardson (1969), and others have also pointed out inter-temporal instability of the base ratio and hold that it cannot yield a predictive multiplier. This implies that propensity to consume, propensity to import, propensity to tax, etc., may change over time and the value of the multiplier computed on the basis of given values of the determinants cannot give us a reliable projection of regional income in future. But in the underdeveloped regions caught in the vicious circle of poverty, stagnancy is the rule and changes, if any, are extremely slow. Therefore, one may proceed with the assumption that over a planning horizon of 5 to 10 years, the multiplier will be reasonably stable for such regions. Secondly, if the value of the multiplier is observed to change in the long run, the changing value of the
multiplier itself may be used to determine the degree of self-reliance attained by the region. The greater the extent of income leakage obtaining in a region, the lower will be the value of the multiplier. Hence, computation of a regional multiplier at different points of time will throw light on the success or otherwise of the efforts to bring about basic changes in the economy. This will assist formulation of a fresh policy for a time horizon of a reasonable dimension. Our case study of Tripura has been inspired precisely by this type of objective. We have analysed the structure of Tripura's economy not with the hope that the multiplier which we have estimated will be stable for a very long period but with the reasonable assumption that the determining factors will not materially change over a decade or so and it will serve the purpose of prescribing appropriate measures. If by stability of multiplier, we mean its worth to be used for policy formulation then there is no reason to think that export base multiplier lacks that quality.

Tiebout (1964) and other critics are of the view (this view follows from the point of criticism just discussed) that the base is a short-run concept and hence should not be extended to the question of regional development which is a long-term problem. But concepts originally developed for short run analysis have often been broadened to deal with long-term problems also. Post-Keynesian growth models like those of
Harrod (1948), Domar (1954), Kaldor (1960) and others have used Keynesian tools of income generation. In Chapter III, we have formulated two sets of equations - the first set dealing with the problem of short-run income determination and the second set demonstrating growth relation between endogenous and exogenous contents of income.

The most effective challenge that has been thrown against the base theory is that the regional growth cannot be adequately explained by variation in external demand. Exports as well as import substitution may act as the crucial factor of regional change. Tiebout (1964a, 1964b) emphasises the importance of endogenous factors like business investment while North (1964a and 1964b) opines that export is the real determinant.

The export base model which we have built up in Chapter III can go a long way to resolve this controversy. The fundamental income equation and the growth equation presented in Chapter III are equations (3 - 4) and (3 - 6) which run as follows:

\[
Y_T = \frac{a}{1-b} + \frac{1}{1-b} \cdot Y_x \quad \ldots \ldots \ldots \ldots \ldots (3 - 4)
\]

\[
Y_T = Y_x \cdot \frac{Y_x}{a + Y_x} \quad \ldots \ldots \ldots \ldots \ldots (3 - 6)
\]

Where \(Y_T\) and \(Y_x\) are the region’s total income and
exogenous income respectively, $y^*$ and $y_x$ are their respective growth rates and 'a' and 'b' are the parameters. It is observed from (3 - 4) that the level of total regional income depends on three factors: the exogenous income $y_x$, the value of $1 - b$ which is the 'marginal coefficient of income leakage' and the parameter 'a' which represents the influence on total income which is autonomous of exogenous income. The growth equation (3 - 6) shows that the rate of growth of regional income is tied to the rate of growth of exogenous income as well as the value of the parameter 'a'. Thus, while the income equation emphasises the role of income leakage along with the exogenous income, the growth equation pinpoints the importance of autonomous element of internal income. In the growth equation, the parameter 'a' determines whether the rate of growth of regional income will be greater than or equal to or less than the rate of growth of exogenous income.

In case of Tripura, we have observed that the role of income leakage in thwarting the expansionary effect of exogenous income is prominent. Also, large value of 'a' in case of Tripura suggests that a substantial part of her regional income is non-responsive to base expansion.

Thus, in an export base model, it is possible to assign due weight to both internal and external factors. We may resolve North-Tiebout controversy by saying that both exports (or exogenous factors in general) and internal factors
like import substitution (leading to reduction of income leakage) may contribute to growth in regional income in their own ways.

Incidentally, we may discuss the views of Hartman and Seckler (1970) who entered into the North-South controversy and envisaged three distinct states of a regional economy. According to them, a regional economy could be in (1) a stationary state, (2) a state of endogenous growth and (3) a state of export expansion with the further condition that endogenous growth was impossible. It is interesting to observe whether the present condition of Tripura's economy is akin to any of the three states mentioned above. Obviously, economic growth achieved with the help of Central resource transfer would make it unrealistic to place Tripura's economy in any of the categories (1) and (2). As regards the state (3), we may say that Tripura has been undergoing exogenous growth. Though this cannot be called a state of export expansion in true sense of the term, it is a fact that external factors like resource transfer from the Centre (which is 'transferred income' of the State) is playing the key role in her economy.

Secondly, though the rate of growth of the endogenous sector is not nil, this sector is lagging far behind the exogenous sector in growth performance thereby leading to the occurrence of income leakage in the State. But contrary to state (3), Tripura's condition is such that her endogenous
sector has growth potential and on the exploitation of this potential future course of her development greatly depends.

Section B: Policy Implications

As our case study reveals, the problem of Tripura's socio-economic transformation is threefold. These are as follows:

1. Extremely narrow economic base of the region which makes her helplessly dependent on the resource transfer by the Central Government to the State.

2. Substantial magnitude of income leakage obtaining in the State thus neutralising expansionary effects of generous flow of Central aid to the State.

3. Traditional character of a part of Tripura's economy (which may be identified with backward and subsistence agriculture) which makes it non-responsive to external stimuli.

All these problems are, in fact, the symptoms of the basic malady of socio-economic backwardness. The three tasks of expansion of economic base, reduction of income leakage and removal of institutional and organisational inelasticities call for an integrated approach.

The development strategy appropriate for attaining this
goal is one of correcting sectoral imbalance of Tripura's economy (which is biased overwhelmingly in favour of agriculture, so that about 70 p.c. of workers are engaged in primary activities) and achieving optimal relation between the different sectors. The relative sectoral growth should be so as to maximise the overall rate of growth. Growth of one sector should help the other sector by absorbing surplus labour, by providing inter-industry demand for intermediate products or by stimulating demand for final products via income-effect and lastly, by helping change in the socio-cultural outlook. In other words, piecemeal attempt at industrialisation or improvement of agriculture or regeneration of forest wealth or even transport and power development will not be of much avail. What is needed is a 'balanced growth' approach, i.e., development of these broad sectors in unison so that meaningful linkage is established between them to the common benefit.

Let us develop this point in greater detail. In Chapter V, we have remarked that Tripura's socio-economic scene is characterised by dualism — there existing a marked difference in economic status, social institutions and cultural outlook between the tribal and non-tribal society or between the hills and the plains in Tripura. The settlement of the nomadic jhumis and breaking the isolation of the tribal society from the mainstream of economic activities are problems the solution of which hold the key to any meaningful transformation of Tripura's traditional economy. A welfare type of
approach to solve this problem has so long yielded only limited success. A production-oriented approach and a series of steps to open new vistas of occupations to the tribes are the needs of the hour. It is well known that consequent upon immigration of displaced persons to the State, scarcity of cultivable plainland constitutes a constraint on the rehabilitation of the tribes in sedentary cultivation. Therefore, innovations must be made in forestry and horticulture so that tribal life may flourish in these sectors. This will need reclamation of the unutilized hilltract for horticultural development and forestry. But largescale investment in reclamation of hilly land and expansion of production of pineapples, oranges, lemons, tomatoes, etc., will bring prosperity to tribal economy if this is accompanied by a long-term scheme to develop fruit canning and preservation industry. Only then an export base may be created in horticultural crops. Similarly, development of forestry will bring quick profit to the people in this occupation only if forestry-based industries are set up in the State. For example, preservation and raising of bamboo bushes, camphor trees and other soft wood will be remunerative if paper and/or paper-pulp industry, plywood industry, etc., are established in phases. On the other hand, significant development of fruit canning and fruit preservation industry and forestry-based paper and plywood industries must await considerable widening of their rawmaterial base to be formed in forestry and horticulture.
The inter-dependence between the primary and secondary sectors is probably nowhere so prominent as in Tripura and other north eastern States of India suffering from geographical isolation. The forestry development schemes of the Government of Tripura include programme for realising quick returns in rubber, coffee and citronella plantations. It has also programme for exploring the possibilities of growing valuable exotic spices and medicinal plants. These may create further potential of developing secondary and tertiary activities based on them. Tea industry in Tripura, if placed on a sound footing, could also provide another instance of successful linkage between primary and secondary activities in the State. A combination of scientific forestry, modern horticulture, plantation and processing industries can alone provide minimum living standard to people in the hills of Tripura and bring them into the mainstream of economic life. This will also considerably strengthen Tripura's economic base.

The link between agricultural development and industrial change in the State is obvious. In the absence of known sources of mineral wealth, agricultural revolution in the State is a precondition of industrialisation. Because, generation of substantial agricultural surplus is essential not only to supply raw materials to industries like jute, sugar, rice-bran oil, etc., but also to ensure an internal market for any industry that may possess restricted external demand owing to high transport cost. Unless the rural people of Tripura
(who constitute about 90 p.c. of the population) experience an upward shift in their real income, even small-scale textile units with power looms or aluminium industry making simple utensils may not be able to flourish in the absence of sufficiently large (as large as to cross the threshold) demand. Moreover, modernisation of agriculture would also facilitate industrialisation by creating demand for agro-service industries, rural electrification, granulated fertiliser project, pesticide formulation plant, etc. It is wellknown that establishment of these industries—is an essential condition of modern agriculture. But in Tripura, attempts to create installed capacity in these industries will be justified only after a substantial progress in the modernisation of agriculture has been achieved in the State. Thus agriculture via forward and backward linkage can contribute substantially to the growth of industries in the State.

Let us now look at the other aspect of the causal chain. Transformation of Tripura's overcrowded subsistence agriculture into a modern market-oriented profit-motivated enterprise is itself dependent on transfer of its surplus labour to secondary and tertiary sectors. Unless a bold beginning is made in industrialisation (which should include setting up of medium-scale industrial units as well as small-scale processing units, servicing units and other industries) solution of the problem of disguised unemployment in agriculture is not possible.
Secondly, only establishment of industries using agricultural raw materials like jute, sugarcane, cotton, oilseeds, etc., can ensure a stable demand for these commercial crops at profitable prices.

Agricultural development in the State (mainly through extensive cultivation) has lagged behind population growth. A self-sufficiency drive in foodgrains will go a long way to conserve the income flow within the State and thus increase the multiplier effect of resource transfer effected by the Centre. Moreover, growth of output in commercial crops like jute, mesta, tea, oilseeds and cotton may go a long way to increase the exportable surplus of the State. It, however, calls for a shift in the agricultural strategy in favour of intensive cultivation. Green revolution does not seem to have gained momentum in Tripura. It may be noted that the development strategy of the State's Fifth Plan (1974 - 79) focusses attention on the following programmes:

1. Considerable extension of area under H.Y.V. of Paddy,
2. Increased use of fertilisers,
3. Extension of plant protection measures,
4. Popularisation of mechanical cultivation, and
5. Extension of area under minor irrigation.

This programme must be accompanied by necessary land reform measures and improvements in agricultural extension.
services, such as, provision of agricultural credit, marketing and research, processing and storage, etc. The operations of the co-operative credit and service societies, rural branches of the commercial banks, development agencies for small and marginal farmers, etc., have to be directed and geared to achieve this goal.

The role of a bold industrialisation programme in Tripura in building up an economic base (exportable surplus) in the State and in the reduction of income leakage cannot be overemphasised. In the early period of planning, the main strategy of industrial development was to provide industrial extension services to the existing cottage and village industries. For this purpose, two industrial institutes were started for imparting training in weaving, dyeing, tanning, shoe making, umbrella making. The handloom industry has been the leading cottage industry. There also has been some development in handicrafts, agriculture and Khadi industries under the government patronage. Three Industrial Estates and one Small-Scale Industries Corporation for promoting small-scale industries have been established in the State.

But even after two decades of planning, Tripura's industrial base has been extremely narrow. Contribution of all types of industries to state domestic product was about 4 p.c. in 1970-71. Tea industry has remained the only organised industry. But this industry consisting of 55 tea gardens has
also been suffering from financial difficulties and organisational weaknesses as a result of which many gardens have become sick. Both the State Government and the Tea Board have to take urgent measures to save this important export-oriented industry. In the present circumstances, Tripura can make a fair beginning in industrialisation with a number of medium-scale industries.

The industries that have growth potential in Tripura may be divided into three groups. These are as follows:

1. Industries using local raw materials and having local market.
2. Industries using imported raw materials (i.e., raw materials imported from outside the State) catering to local demand.
3. Industries using local raw materials but having an external market.

The first two groups of industries would help the State in fighting the problem of excessive income leakage and the third group would expand the export base. Industries like sugar, paper, glass, mechanised brick manufacturing, plywood fall in the first group. The second group may consist of powerlooms and textile-processing units, steel re-rolling mills, plastic-processed goods plant, granulated/mixed fertiliser plant, pesticide formulation plant, etc. In the third group, jute mill, fruit canning
It may be mentioned that industrial development programme of the Fifth Five Year Plan of Tripura includes the proposals of setting up of (1) a paper mill at Kumarghat in North Tripura, (2) a jute mill at Harania in East Tripura and (3) some khandesari sugar mills.

A State Financial Corporation is also being floated for financing these industries and for getting finance from the term-lending institutions. These industries will be set up in the public sector. However, the Joint Institutional Study Team (1970) advocates the association of private corporate enterprises from outside the State in the task of industrialisation. This possibility may also be explored by the State Government.

The question may arise whether at the present state of infrastructural weakness afflicting the State economy (which we have discussed in Chapter V), any bold programme of industrialisation will be justified. To answer this question we may point out that even in deciding priority between infrastructure building and industrialisation, a balanced growth approach will be preferable for Tripura.

Considerable development in transport, power generation and banking facilities, etc., is, no doubt, indispensable. But unless industries start growing infrastructure building
will not be socially profitable. Rather, a problem of excess capacity may arise. Moreover, generation of agricultural surplus and establishment of industries will induce railway authorities, bankers, inter-state development agencies to provide transport facilities, credit and power supply, etc., to the State. Hence infrastructure development and industrialization programme should form interlinked parts of an integrated plan of economic development of the State.

In Tripura’s semi-stagnant economy, absence of a growth-boosting sector is conspicuous. A growth-boosting sector is a lead sector which forms a nucleus of growth around which a number of industries can flourish because of linkage or which can cause a widely diffused appreciation of income so as to stimulate the growth of other industries via the effect on demand. In the terminology of our model, a growth-boosting sector is generally a vigorous and dynamic export base with high multiplier effect. But any and every export-based industry may not act as a growth booster unless its base is wide and strong. In Tripura, Tea industry and Jute production are export-based. But these have clearly failed to boost up Tripura’s economy in any appreciable way. Administrative expansion cannot be a permanent growth booster because it has already reached its limit. We have also observed that the exogenous sector created around the nucleus of public administration has a poor multiplier effect.
It seems that a strong growth-boosting sector may be found in Tripura if the efforts of the O.N.G.C. in the State to explore the oil and natural gas deposit in the State succeeds. Already there is scope to utilise the large gas deposit at Baramurah for generation of electricity.

Another remarkable growth-booster may be extension of the Railways which through generation of local employment, promotion of tourism and hotel industries, etc., and above all, by cheapening of transport in the State may appreciably enhance the growth potential of Tripura's economy.

Pending any development in the exploration of the mineral deposits or extension of the Railways, search for a moderately powerful growth booster must continue in agriculture-sum-forestry and an agro-based and forestry-based industrial complex.

Before winding up, we propose to discuss two recent developments that have important bearing on the development strategy to be adopted in Tripura. These are:— (i) qualitative change in the Centre's policy of resource transfer and (ii) establishment of North Eastern Council and its role in regional development.

Tripura attained Statehood in February, 1972. Though liberal flow of budgetary assistance to Tripura from the Centre has continued even after this date, a full-fledged State is expected to attain certain degree of self-reliance gradually.
The Planning Commission has been emphasizing on the State's own efforts for mobilization of resources for planned development. Moreover, since the later part of the Fourth Plan period, there has been a marked shift in the policy of resource transfer from the Centre to the backward States.

So long, plan and non-plan aids to the States had been channelled through the Planning Commission and the Finance Commission respectively. But, as we have observed in Chapter I, this policy has met with extremely limited success in solving the problems of the backward States. Hence the recent trend in Centre's policy is to assign an increasingly prominent role to the term-lending institutions in the matter of provision of development finance to the backward regions. This means a shift of policy towards project-specific or project-tied aid from the principle of generally meeting the deficit of the States in financing development projects. It is now realized that project-specific flow of fund from the all-India term-lending institutions (with active help and cooperation of the Central Government) to the industrial units themselves or to the promoter institutions will go a long way to speed up the process of industrialization of the backward regions.

As the annual report of the I.B.H.I. (1973 - 74) indicates, the institution introduced in 1970 two schemes of concessional assistance - the first was to provide refinance at a concessional rate to S.F.C's/Banks in respect of eligible
loans up to a certain limit (in 1973, Rs. 30 lakhs) given to a small or medium-sized project in the specified backward districts; and the second was to provide direct assistance on concessional terms for setting up new projects involving cost not exceeding a particular amount (which stood at Rs. 2 crores in 1973). Recently underwriting assistance is also being provided.

In August 1974, the Central Government also introduced a scheme which provides for outright grant of subsidy by the Government. The rate of subsidy has been 10 p.c. of fixed capital investment and the ceiling on investment eligible for subsidy is Rs. 1 crore. The financial institutions have assumed the role of disbursing agencies.

The policy implications of these developments for the State authorities in Tripura is that in addition to grant or loan from the Centre through the Finance Commissions and the Planning Commission, they should increasingly tap these new sources for ensuring flow of fund from the rest of India to this backward region. For optimal utilisation of project-specific loans much spade work need be done in studying development potentials, preparing project reports and inducing the entrepreneurs from within and outside the State to embark on new ventures. To a great extent, the State itself has to play the role of a Schumpeterian entrepreneur. Outflow of
funds from the State will be somewhat checked and to that extent the quantum of income leakage will decrease.

Establishment of North Eastern Council - a regional development authority - through an Act of Parliament in 1972 has opened new possibilities before Tripura and her sister States in the North Eastern region. The Council has been established in recognition of the fact that its member States (Assam, Manipur, Meghalaya, Nagaland, Tripura, Arunachal Pradesh and Mizoram) have certain geographical and socio-economic unity and a host of common problems that call for integrated approach. The small States in the region do not have the financial and other resources to meet their development needs individually. Therefore, the N.E.C. will formulate and execute a regional plan which will be complementary to State and Central plans and which would provide for greater care of such problems/programmes as cannot be tackled by the State plans themselves either because of paucity of financial resources or because of gaps within the individual units in terms of complementary resources or infrastructure in relation to particular economic activities.

The approach of the N.E.C. to regional development problem is generation of external economies and betterment

of the overall economic environment of the States by a number of schemes. These schemes may be classified as follows:

(1) Development of infrastructure which includes construction of roads and ropeways, power generation, etc. (2) Organisational reform of agriculture which consist of an integrated and comprehensive schemes for jhum control and settlement of the jhumias with provision for soil conservation, plantation, afforestation schemes, etc., to be preceded by extensive land capacity and soil survey. Development of animal husbandry and pisciculture will also form an integrated part of agricultural programme. (3) Fundamental research on and survey of the resource base and problems of the region and establishment of growth-promoting institutions to work in the field of research, manpower-training, supply of inputs, etc. The proposed surveys include, inter alia, survey of ground-water resources, marketing survey, etc. The important institutions are Regional Documentation and Information Centre, Regional Hydraulics Research Institute, Regional Medical College, Regional Mineral Exploration Corporation, Regional Seeds Corporation etc. (4) Creation of special bodies to take part in the task of industrialisation. The N.E.C. proposes to set up a Regional Cement Corporation for production of cement and a Regional Paper Corporation for the production of pulp/paper and allied products.

These schemes are of vital importance to Tripura. Particularly, Tripura can attempt to solve the vexed problems of transport bottleneck and power famine only with the help of
a multi-State development authority like the N.E.C. This is because of the fact that the development of infrastructure has an element of indivisibility (i.e. cannot be made in an isolated or fragmented way in the State) and externality.

Apart from direct benefits from jhum control scheme etc., a number of external economies in the form of lower transport cost, cheaper power and other inputs for agriculture and industries, easy availability of technical expertise and fruits of research will accrue to the State as a result of planning by the Council. Industrialisation of the North Eastern Region as a whole will generate economies of localisation which will help Tripura to develop industries like paper-pulp, sugar, jute, etc., if inter-State co-operation and understanding is ensured. In other words, expansion of the economic base of Tripura is inextricably bound up with the question of base expansion in the whole North Eastern Region.

Net gain for Tripura in base expansion will depend primarily on the State's ability to increase her net exports to the other units of the region with the expansion of the region's infrastructure. There will be some secondary effects on the commodity inflow and outflow with respect to the rest of the country. If through the N.E.C. the region as a whole can achieve some relative advantage in the matter of inflow
of resources Tripura will also have a share of it the extent of which will depend on the State's success in dovetailing its own development plans to that of the N.E.C.