CHAPTER - I

INTRODUCTION

1.1. STATEMENT OF THE PROBLEM

Institutions and policies conducive to dynamic and sustainable economic growth are essential for alleviating poverty. However, many low-income countries, including many fairly well governed ones, cannot afford the public investments in basic infrastructure, human capital, and public administration that are foundations for private sector growth and economic development. This realization makes many countries look for a means to usher in development. Planning is one of the means to support public investments and push up the capital stock - infrastructure, human capital, public administration, etc. above the threshold needed for self-sustained economic growth.

Investment is considered a crucial source of productivity and economic growth. The fundamental impact of investment on development and growth has led to an enormous amount of research, both theoretical and empirical, that examines the relationship between investment, productivity, and economic growth. Expenditures on education, job-training, labour migration, and health care are all expenditures that increase the quality of human labour, enhance productivity, and are rightly called investments. Investment in research and
Government consumption expenditure and gross investment provide a relatively descriptive summary of Government activity. Government investment creates public infrastructure that is essential for long-term economic growth and well-being of the society. Government incurs expenditure on building roads, housing, schools and hospitals, power grids, communications networks, and other vital infrastructures. In addition, Government provides grants (transfers) to the private sector to encourage their investment activities. In fact, Government investment, in a broader sense, considered as expenditure in tangible assets, as well as education, training, other human capital accumulation, or research and development, also ultimately contribute to output, productivity, and growth. Hence, depending on which area and how investment is made and expenditure is incurred under the plans, Government investment shall have different effects on economy. In the present study, Government’s plan investment in Manipur, expenditures, particularly, Government’s investment expenditure in ten sectors, viz, agriculture, industry, irrigation, power, transport, rural development, science & technology, general economic service, social services, and general services has been studied to understand its impact on development.
1.2. BACKGROUND OF STUDY AREA

Manipur is a small hill-locked state of Indian Union located in the north eastern corner of the country adjoining Myanmar (Burma). The geographical location of Manipur with respect to the country is illustrated in the map, wherein the nine districts of the State and its neighbours and the State’s boundary, both national and international are also indicated. The geographical area of Manipur is 22,327 sq kms\(^1\). The population of Manipur, as per Census-2011, is 27,21,549. Manipur is the fourth largest state in area and population among the eighth north-eastern states. It lies in between 23\(^0\)50’ N and 25\(^0\)41’ N latitudes and in between 93\(^0\)80’E and 94\(^0\)80’E longitudes\(^2\). The State is bounded on the north by Nagaland, on the south by the Chin Hills of Myanmar and Mizoram, on the east by Upper Myanmar and on the west by the Cachhar District of Assam. The Tropic of Cancer runs to the south of Manipur at a distance of about 37 kms from its southern boundary. The length of the international border that the State shares with Myanmar is about 352 kms\(^3\). All the District and Sub Divisional Head Quarters (HQs) both in the hills and in the valley are connected by motorable roads. There are no effective waterways and Mass Rapid Transport System (MRTS). Road transport plays an important role in the economy of Manipur. The State capital, Imphal is well connected by air with other cities - Aizawl, Delhi, Guwahati, Kolkata and Silchar by various flights.

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\(^1\) Govt of Manipur, Statistics & Economics Department, Statistical Abstract Manipur-2009, P. 1.


\(^3\) Govt of Manipur, Statistics & Economics Department, Economic Survey Manipur, 2007-08, P. i.
The National Highways, viz. NH-2 and NH-102, the Dimapur-Imphal Road and the Imphal-Moreh Road (the then NH-39 is now divided into two highways, of which the stretch from Dimapur to Imphal has been renamed as NH-2 and that from Imphal to Moreh, Indo/Myanmar Border as NH-102), the NH-37 (the then NH-53), Silchar-Imphal road are the corridors which connect the state with the rest of the country. NH-2 connects Imphal with the nearest railhead at Dimapur in Nagaland which is about 215 km from Imphal. The NH-2 after passing Imphal now further connects Churachandpur in Manipur, Seling, Serchhip, Lawngtla and terminates at Tuipang in the State of Mizoram. The NH-37 (the then NH-53) connects Imphal with the railhead at Jiribam which is about 225 km from Imphal. NH-202 which runs from Imphal to Melury in Nagaland is part of the earlier NH-150, Jessami-Imphal-Aizawl road.

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4 All the National Highways in the country have been instructed to be renamed as per Ministry of Road Transport & Highways, Government of India’s Notification No. S.O.542(E) dtd the 5th March, 2010 published in the Gazette of India : Extraordinary, dtd 05-03-2010. As per the above mentioned notification, the highway starting from its junction with NH-15 near Dibrugarh in the State of Assam, Mokokchung, Wokha and Kohima in the State of Nagaland, Imphal, Churachandpur in the State of Manipur, Seling, Serchhip, Lawngtla and terminating at Tuipang in the State of Mizoram has been renamed as NH-2, vide Notification of MoRTH, GoI published in Gazette of India: Extraordinary dtd 05-03-2010, P. 21.


6 The highway, the then NH-37, starting from its junction with NH-2 near Imphal, connecting Jiribam in Manipur Jirighat, Lakhipur, Silchar, Badarpur, Karimganj in the State of Assam and terminates at Indo/Bangladesh Border has been renamed as NH-37. The highway starting from its junction with NH-2 near Imphal and terminating at Moreh (Indo/Myanmar Border) in the State of Manipur is now renamed as NH-102. In fact NH-102 is part of the then NH-39, cf. Ibid., P. 22.


8 The highway starting from its junction with NH-2 near Makokchung in the State of Nagaland connecting Tuensang, Sampurre and Meluri in the State of Nagaland, Jessami Ukhrul and terminating at its junction with NH-2 near Imphal in the State of Manipur, which was earlier part of NH-150 has been re-named as NH-202. cf. Ibid., P. 22.
The economy of Manipur was predominantly agrarian and extremely backward when Manipur became a part of India in 1949. The agrarian economy supplemented by forest produces and handloom products could meet the basic requirements of food, clothing and shelter. The economy was self-sustained and production was to meet the demand for internal consumption only. Basic infrastructures like, road, power and other social infrastructures for education and healthcare required for a good living and thriving economy were almost non-existent. The private enterprises required for a thriving economy were almost non-existent or remained inactive. The productive capacity, output and the rate of economic growth were weak due to the absence of industries in public and private sectors.

Literacy rate in Manipur in 1951 was 11.4 per cent against the national average of 29.34 per cent. In 1951, the road density was 0.97 km per 100 sq km against the national average of 12.17 km/100 sq km which is 12.55 times more than that in Manipur. Status of roads in the State remained obscure, as category of roads such as State Highway (SH), Major District Road (MDR), Other District Road (ODR), Village Roads (VRs) were either in a very bad condition or not recorded properly. Sources from PWD provided only 216.40 km length of black topped road in the category under National Highway (NH). By 1951, the number of licentiate Doctors, Nurses, Dispensaries and Hospitals in Manipur respectively were 27, 11, 9 and 5. To quote Dr Kumud, the then Director of Health, Government of Manipur: “Communicable diseases were rampant and epidemics of cholera and small pox frequently decimated the entire population. Malaria was
a major health problem affecting severely the rural population”. Health care in 1951 was virtually unknown to the common people in the far flung areas. For some sectors data were not available for the year 1951, earliest available data such as for the year 1961 are referred. The total number of educational institutions was 1140, of which 3 were colleges and 23 were high/higher schools in 1955-56. The per capita consumption of electricity in Manipur in 1960-61 was 10.69 KWH against 38.20 KWH of national average. The per capita income in 1960-61 was Rs. 193.60 at current prices against Rs. 380 of all India average. Comparison of the human development parameters of Manipur with that of India in the 1950s and 1960s shows that Manipur was much far behind the national average, which otherwise indicated that there were much work to be done in the development front to bring Manipur at par with the national average. It may be pertinent to have an examination to know where India stood in comparison with the rest of the developed countries in the world. India’s per capita income standings among countries in the world and some other parameters of human development like literacy rate, rate of increase in population, etc. will portray the position where India stood in comparison with the other developed countries.

In 1950, life expectancy in India, Japan, United Kingdom (UK) and United States of America (USA) respectively were 32 years, 61 years, 69 years and 68 years. The longevity of an average Indian in 1950 was about half that of his counterparts in Japan, UK and USA. The Gross Domestic Product (GDP) per capita of India, Japan, United Kingdom and USA in 1950 (in 1990 international dollars)
were $619, $1,926, $6,907 and $5,301 respectively. The GDP of India was much less than that of Japan, UK and USA in 1950. It was approximately $1/3^{rd}$, $1/11^{th}$ and $1/15^{th}$ times that of the GDP in Japan, UK and USA respectively. Comparing India with other countries in the world like Japan, United Kingdom, and USA shows that the per capita income of India in the 1950s was one of the lowest per capita incomes in the world. The standard of living and human development index of an Indian in the 1950s and 1960s was much lower than its counterparts in other developed countries. In short, an Indian in 1950 was much vulnerable than a Japanese or a Britisher or an American and his opportunity and choice was much limited. By the same token, the development indicators of Manipur being much lower than the Indian average, a Manipuri in 1950 had much less opportunity than an Indian in terms of life expectancy and level of living and other opportunities. Hence, development efforts had to be primarily directed for socio-economic development of Manipur, an under-developed state. The efforts in Manipur had to take off with many constraints - inadequate saving to finance the plan investments and inadequate organization or institutional capacity for implementing the plans. Structural changes in the State’s economy had to be initiated to bring about and to achieve a high growth rate and a progressive improvement in the standard of living of people in the State. Hence, ‘Development Planning’ - as an instrument of social and economic transformation is essential for Manipur, a socially and economically weak state in India. Planning thus is crucial for economic development of Manipur. Planning is a legitimate means to increase the productive capacity, output and the rate of growth for economic development of Manipur.
1.3. ECONOMIC DEVELOPMENT

The term, ‘development’, has been used in several ways. ‘Development’, in general, means an ‘event constituting a new stage in a changing situation’\(^9\), or the process of change *per se*. ‘Development’, when referring to a society or to a socio-economic system, usually means improvement, either in the general situation of the system, or in some of its constituent elements. It is obvious that different countries have different priorities in their development policies, and to compare their development levels, one has to define the goal and what is desired to achieve in the development process – Whether the goal is merely to increase national wealth, or Whether it is something more subtle or, Whether it is for improving the well-being of the majority of the population or, Whether the goal is merely for ensuring people’s freedom or, increasing their economic security. Indicators can then be used to judge the countries’ relative development.

The definition or core perspective on the meaning of development needs a relook from the experience of the 1950s and 1960s, when many developing nations did reach their economic growth targets but the levels of living of the masses of people remained for the most part unchanged\(^10\). An increasing number of economists and policymakers clamored for more direct attack on widespread absolute poverty, increasingly inequitable income distributions, and rising


unemployment. In short, during the 1970s, economic development came to be redefined in terms of the reduction or elimination of poverty, inequality, and unemployment within the context of a growing economy. “Redistribution from growth” became a common slogan\(^\text{11}\). Since the 1970s, indicators of development widely used by development scholars and development agencies such as the World Bank, emphasized the meeting of basic needs (or, equivalently, reduction in absolute poverty), the creation of modern employment opportunities, less unequal distribution of income and farmland. ‘Development’, therefore, is perceived as a multidimensional process involving the reorganization and reorientation of entire economic and social systems. Development encompasses not only economic progress, but also a radical change in institutional, social, and administrative structures as well as in popular attitudes and, in many cases, even customs and beliefs.

Simon (1997) looked at ‘Development’ as a process that enhances individual and collective quality of life through access to the means of accumulating social power, in a manner that satisfies the basic needs at a minimum, environmentally, socially and economically sustainable way, which also empowers the people concerned a substantial degree of control, as total control may be unrealistic over the process\(^\text{12}\).

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Ghosh (2001) asserted that development is a phenomenon that can be looked at from the perspective of economic backwardness of domestic economies in terms of policy failures, implementation failures or resource inadequacy and sub-optimality in the allocation of resources\textsuperscript{13}.

Todaro (2004) defines development as the capacity of a national economy, whose initial economic condition has been more or less static for a long time, to generate and sustain an annual increase in its gross national product at rates of perhaps 5 per cent to 7 per cent or more. Todaro holds that development must be conceived as a multidimensional process involving major changes in social structures, popular attitudes, and national institutions as well as the acceleration of economic growth, the reduction of inequality, and the eradication of poverty\textsuperscript{14}.

According to Kooros, \textit{et al} (2007) ‘Development’ occurs when all segments of the society get benefit from the fruit of economic growth through efficiency and equity which transform a traditional dual-system society into a productive framework in which everyone contributes to and receive


benefits accordingly\textsuperscript{15}. Economic development has traditionally been seen as the first form of development. It has often been strictly associated with the concept of economic growth, which in turn may be defined as an increase in the per capita income of the economic system. Growth defined in this way can be seen more as the result of an economic development process, i.e., the transformation of the structure of an economic system, rather than as a development process. It is evident that although growth and development are found to be used in economic literature interchangeably, these two terms convey different meanings. The two terms can have different meanings, implicit in general use and explicit in what follows.

According to Hayami and Godo (2005) economic growth is concerned mainly with growth in economic variables such as between the national income, growth rate and the speed of capital formation, and their relationships. On the other hand, ‘economic development’ is usually perceived as a process involving not only quantitative expansions but also changes in non-quantitative factors such as institutions, organizations and their culture under which economies operate. Economic Growth is considered a quantitative aspect of economic development. It is relatively common to distinguish the term ‘economic development’ from ‘economic growth’, though they are used interchangeably in

some cases\textsuperscript{16}. To Kindleberger and Herick Bruce (1984), economic growth means more output, in particular and Economic development implies not only more output but also different kinds of output than were previously produced, as well as changes in the technical and institutional arrangements by which output is produced and distributed\textsuperscript{17}.

According to Nafziger (2006) ‘growth’ may be necessary but not sufficient for development and ‘economic growth’ refers to increases in a country’s production or income per capita\textsuperscript{18}. Production is usually measured by gross national product (GNP) or gross national income (GNI), used interchangeably. ‘Economic development’ implies ‘economic growth’ accompanied by changes in output distribution and economic structure\textsuperscript{19}. These changes may include an improvement in the material well-being of the poorer half of the population; a decline in agriculture’s share of GNP and a corresponding increase in the GNP share of industry and services; an increase in the education and skills of the labor force; and substantial technical advances originating within the country. As with children, growth involves a stress on quantitative measure (height or GNP), whereas development draws attention to changes in capacities (such as physical coordination and learning ability, or the economy’s ability to adapt to shifts in tastes and technology).


According to Little (1982), “Economic Development (or economic progress or real economic growth) occurs if there is a rise in the present value of average (weighted) consumption per head.”

In economic development, the real per capita income of a country increases over a long period of time and the number of people below an absolute poverty line does not increase and that the distribution of income does not become more unequal. There is the general agreement amongst the economists that economic development involves ‘something’ more than growth. Growth is generally applied to describe a uni-dimensional change whereas economic development is applied to describe a complex multi-dimensional concept involving improvements in human well being. The inference being made is that although economic growth is necessary for economic development, economic growth only is not a sufficient condition for economic development. Therefore, the term economic development is far more comprehensive. It implies progressive changes in the socio-economic structure of a country. The pace of economic development depends on a variety of factors which constitute the psychological and sociological setting within which the economy operates. A major element in this setting is the community's will to progress and its readiness to develop and adopt new and more efficient methods and processes of

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production. Basically, development involves securing higher productivity all round and this is a function of the degree of technological advance the community is able to make. The problem is not one merely of adopting and applying the processes and techniques developed elsewhere, but of developing new techniques especially suited to local conditions.

### 1.4. Measures of Development

Economic development is a dynamic and complex process involving qualitative, structural and institutional changes over time in which several forces work together to bring about an economic change for the betterment. Hence, the measurement of economic development in simply one or two yard sticks may be weak. Economists have used various tools and methods for the measurement of the level of development of a country, such as - the GNP per capita, or GNP, or, Physical Quality of Life Index (PQLI) and Human Development Index (HDI) for the measurement of economic welfare of a country. Literacy, mortality, health, sanitation, infrastructure facilities, agricultural productivity, urbanization, non-agricultural employment opportunities etc. are some of the important indicators reflecting economic development\(^ {21}\).

1.4.1. Per Capita Income

The International Bank for Reconstruction and Development (IBRD), popularly known as the ‘World Bank’ uses ‘per capita income’ as the criterion for classifying developing nations. Several international agencies, *inter alia*, the Organization for Economic Cooperation and Development (OECD) and the United Nations, use the ‘economic status of countries’ as the criterion for classifications of development. However, the per capita income method of classification of IBRD is found to be the most common and the IBRD ranked 210 economies with a population of at least 30,000 by their levels of gross national income (GNI) per capita\(^2\). These economies are then classified as -

i) Low-income countries (LICs) (Countries whose per capita gross national income in 2008 of $975 or less),

ii) Lower-middle-income countries (LMCs) (Countries whose per capita gross national income in 2008 is in between $976 and $3,855),

iii) Upper-middle-income countries (UMCs) (Countries whose per capita gross national income in 2008 is in between $3,856 to $11,906). Often, LMCs and UMCs are informally grouped as the middle-income countries,

iv) High-income OECD countries (Countries whose per capita gross national income in 2008 is $11,907 or more).

1.4.2. **Human Development Index (HDI)**

The Human Development Index (HDI) is an alternative measure of welfare constructed by the United Nations’ Development Program (UNDP) to measure human development and thus address the issues of human development. The UNDP defines human development as “a process of enlarging people’s choices. The most critical ones are to lead a long and healthy life, to be educated and enjoy a decent standard of living.”

For the developing countries, the 1980s has been widely assessed as a “lost decade”. UNDP has argued that human development disparities between DCs and LDCs are much less than disparities in income per capita, and that human development narrowed considerably between DCs and LDCs while income gaps were widening. The HDI (2010) emphasizes a great deal on three indicators – longevity, which, in fact, is a proxy for health and nutrition; education, and living standards to measure the social performance. Educational attainment is measured with weighted percentage on two associated variables: a two-thirds weight in given on the adult literacy rate and a one-third weight given on the combined primary, secondary, and tertiary gross enrollment rate. Longevity is measured by average life expectancy in years at birth. Longevity or life expectancy is computed by assuming that babies born in a given year will experience the current death rate of each age group -the first year, second year, third year, and so forth through the n\(^{th}\) year - throughout their lifetime. The indicator for living standards is based on the logarithm of per capita GDP in Purchasing Power Parity (PPP) dollars.

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The contribution of the Human Development Index regularly published by UNDP in development is significant and it enables us to understand i) what constitutes development, and ii) which countries are succeeding, as reflected by rises in their HDI over time. The HDI, by combining social and economic data, allows nations to develop a broader measure of their relative and absolute development performance. The UNDP, in November 2010, introduced its new version of ‘Human Development Index’ (NNDI) with an intention to address some of the criticisms of the HDI formula used since 1991. Although the index is still based on standard of living, education, and health, there are eight notable changes as indicated below:

1. ‘Gross National Income’ (GNI) per capita replaces gross domestic product (GDP) per capita;
2. The education index has been completely revamped by adding two new components: i) the average actual educational attainment of the whole population and ii) the expected attainment of today’s children;
3. Expected educational attainment, the other new component;
4. The two previous components of the education index, literacy and enrollment, have been correspondingly dropped;
5. The upper goalposts (maximum values) in each dimension have been increased to the observed maximum rather than giving a predefined cutoff;
6. The lower goalpost for income has been reduced;
7. Another minor difference is that rather than using the common logarithm (log) to reflect diminishing marginal benefit of income, it now uses the natural log (ln); and

8. Geometric mean is used to compute HDI.

1.5. DEVELOPMENT AND ECONOMIC POLICIES

1.5.1 BASIC NEEDS

Many economists think that programs to raise productivity in developing countries are not adequate unless they focus directly on meeting the basic needs of the poorest which constitutes about 40 to 50 percent of the population\(^{25}\). This direct approach is needed because of the continuing serious maldistribution of incomes.

The basic-needs approach shifts attention from maximizing output to minimizing poverty. The stress is not only on how much is being produced but also on what is being produced, in what ways, for whom, and with what impact. Basic needs include adequate nutrition, primary education, health, sanitation, water supply, and housing\(^{26}\). A preliminary set of indicators consists of:

i) Food: Calorie supply per head, or calorie supply as a percentage of requirements; protein,


ii)  Education: Literacy rates, primary enrollment (as a percentage of the population aged 5–14),

iii) Health: Life expectancy at birth,

iv) Sanitation: Infant mortality (per thousand births), percentage of the population with access to sanitation facilities,

v) Water supply: Infant mortality (per thousand births), percentage of the population with access to potable water, and

vi) Housing: None (as existing measures, such as people per room, do not satisfactorily indicate the quality of housing)

Infant mortality, a good indicator of the availability of sanitation and clean water facilities is considered because infants are susceptible to waterborne diseases and data of infant mortality are generally more readily available. Each of these indicators, such as calorie supply should be supplemented by data on distribution by income class. Basic-needs data supplement GNP data but do not replace them.

1.5.2. Millennium Development Goals (MDGs)

In September 2000, 147 heads of State and Government, and 189 nations in total, in the United Nations Millennium Declaration committed themselves to making the right to development a reality for everyone and to freeing the entire
human race from want\textsuperscript{27}. They acknowledged that progress based on sustainable economic growth must focus on the poor, with human rights at the centre. The objective of the Declaration is to promote "a comprehensive approach and a coordinated strategy, tackling many problems simultaneously across a broad front\textsuperscript{28}." The UNDP in its Human Development Report, 2005 has set eight goals of development under the heading ‘Millennium Development Goals’, with a target date for most of them by 2015\textsuperscript{29}. The ‘Goals of MDGs’ is to face the challenges faced by the nations of the world in achieving development. The MDGs which were established on the basis of a democratic government’s rule of law, respect for human rights and peace, are proposed to be accomplished by the year 2015. The goals were further sub-divided into 21 quantifiable targets and are to be maintained and tracked by sixty (60) different indicators that measure the progress achieved from the year of commencement. The Declaration calls for halving by the year 2015, the number of people, as existed in 1990, who live on less than one dollar a day. This effort also involves finding solutions to hunger, malnutrition and disease, promoting gender equality and the empowerment of women, guaranteeing a basic education for everyone, and supporting the principles of sustainable development. There is a commitment to provide direct support from the richer countries, in the form of aid, trade, debt relief and investment to help the developing countries. The approval of the MDGs

\textsuperscript{27} Resolution adopted by the General Assembly of UN “United Nations Millennium Declaration” on the 8\textsuperscript{th} Plenary Session dt 8\textsuperscript{th} September, 2000, vide No. A/RES/55/2 dt 18-09-2000, pp. 1-9. Accessed from the UN website: \url{http://www.unmillenniumproject.org/documents/ares552e.pdf}

\textsuperscript{28} \url{http://mdgs.un.org/unsd/mdg/Host.aspx?Content=Indicators/About.htm}

by the UN has further reinforced the need for the developing countries to strive for economic development in their respective countries. The ‘Millennium Development Goals’ which comprises of eight goals are indicated below in order of establishment:

- **Goal 1** - Eradicate extreme poverty and hunger
- **Goal 2** - Achieve Universal primary education
- **Goal 3** - Promote gender equality and women empowerment
- **Goal 4** - Reduce child mortality
- **Goal 5** - Improve maternal health
- **Goal 6** - Combat HIV/AIDS. Malaria and other diseases
- **Goal 7** - Ensure environmental sustainability
- **Goal 8** - Develop a Global Partnership for Development

The MDGs are a set of development goals to be trackable by targets. They are policies spelt out by the nations in the UN in a bid to put to an end or halve the world’s problems which in turn leads to development. The goals are very central to economic growth and development. To measure ‘Development of a State’ in terms of the Human Development Index, priorities are given to the level of achievement of human factors which includes life expectancy and literacy rates which are the third and fourth goal of the MDGs.

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To achieve the first goal of eradication of extreme hunger and poverty, the first target is to halve by 2015 the proportion of people, whose income is less than $1 a day, as existed in 1990, with the following indicators proportion of population below $1 per day, poverty gap ratio and share of poorest quintile in national consumption. The second target is to halve the proportion of people who suffer from hunger between 1990 and 2015 with the indicators of prevalence of underweight children less than five years of age and proportion of population below minimum level of dietary energy consumption.

Environmental aspects are addressed under Goal-7 – ‘Ensure Environmental Sustainability’. However, only a small subset of issues is covered, key issues for sustainable development such as desertification and land degradation, management of natural resources, etc. are not addressed. The targets are seemingly not well grounded in a scientific assessment of environmental constraints, even for indicators for which data are available such as those on fish stocks, protected areas, water resources and carbon emissions, such as Green House Gases (GHGs).

Goal-8 addresses key instruments in the implementation of sustainable development, such as finance and technology and partnerships for development. The MDG framework appears to be explicitly designed as a framework to support human development in developing countries and particularly not for
development in poor countries. Hence, there arises a need to continue to strive for a complete success in achieving MDGs. The vision for sustainable development may have to turn into a set of goals for global action after 2015 in an urgency for the earth to sustain with inclusive growth. It may be pertinent to mention the two parallel processes that exist currently, one discussing sustainable development goals (SDGs); another on the post-2015 development agenda which is trying to identify a suitable agenda for post 2015. The Millennium Campaign for sustainable development launched by the United Nations since 2000 is another watershed in sustainable development.

1.5.3. SUSTAINABLE DEVELOPMENT

The four key themes that emerged from the collective concerns and aspirations of the world’s peoples, in the last half of the twentieth century, are: peace, freedom, development, and environment. Freedom was sought early in the post-Second World-War (WW II) in the struggle to end imperialism; to halt totalitarian oppression; and later to extend democratic governance, human rights, and the rights of women, indigenous peoples, and minorities. The success of many former colonies in attaining national independence was followed by a focus on economic development to provide basic necessities for the poorest two-thirds of the world and higher standards of living for the wealthy third. Finally, it is only in

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the past 40 years that the environment (local to global) became a key focus of national and international law and institutions. The concept of sustainable development assumes critical importance in the interest of future generations and their needs of the fast changing society without damaging the carrying capacity of the basic inputs like land, water, forests, etc. The term sustainability and sustainable development have been widely used today ever since sustainable development gained importance and popularity since the Cocoyote Declaration dated the 23rd October, 1974. Its importance was further emphasized by the International Union for Conservation of Nature (IUCN) in its 1980 and 1990 reports and the World Commission of Environment and Development (WCED) in its 1987 report. The term, sustainable development, was popularized in Our Common Future, a report published by the World Commission on Environment and Development in 1987. The Brundtland Commission’s definition of sustainable development as the “ability to make development sustainable - to ensure that it meets the needs of the present without compromising the ability of future generations to meet their own needs” is the standard and classical definition of ‘Sustainable Development. Despite the use of the term ‘Sustainable Development’ very often all over the world very commonly these days, the notion of ‘Sustainable development’ is still rather new and needs a uniform interpretation. Since the Brundtland Commission first defined sustainable development.


development, dozens, if not hundreds, of scholars and practitioners have articulated and promoted their own alternative definition; yet a clear, fixed, and immutable meaning remains elusive\textsuperscript{34}. The concept of sustainable development is still being developed and the definition of the term is constantly being revised, extended, and refined. It is usually understood that this “intergenerational” equity would be impossible to achieve in the absence of present-day social equity, if the economic activities of some groups of people continue to jeopardize the well-being of people belonging to other groups or living in other parts of the world. The basic question is: whether the level of development, both in the developing and developed countries is sustainable? The major problem posed, in many of the developed countries and in many developing countries, as far as the sustainability of development is concerned, is the wasteful consumption style and the huge and ever increasing population. “Sustainable Development” is sometimes referred to as “equitable and balanced development,” implying that, for development to continue indefinitely, there should be balance of interests amongst different groups of people, within the same generation and the three areas – economic, social, and environmental should be inter-related simultaneously in the future generations. It is generally accepted that sustainable development calls for a convergence between the three pillars: economic development, social equity, and environmental protection\textsuperscript{35}. Sustainable development is a visionary development paradigm; and over the past 20 years


governments, businesses, and civil society have accepted sustainable development as a guiding principle. In short, sustainable development is defined as equality of opportunities for well-being, as well as about comprehensiveness of objectives.

Sensing the importance of the sustained development, the 2003 World Development Report (25th REPORT) says that growth in income and productivity are required in the development of countries to eliminate poverty in a way that is environmentally and socially sustainable. Sustainable development recognizes that growth must be both inclusive and environmentally sound to reduce poverty and build shared prosperity for people today and for future generations. The challenge that comes across during development is ensuring of: i) productive works and ii) a much better quality of life for the almost 3 billions poor people today earning less than $2 per day and for the 2-3 billions people to be added to the world’s population over the next 30 to 50 years. A global development process which takes better care of our environmental and social assets and that does better than the one followed in the past, is required to achieve this goal. The earlier view of the World Bank and the IMF to look upon growth as the primary goal of development was changed. By 1991, the World Bank viewed economic development as the challenge to improve the ‘quality of life’ of people. The three basic characteristics of development as put forward by Todaro and Smith (2004)


are – i) Producing more ‘life sustaining’ necessities such as food, shelter and health care and broadening their distribution, ii) Raising standards of living and individual self esteem, and iii) Expanding economic and social choice and reducing fear. Todaro argues that the three basic objectives of development are to increase and widen the distribution of basic life-sustaining goods such as food, shelter, health and protection; to raise levels of living including higher incomes and the provision of jobs, better education and greater attention to cultural and humanistic values; to expand the range of economic and social choices available to individuals and nations by freeing them from servitude and independence.

1.5.4. Ingredients of Development

The components or basic ingredients for any economic development are i) physical resources, ii) human resources, and iii) technological progress. By physical resource we mean different forms of infrastructures, land and others. The availability of human resources are widely influenced by different social and economic parameters. Under the ‘Keynesian Approach’, the factors or ingredients for economic development are i) Savings and Investment, ii) Government-Financed Investment, iii) Macro-economic Stability, iv) Trade Liberalization, v) Capital Mobility and vi) Exchange Rate Policy.

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Despite the fact that development being considered as a multifaceted concept, the way in which development could be measured also varies based on the individual or organization assessing it. There are variations in the applicability and acceptability of the most commonly used indicators. The most commonly used indicators include the Gross National Product, the Gross Domestic Product, and the real GDP per capita and the Human Development Index while other measures such as life expectancy, educational enrolment, educational attainment etc. are also found to be used by the millennium development goals. Human Development Report 1996, published by the United Nations Development Program strongly advocated “human development,” to be measured by life expectancy, adult literacy, access to all three levels of education, as well as people’s average income, which is a necessary condition of their freedom of choice. Human development incorporates all aspects of individuals’ well-being, from their health status to their economic and political freedom.

1.6. ORIGIN OF ECONOMIC PLANNING

The widespread acceptance of development planning as a means of accelerating the rate of economic growth and achieving other development objectives is of very recent origin. Planning is considered as an organized, intelligent attempt to select the best available alternatives to achieve specific goals. Development planning can be defined as ‘the conscious effort of a central organization to influence, direct, and, in some cases, even control changes in the
principal economic variables (e.g. GDP, consumption, investment, saving, etc.) of a certain country and region over the course of time in accordance with a predetermined set of objectives’ (Todaro, 1971)\textsuperscript{40}.

However, the practice of a planned or command economy dates back to Russia in the early 1920s when Russia was under-developed. USSR had lost part of its limited production capacity owing to the October Revolution and the Great Civil War. The Soviet model of development was introduced in the late 1920s when Soviets found economic recovery and industrialization a necessary condition for survival in a context of international hostility. Prior to World War II, the Soviet Union was the only country engaged in systematic development planning, having adopted its first Five-Year Plan for 1928-33\textsuperscript{41}. The "Five-Year Plan", which had acquired world-wide fame, was drawn up between the period of restoration and the period of reconstruction. It was a plan of economic development which was to be carried out in five years. In general it was based on a perfected scheme of control figures. It gave a clear perspective of, and indicated the direction which, the struggle for technical reconstruction, the development of production and socialist reorganization of economy would take. The first draft of the Five-Year Plan started in the autumn of 1926. It was examined by the Congress of the Planning Organs in the spring of 1927. The plan was subsequently revised by the introduction of two variants - the "minimum" and the "optimum" variant. The latter pre-supposed very favorable conditions such as


additional resources from abroad, for the realization of the plan. At first, the Five-Year Plan was drawn up for the period from 1926-27 to 1931-32. In its final form, which was published in 1929, it finally covered the period from 1928-29 to 1932-33. Owing to the return to the calendar year, the Five-Year Plan would have been completed in 1933. The fulfillment and successful proceeding of the Five-Year Plan fully guaranteed its completion of the "optimum variant" in 1932. The plan turned out to be a factor of enormous organizing significance despite the efforts of the remnants of the bourgeoisie to retard the rate of growth decided upon. To take account of and to calculate all the national economic resources in terms of time was no less important than doing it in terms of space. This gave a concrete aim and a unified slogan to the whole mass of the population. In both directions the significance of the Five-Year Plan was already enormous. The experiment of a planned / command economic model in almost autarkic conditions to mobilize Soviet economy speedily and to achieve an intensive industrialization proved to be successful and USSR became an industrialized power before the end of the 1930s. The Soviet extensive growth model in the 1950s to the beginning of 1970s, was a grand success with an extensive accumulation of capital, increasing rates of investment and fast growth of output and per capita GDP. The Soviet model of development was heralded as superior, as promising and the wave of the future, and as a model for other undeveloped countries. The concept of economic planning attracted the attention of most of developing countries and was adopted by a number of countries in various forms.

The World Economic crisis developed in 1929, was the beginning of the great depression when countries suffered greatly as the result of variations in prices. It was almost like a signal to indicate clearly the break-down of the former system calling for rehabilitation. The faith in the old capitalistic system of production was rudely shaken. The defects of the old system - the ruthlessness of unrestricted competition, the injustices, unemployment - floated on the surface. Regulations of the economic life of a nation were thought to be inevitable.

Another factor for the popularity of the development plan and planning ministries throughout the developing world may be attributed to withholding of development aid by the United Nations and other sources, unless a development plan with specific set of quantitative targets to be achieved for a nation in a given period of time was in place. As a result, planning models that demonstrated how foreign aid could be coordinated to achieve maximum impact on growth and development were especially popular. The widespread adoption of the development planning approach to economic policy formulation in turn led to the production of national development plans. The coming of the European Recovery Program, or Marshall Plan following the World War II in 1948 soon increased the number of European nations with development plans. Under the Marshall Plan, each participating country was required to prepare comprehensive Four-Year and Annual Plans embracing resources and their utilization, which became the basis for government policy and action. A permanent council of Economic

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Planning with permanent secretariat and under the chairmanship of the Ministry of Finance had been established in 1948. The First Plan (1947 to 1952-53) of France was drawn up in 1946 under the supervision of Jean Monnet. Originally intended to be a four-year plan spanning 1947 to 1950, it was later extended to 1952-53 (The First Plan: 1947 to 1952-53) in connection with the European Recovery Programme of the United States, where it was officially welcomed as a way of assuring that France's share of Marshall Aid would be used for the approved purposes\(^4\). As a result, planning models that demonstrated how foreign aid could be coordinated to achieve maximum impact on growth and development were especially popular. Most of the less industrialized countries in Europe had also turned to planning as an essential element of development. Portugal began to formulate its development plan in 1952, while Cyprus, Finland, Greece, Iceland, Malta, Northern Ireland, Turkey, and Spain began their plans in 1960's.

Development planning in Asia received new impetus through the newly formed Colombo Plan\(^5\) for Cooperative Economic Development in South and Southeast Asia. The Commonwealth-sponsored Colombo Plan was designed to promote the economic development of the subcontinent. In May 1950, member


\(^5\) The principal meetings of the Consultative Committee of the Colombo Plan took place in 1950. The idea for the plan came from the United Kingdom. The founder members of this Committee were Australia, Canada, Ceylon, India, New Zealand, Pakistan and United Kingdom. The official aim of the Colombo Plan was to ensure the co-ordination of technical aid from member countries to South and South-East Asia. [http://epress.anu.edu.au/facing_asia_citation.html](http://epress.anu.edu.au/facing_asia_citation.html) for cf. Daniel, O., (2004). Facing Asia: A History of the Colombo Plan, Canberra: ANU E-Press.
countries (at the time consisting of Ceylon, India, Pakistan, Malaya, Singapore, North Borneo, and Sarawak) drew up six year development plans for the period July 1951 to June 1957 to constitute a blueprint of the Colombo Plan. None of these plans were carefully prepared or carried out and some were replaced before their term ended. For instance, the Colombo Plan was replaced in India\(^{46}\) by the first Five-Year Plan in 1952 and in Pakistan by its first Five-Year Plan in 1955. The economic recovery period of the People’s Republic of China was continued for a considerable period until 1952, after the Republic was founded in 1949. The first Five-Year Plan (1953-1957) of the People’s Republic of China was implemented starting in 1953\(^{47}\). The First Malaya Plan, (1956-1960) started in 1956\(^{48}\). Except for a two year interruption for economic adjustment in 1963-1965, the Five-Year Plans have been continuous. The First Five-Year Economic Plan (1962-66) of Republic of Korea submitted by the Planning Board in November 1961 and published on January 11, 1962 was replaced by the plan of 1962 as a result of military coup. The First Malaya Plan (1956-1960) started in 1956\(^{49}\).

\(^{46}\) The Planning Commission of India established in March 1950, prepared a quick ‘Six-Year Plan’ to be used along with the Colombo Plan by August 1950. Thereafter, the Commission got down to its true work, which was to draw up a development plan based on socially and economically justified priorities. The Colombo Plan was of little importance to the economic development of India, from the point of view of technical and financial assistance. Of the 3.8 million rupees of financial aid received by India during the First Five-Year Plan, less than Rs. 500 million came from the aid under the Colombo Plan; the proportion was even smaller during the Second Five-Year Plan, cf. Economic Survey 1958-59, table 5.6.


1.6.1. **Availability of Limited Ingredient of Economic Development**

The process of planning involves the examination of a host of socio-economic variables related to one another in a very intricate and complex manner. Therefore, while planning one has to analyze complex interactions between various elements which may appear to be unrelated, probably, with Plan Models. As in the case of India, the geographical and colonial factors come into play and affect the planning policy and methodology. Similarly, there may be other factors in many African nations that affect the planning process. Economic development is widely related with efficient utilization of a region’s building blocks – labour, financial capital facilities and equipment, know how, land, other physical resources, public and private infrastructure etc. Despite a planned economy, the pace of development in a country or a region widely differs from that of another country or region due to variation in resources, both human and physical resources, coupled with other social factors. The capability and volumes of these two ingredients also influenced the scale of development. The net impact is that a small country that can have the capacity and scope for better development, has always limited scope for economic capability.

The regional disparities were created by the development process itself and in due course widened the gap between have's and have-nots. Primary factors that contribute to the existence of regional disparity are i) Transport and Communication, ii) Soil, iii) Vocational factor, iv) Economic importance, and v)
Law and Order. The Geographical size also influences the degree of regional disparities. Hypothetically, larger the geographic size of a State, the greater would be the degree of regional disparities. Human factor is also another important factor toward the creation of regional disparity. According to Planning Commission, Government of India, the economic development of an underdeveloped country cannot proceed far unless the community learns how to get from its resources of men and materials a larger output of commodities and services\(^{50}\).

### 1.6.2. Planning for Optimal Utilization of the Ingredient for Development

The availability of physical resources as well as human resources has always been a practical issue for economic development. In case of developing countries, the problem is more serious or prominent. Therefore, the economic planners and administrators (social thinkers) have a crucial task for utilizing available physical and human capital to ensure optimal utilization. The utilization of these scarce resources is to be guided by fulfilling short term economic priority as well as long term economic priority. In achieving these targets the economic planners for the developed countries has to address the issues of hunger and poverty. A sizable portion of development resources has also to be channelized for fulfilling the needs of the poor and family Below Poverty Line (BPL). In one

hand, investment is to be channelized for future growth by investing in infrastructure development and on the other hand by channelizing a portion of the development funds for poor, particularly, in the developing countries. These are the two contradictory phenomena in any development process. A balanced approach, therefore, is essentially required in any economic policy. The development economics and welfare economics, in true sense, have to share a common path in fulfilling social and economic objectives.

A proper planning requires a comprehensive data base, for the economists and statisticians, planners to assemble existing data into a consistent and accessible form, and to identify gaps where additional information is needed. However, exercises with analytical planning models only assist in finding ‘A Solution’ and such exercises do not provide ‘the solution’. Kornai, a pioneer in model building and a practitioner of planning says, ‘we cannot expect our model to give final, decisive answers; it can be considered an accomplishment if it only inspires interesting thoughts, if it furnishes additional points of view for a decision’ (Kornai, 1970)\textsuperscript{51}. Tinbergen (1955), a pioneer in the practice of quantitative planning techniques says, ‘Models constitute a framework or a skeleton and the flesh and blood will have to be added by a lot of common sense and knowledge of details’\textsuperscript{52}. The pioneer planners made it clear that model


exercises cannot do the job all by themselves but these are essential elements in the preparation of well-coordinated policies. Intuitive judgments based on experience of the working of the economic system are invaluable in planning well-coordinated policies. Therefore, quantitative planning technique is not a substitute for intuitive judgments based on experience of the working of the economic system. Furthermore, there is no single model that can be considered as the best. Planning models, in terms of coverage or scope, can be classified into: i) Overall or National models, ii) Sectoral or Regional models, iii) Special models and iv) Project analysis. The Overall or National models are used to deal with the entire economy. The nation’s development strategy is analysed within the respective models. The Sectoral and Regional models are used to deal with individual producing sectors and regions. The Sectoral and Regional models are used to examine the consistency and feasibility of the overall objectives. The Special models are models designed to be used for selected aspects of the overall plan, such as, rural development, foreign trade, manpower development, etc. Projects are basic units through which Plans are ultimately implemented. While implementing a Plan through projects, Project Analysis is usually done to examine the choice of techniques, location and size of Plants within the overall objectives of the National Plan. The feasibility of projects is checked using various tools and techniques. Social cost-benefit analysis is the most widely used technique for checking the feasibility of a project. The development economics models such as the earliest work by Thomas Malthus, the revolutionary model by Arthur Lewis

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and its various extensions are not discussed at all in the present work since it is focused on Plan investment within the national framework and its impact in Manipur.

1.7. Literature Review

India’s Five-Year Plans, as in other mixed economies, speak with greater authority on the government’s rather than the private sectors’ detailed blueprints of a development program. The plans are more or less a general statement of government’s intentions of its own programs as well as with respect to those sectoral programs open to private initiative. The plans contain specific schemes like community organization and development, conservation, education and training, family and health planning, and scientific and technological research, besides a lot of infrastructure projects which are important and proper concerns of development policy. Plan investment for implementation in public sector projects can be carried out subject only to government financial and organizational constraints. Government expenditure which literally means government spending on various plan schemes either precisely for effects on economic development or for welfare measures is financed through several methods.
One of the oldest questions in economics is what causes growth. Study on the relation between government investments and development or, rather growth, has received large attention in the academic field. Many scholars have investigated the relationship between growth in government size and economic growth. Substantial research has also focused on the nature and determinants of public and private investment, and their impact on growth. Not only the study on the size of expenditure and growth draws attention, but also, study on the changes in the trends in government expenditures in the developing world and differential impacts of various government expenditures on economic growth are issues for debate for the academicians. Proper planning and fiscal policies regulating spending of a government are means to ensure economic development of the State. Nevertheless, the size (expenditure) of a government and its effect on long-run economic growth, and vice-versa, in both developed and developing countries since World War II, has still remained an issue of sustained interest and debate. As a result, diverse conclusions were drawn from the analysis and observed phenomenon of size of government expenditures and its effect(s) on long-run economic growth. Empirical result and theoretical argument are sometimes contradictory.

Empirical studies of the relation between public expenditure and economic growth have come to widely different conclusions. The different theories on the relation between government expenditure and growth are
considered to belong broadly to two economic schools of thoughts - the Keynesian school of thought and Wagner's school of thought. The key themes of the two economic schools of thoughts are summarized below:

Adolph Wagner (1835-1917) was the first to recognize a positive correlation between government expenditure and economic growth, which is known as Wagner's Law. Wagner (1883) contemplates that economic growth, due to the industrialization process, is accompanied by an increase in the share of public expenditures in GNP. In this view, a long-run elasticity larger than unity is assumed for public spending and economic growth which implies that the role of the government increases due to the economic growth. This is explained by the increasing demand for regulatory and protective functions which are needed to sustain the increasing level of economic wealth. Moreover, as countries grow wealthier, the demand for social infrastructure like education, healthcare and other social and cultural services increases. Goods and services provided by the government increase with a country's industrialization and increase in economic growth due to the following three reasons.

i) As the economy grows the public sector will take over the administrative and protective functions.

ii) As the economy grows there is an increased need for provision of social and cultural goods and services.
iii) As the economy grows, there is more need for government intervention to manage and finance natural monopolies and to maintain the functionality of market forces.

Several studies confirmed this theory (Bird, 197154; Ganti, 197955; Gupta, 196756; Albatel, 200057; Dritsakis, et al, 200458; Akitoby, et al, 200659; Kumar, et al, 201260).

On the contrary, the Keynesian view assumes that government expenditure is an instrument of the state in exerting fiscal policy and thereby influencing economic growth. According to the Keynesian view, 'Economic growth occurs as a result of increased public sector expenditure wherein government expenditure is treated as an independent exogenous variable that could be used as an efficient policy variable to influence economic growth' (Iyare and Lorde, 2012).

2004, Babatunde, 2011, Govindaraju, et al, 2011). Dogan and Tang (2006) in their extensive study on Indonesia, Malaysia, Singapore, the Philippines and Thailand confirmed this theory. There is a difference of opinion among the researchers regarding the productivity of government expenditures. Some studies showed that total government expenditure or a large government sector has a positive effect on growth while some showed a negative effect while few suggested either inconclusive or insignificant.

1.7.1. Positive Impact of Expenditure on Growth

Ram (1986) found positive contribution of government sizes on growth in almost all the cases of his studies on the linkages between government size and economic growth for a group of 115 countries during the period, 1960-1980. Erkin, B. (1988) states that higher government expenditure does not hurt consumption and put forward the observation made in a study of data in New

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Zealand where higher government expenditure rather raises private investment which in turn accelerates economic growth\textsuperscript{66}.

Easterly and Rebelo (1993) was of the view that despite little or no effect of public enterprise investment on growth, the general investment including the infrastructural investments on transport and communication had a positive relationship with growth\textsuperscript{67}. Slemrod \textit{et al} (1995) reported a positive correlation between the ratio of government expenditure to GDP and level of real GDP per capita across 13 of 24 economies in their sample\textsuperscript{68}. On the contrary, they also reported a negative relationship in case of OECD nations. Slemrod \textit{et al} reported a positive correlation between the ratio of government expenditure to GDP and level of real GDP per capita across 13 of 24 economies in their sample. On the contrary, they also reported a negative relationship in case of OECD nations. Devarajan \textit{et al}. (1996) while studying data of 20 years from developing countries found that an increase in the share of current expenditure has positive and statistically significant growth effects and negative effects in the relationship between capital expenditure and per capita growth\textsuperscript{69}. From a study conducted on


Panel data of 22 OECD countries over the period 1970-95, Kneller et al. (1999) observed that productive government expenditure enhances growth while the non-productive government expenditure has no influence on growth\(^7\). According to Kneller et al., the productive government expenditure consists of general public services, defense, educational, health, housing, transport and communication while the non-productive government expenditure constitute social security and welfare expenditure, expenditure on re-creation and economic services.

Albatel (2000) also found positive relationship between government expenditure with economic growth in Saudi Arabia\(^7\). Bose et al. (2003) in a study of 30 developing countries over the decades 1970s and 1980s, found that the growth effects of government expenditure, the share of government capital expenditure in GDP is positively and significantly correlated with economic growth but current expenditure is insignificant\(^7\). Bose et al. (2003) concluded that investment on education is the key to growth for developing countries as per observation at the sectoral level of government investment. The total expenditures in education are the only outlays that are significantly associated


with growth once the budget constraint and omitted variables are taken into consideration. A strong positive relationship was also observed by Gregoriou and Ghosh (2009) in their study of 15 developing countries\textsuperscript{73}. A positive relationship between the government spending and GDP growth was observed while using OLS approach in data for the period, 1970-2001 in Greece by Alexiou (2009)\textsuperscript{74}. Alam \textit{et al} (2010) empirically examined the impact of social expenditures on economic growth, by considering data from 1970 to 2005 from the countries – Bangladesh, India, Indonesia, Korea, Malaysia, Pakistan, Philippines, Singapore, Sri Lanka and Thailand, the ten developing countries of Asia\textsuperscript{75}. Empirical analysis suggested the existence of long-run dynamic relationship between social expenditures and economic growth for all countries considered in sample. According to Aschauer (1989)\textsuperscript{76}, Knight, \textit{et al}. (1993)\textsuperscript{77} public investment had a positive effect on economic growth. Alam and Butt believe that strong and stable policy planning, professional institutions and competitive public service thus consider prerequisites for growth.


Magazzino (2010) have shown empirical evidence, dividing EU-27 into two different groups, namely “Rich” for older member and “Poor” indicating new comers, is in favour of Wagnerian hypothesis, according to which the law is appropriate for developing countries, since public expenditure should be determined by aggregate income in an initial step of the development process.\(^{78}\)

1.7.2. **Negative Impact of Expenditure on Growth**

There is a difference of opinion among the researchers regarding the productivity of government expenditures. Some studies showed that total government expenditure or a large government sector has a negative effect on growth (Romer, 1990\(^{79}\); Alexander, 1990\(^{80}\); Folster and Henrekson, 1999\(^{81}\); Engen and Skinner, 1992\(^{82}\); Hansson and Henrekson, 1994\(^{83}\); Folster and Henrekson, 2001\(^{84}\); Kweka and Morrissey, 2000\(^{85}\)).

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According to many researchers, government consumption expenditure had a negative influence on growth (Landau, 1983; Grier and Tullock, 1989; Ghura, 1995; Devarajan et al., 1996). Results obtained by Barro (1991) from a sample study of 98 countries during 1960-1985 suggested that growth is inversely related to the share of government consumption in GDP. Barro observed public investment Growth rates to be insignificantly, but positively related to measures of political stability and inversely related to a proxy for market distortions. Musgrave (1997) pointed out the possibility of negative impact of productive expenditure on growth if public spending is not used effectively.


Ghali (1997) found no consistent evidence that government spending can increase Saudi Arabia’s per capita output growth. Gwartney et al. (1998) argued that government expenditure on core functions contributes positively to economic growth while further expansion of government expenditure much beyond those core activities will exert a negative impact on the economy. Gwartney, et al. corroborated their argument with results obtained from a study of a larger set of 60 nations of OECD around the world.

Folster and Henrekson (2001) while studying data of OECD countries found a negative relationship between the government expenditure and economic growth. Mitchell (2005) argued that growth in America in the last couple of years was negative as American government expenditure had grown too much over this period and that most government spending has a negative economic impact.

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1.7.3. **INSSIGNIFICANT IMPACT OF EXPENDITURE ON GROWTH**

Surprisingly research has also revealed that there is no significant relationship between government expenditure and economic growth. Kormendi and Meguire (1985) reported that an in-significant relationship between government consumption and economic growth\(^96\). Conte and Darrat (1988) in studies of data from the majority of OECD countries showed that there was no significant impact of government growth on real economic activity\(^97\). Levine and Renelt (1992) reported that there was no evidence to support a robust linkage between government expenditure and economic growth\(^98\). Agell, *et al.* (1999) in their study found the relationship between the government expenditure and economic growth insignificant\(^99\).


Empirical tests to support Wagner’s Law, either in the form of standard regression analysis (Ganti and Kolluri, 1979\textsuperscript{100}; Landau, 1983\textsuperscript{101}; Georgakopoulos and Loizides, 1994\textsuperscript{102}), or in the form of error-correction regression (Ghali, 1997\textsuperscript{103}; Kolluri, Panik and Wanab, 2000\textsuperscript{104}), have reported results, substantially different from country to country.

Khundrakpam (2001) in his study on relationship between public sector spending and economic growth in India where a positive influence on economic growth over the long run and trade off between the two in the short run were observed\textsuperscript{105}. Dash and Sharma (2008) in their study found a positive impact between the government expenditure and economic growth in India\textsuperscript{106}. Tulsidharan (2006) on applying co-integration and error correction model in Indian context found that in nominal terms higher economic growth invariably is

\textsuperscript{100} Ganti and Kolluri, (1979). \textit{Ibid.},

\textsuperscript{101} Landau, (1983). \textit{Ibid.},


accompanied by an increase in government final consumption expenditure\textsuperscript{107}. According to Mallick (2008) there is significant influence of expenditure on the growth rate of the Indian economy\textsuperscript{108}. By employing structural vector auto-regression methodology Mallick (2008) explained the positive influence of revenue expenditure on growth and positive variation in growth rate.

Many researchers use the Autoregressive Distributed Lag (ARDL) method to understand not only the relationship between the government’s outlay - plan expenditure and economic growth or development but also for estimation of both long-run and short-term relationship amongst the variables under investigation (Abdullah et al, 2008; Ali, S. 2010; Altaf, N. and Khan, S., 2012; Nasiru, I. and Usman, H.M., 2012; Egbetunde, T., and Fasanya I.O., 2013).

Abdullah \textit{et al} (2008) in a study on impact of government expenditure on economic growth found the existence of a long-run relationship between the government expenditure and economic growth. Abdullah \textit{et al} (2008) employed the ARDL technique on a panel of data for the period 1985-2003 from five ASEAN countries viz., Indonesia, Philippines, Thailand, Malaysia and Singapore\textsuperscript{109}.


Ali (2010) used ARDL model to determine the robustness of long-run relationship among various categories of Government expenditures and poverty in Pakistan over the period 1972-2008\textsuperscript{110}. The study recommends that Government should increase its development expenditures for economic growth. ECM approach used to analyze short run relationship suggests that in the short run Development and current expenditures have significant impact on poverty.

Using ARDL bound testing approach to co-integration, Altaf and Khan (2012) found the share of total Government and revenue expenditure positive and statistically significant impact on growth rate of real per capita GSDP in the long run and negative but insignificant relationship in the short run in Assam over the period 1981-82 to 2006-07\textsuperscript{111}.

Nasiru and Usman (2012)\textsuperscript{112} in a study using ARDL approach to determine relationship between health expenditure and economic growth in Nigeria from 1980-2010 found that investment in health improves economic growth.


Egbetunde and Fasanya (2013)\textsuperscript{113} analysed the impact of public expenditure on economic growth in Nigeria over 1970-2010 making use of annual time series data and employing ARDL bound test approach to examine relationship between public expenditure and economic growth. The study suggests that Government should increase its spending on infrastructure, social and economic activities as they have long run relationships, whereas total expenditure has negative impact on growth.

1.8. OBJECTIVE

The objectives of the present work are: i) to study the pattern of plan investment in Manipur over the period 1970-2007 and ii) to study the relationship between the plan investment and its components on the one hand and economic growth on the other.

1.9. HYPOTHESIS

Government investment, in a broader sense, considered as expenditure in tangible assets, also encompasses expenditure in education, training, other human capital accumulation, or research and development, as these sectors also ultimately contribute to output, productivity, and growth. Hence, depending on

which area and how investment is made and expenditure is incurred under the plans, government investment shall have different effects on economy. The following are two hypotheses made:

i. There is no change in the pattern of plan investment in the State.

ii. Plan investment does not have any impact on economic growth.

1.10. DATA BASE

The study is primarily based on the secondary data and the sources are:

a) Directorate of Economics and Statistics, Government of Manipur,

b) Finance Accounts, Government of Manipur, and

c) Planning Department, Government of Manipur.

1.11. METHODOLOGY

An ARDL approach allows investigation of the existence of a long-run equilibrium relationship using the F-Test, first and also estimation of the long-run and short-run model parameters. Plan investment expenditure data of Manipur for the period 1970-2007 which is a set of time-series variables is fed to the ARDL regression model given at (1.11.1) to understand the objective of impact of plan investment on development in terms of real NSDP, taking into account any unit roots and/or cointegration associated with the data.
The standard or most generally used ARDL econometric model for analysis of long run relations when the underlying variables are I(1) growth in terms of real NSDP may be expressed as follows:

\[ y_t = \beta_0 + \beta_1 y_{t-1} + \ldots + \beta_k y_{t-p} + \alpha_0 x_t + \alpha_1 x_{t-1} + \alpha_2 x_{t-2} + \ldots + \alpha_q x_{t-q} + \epsilon_t \]  

(1.11.1)

where \( y_t \) is real NSDP, \( x_t \) represents the \( k \)-dimensional I(1) variables that are not co-integrated among themselves, \( \epsilon_t \) and \( \epsilon_t \) are serially uncorrelated disturbances with zero means and constant variance-covariances, and \( P_i \) are \( k \times k \) coefficient matrices such that the vector autoregressive process in \( \Delta x_t \) is stable. We also assume that the roots of \( 1-Efz_i = 0 \) all fall outside the unit circle and there exist a stable unit unique long-run relationship between \( y_t \) and \( x_t \). Sectoral investment and \( x_t \), the time factor. We estimate (1.11.1) for real NSDP of Manipur for each of the ten sectoral investments under the plans. Share of sectoral investment is defined as the ratio of the government expenditure in a specific sector to the total expenditure at 1999-2000 prices under the plans. Equation (1.11.1) has to be dealt with in three straightforward situations and standard ways to check:

- The series is stationary when all of the series are I(0) and can be used to model the data in their levels, using OLS estimation.
- The series is integrated but not cointegrated when all of the series are integrated of the same order. For instance, when the series are I(1), each series has to have difference, and estimate a standard regression model using OLS.
The series are integrated of the same order, and cointegrated in either of
(i) An OLS regression model using the levels of the data to provide the long-
run equilibrating relationship between the variables, or (ii) An Error-
Correction Model (ECM), estimated by OLS to represent the short-run
dynamics of the relationship between the variables.

We calculate the long-term measure of growth which is based on a moving
average standard deviation of the level of the real growth rate (in log form),
where the lag length is constructed using annual observations of the previous six
years as suggested by Bleaney (1992)\textsuperscript{114}. To implement the ARDL bounds testing
approach, we begin by defining \( y_t \) as an I(1) dependent variable, and \( x_t \) as a vector
of I(d) regressors, (where \( 0 \leq d \leq 1 \)). \( \Delta y_t \) is modelled as a conditional ECM and is
given at (1.11.2). The ARDL methodology was propounded by Pesaran and Shin
(1999)\textsuperscript{115} and Pesaran \textit{et al} (2001)\textsuperscript{116} to extract both long-run and short-run
relationships.

\[
\Delta y_t = c_0 + c_1 t + \pi_y y_{t-1} + \pi_x x_{t-1} + \sum_{i=1}^{p-1} \psi_i \Delta y_{t-i} + \sum_{j=1}^{q-1} \delta_j \Delta x_{t-j} + \gamma' \Delta x_t + \epsilon_t \tag{1.11.2}
\]

where \( c_0 \) and \( t \) are drift and trend components, and \( \pi_y \) and \( \pi_x \) are the long-run
coefficient matrices for \( y_{t-1} \) and \( x_{t-1} \). The short-run dynamic structure of \( \Delta y_{t-1} \) and

\textsuperscript{114} Bleaney, M., (1992). Comparisons of Real Exchange Rate Volatility Across Exchange Rate

\textsuperscript{115} Pesaran M. H., and Shin, Y., (1999). An autoregressive distributed lag modelling approach to
cointegration analysis, Chapter 11 in Strom, S., (ed.) Econometrics and Economic Theory in the 20\textsuperscript{th}

\textsuperscript{116} Pesaran, M. H., Shin, Y., and Smith, R. J., (2001). Bounds Testing Approaches to the Analysis of
\( \Delta x_{t-j} \) is set to ensure the residuals, \( \varepsilon_t \), are white noise errors. The ranges of summation in (1.11.2) are from \( i=1 \) to \( p-1 \), \( 0 \) to \( q_1 \), and \( j=1 \) to \( q-1 \) respectively.

Cointegration between \( y_t \) and \( x_0 \) is tested through OLS estimation of (1.11.2) and by calculating an F-statistic for the joint significance of the coefficients of the lagged levels, so that, \( H_0 : \pi_y = 0 \) and \( \pi_x = 0 \);

According to Pesaran et al., (2001) the asymptotic distribution of the F-statistic, under the null hypothesis, is non-standard regardless of whether the regressors are I(0) or I(1), and provide two adjusted critical values that establish lower and upper bounds of significance. However, we can conclude that a long-run relationship exists. We cannot reject the null hypothesis of ‘no cointegration’, when the F-statistic exceeds the upper critical value. A value of the F-statistic that lies within the bounds makes the test inconclusive when the F-statistic falls below the lower critical value. Critical values are also made available to encompass a range of different deterministic components: no drift and no trend; unrestricted intercept and no trend; restricted intercept and no trend; unrestricted intercept and unrestricted trend; and unrestricted intercept and restricted trend. In the presence of cointegration, the long-run model derived from estimation of the conditional ECM given in (1.11.2) following the method propounded by Pesaran and Shin (1999)\(^{117}\), may be expressed as given in (1.11.3).

\[
y_t = \Phi_0 + \Phi_1 t + \Phi_2 x_{2t} + \nu_t
\]

where $\Phi_0 = -c_0 / \pi_y$, $\Phi_1 = -c_1 / \pi_y$, and $\Phi_2 = -\pi x / \pi y$.

It is assumed that the vector $x_t$ consists of long-run forcing variables for $y_t$. The cointegrating rank is restricted to unity under the given assumption made. The bounds test suggested originally by Banerjee, et al. (1998), is used to test for the absence of feedback from the level of $y_t\textsuperscript{118}$. In the test $x_t$ is said to possess a long-run relationship provided the null hypothesis got rejected. The test is based on the t-test for $H_0: \pi y = 0$, from OLS estimation, and given by equation (1.11.4):

$$\Delta x_t = c_0 + c_1 t + \pi_x x_{t-1} + \pi_y y_{t-1} + \sum_{i=1}^{p-1} \psi_i \Delta x_{t-i} + \sum_{j=1}^{q-1} \delta_j \Delta y_{t-j} + \gamma \Delta y_t + \epsilon_t \quad (1.11.4)$$

which is a traditional ECM of which $y_{t-1}$ and $x_{t-1}$ are the error-correction terms and $\epsilon_t$ is a random "disturbance" term, which we assume as "well-behaved" in the usual sense and particularly, as serially independent.

1.12. **Chapterization**

Chapter-I starts with the introduction of Development, Economic Development, with reference to perception of various international bodies, Concept of development, Measures of development, and Economic Planning in the context of ‘Human wants and Needs’. We also highlight the concept of ‘Planning

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for optimal utilization of the components of Economic Development’ in the later part. We argue that ‘Economic Planning’ justify the attention paid towards improvement of a Nation’s economy and Development. The development indicators of Manipur have also been highlighted in brief and explain the necessity to embark on economic planning to achieve development.

In Chapter-II, we examine the history of planning process and planning process in India during the pre-independence and post-independence with reference to economy that are relevant in the growth process in India. Finally, the planning processes in Manipur in the pre-Statehood and post-Statehood era are elaborated with reference to economy and development in Manipur.

Chapter-III, outlines the salient features of Manipur and draws our attention to various development indicators, like population, sex ratio, literacy rate, health, state domestic product and unemployment scenario that have significant influence on the economy, constraints that hamper the development or loosened them. Further, we present the objectives and a brief account of the various Five-Year Plans.

In Chapter -IV, we examine the plan investments over the four decades from 1970 to 2007 (from the Fourth Plan to Tenth Plan) in Manipur and analyze
the pattern of investment, linkage to economic growth, the size of investment in key sectors and discuss achievements in the state over the plan periods.

In Chapter-V, we examine the interface between real NSDP on the one hand and aggregate plan expenditure and its various components on the other using bivariate autoregressive distributed lag (ARDL) models.

In Chapter-VI we summarize the findings in earlier chapters and try to answer the questions – has there been development commensurate with the plan investments over the four decades of Planning? Is the growth in GDP in the State commensurate with the plan investments? This Chapter also concludes by examining various hypotheses proposed in the literature to explain different aspects of the pattern of plan investment and its impact on development or growth experience since 1970 with a view to piece together a coherent story of the State’s economy from 1970 to 2007. Given the quality of the available data and the usual difficulties in establishing causality, the story can only be suggestive. A full discussion of the roots of plan investment and little or invisible impacts on society is well beyond the scope of this study, but we conclude with some thoughts on the impact of plan investment in aggregate and sectoral level on real NSDP under different Plans in Manipur.

1.13. Conclusion
What has emerged from the study of the relevant literatures, is that development itself is a multifaceted concept and can be viewed from different points of view as is evident from the perceptions of Todaro, Ghosh and others.

Development, as Todaro saw it, is from social processes while Ghosh saw it from the failure of policies. Development, therefore, should be seen as both a state of mind and a physical reality, in which society has, through some combination of social, economic and institutional processes, secures the means for obtaining a better life. Development is also conceived as the sustained elevation of an entire society and social system towards a better or more humane life. When the basic needs of life are absent or are not available, a condition of underdevelopment exists, which establishes the fact that economic development is a necessary condition for the improvement in the quality of life.

From all of the definitions and opinions of scholars above, one basic concept is that development encompasses the overall improvement in all aspects of the society including its citizens. Todaro states that the three basic objectives of development are to increase and widen the distribution of basic life-sustaining goods such as food, shelter, health and protection; to raise levels of living including higher incomes and the provision of jobs, better education and greater attention to cultural and humanistic values; to expand the range of economic and social choices available to individuals and nations by freeing them from servitude and dependence.
Efforts had been put to achieve a high and sustainable economic growth or development with scarce available resources and to lead a quality life and a sustainable environment. Infrastructural and capital investment, the basic requirements which, in fact, are a function of broad development of the society and level of economic development, draw the attention of many planners, policy makers and economists. The fundamental distinction between Keynesian and Wagner’s theories seems in the direction of causality. However, over consumption by government can crowd out private investment and hence place a drag on economic output (Buiter, 1977119; Monadjemi, 1993120). Akitoby et al. (2006) revealed that economic growth is an important factor for economic development of country121.

Empirical analysis also reveals that capital component of expenditure is more productive, if used, properly or efficiently. However, there is a debate regarding which component is more influencing. Abdullah, et al, (2008) found that certain revenue expenditures by the government on sectors like health, education, transport and communication to be quite productive and

contributory\textsuperscript{122}. Hence, revenue expenditure can contribute positively to economic growth, which may not be the case with capital expenditure. In an economy like that in Manipur where the private enterprise is weak and inactive, Plan outlays or investment made by the Government are the principal determinant of the productive capacity and output and hence the rate of economic growth (Singh, 2013\textsuperscript{123}).

A focus on economic development is expected to provide basic necessities for the poorest two-thirds of the world and higher standards of living for the wealthy third. The economic planners for the developed countries, while channelizing a sizable portion of development resources, have to tackle two contradictory phenomena to address the two issues - fulfilling the needs of the poor and family Below Poverty Line (BPL) and address the issue of hunger and poverty in the developing countries, at one hand, and investing on infrastructure development, on the other hand, for future growth. International Organizations such as UNDP emphasizes on the Millennium Development Goals, of which sustainable development is under Goal-8. Sustainable development assumes critical importance in the interest of future generations and their needs of the fast changing society without damaging the carrying capacity of the basic inputs like land, water, forests, etc. Sustainable development calls for a


convergence between the three pillars - economic development, social equity, and environmental protection. It is obvious that the crucial task at hand with the planners is to ensure optimal utilization of the scarcely available physical and human capitals to achieve economic development fulfilling short term economic priority as well as long term economic priority.

Before the planning era, the economy of Manipur was extremely backward as agriculture was the mainstay of the economy and there was no sign of capital accumulation. Basic infrastructures like, road, power and other social infrastructures for education and healthcare required for a good living and thriving economy were almost non-existent. A Manipuri in 1950 had much less opportunity than an Indian in terms of life expectancy and level of living and other opportunities. Development efforts had to take off with many constraints - inadequate saving to finance the development works and inadequate organization or institutional capacity for implementing projects. Development efforts had to be primarily directed for socio-economic development and Structural changes in the State's economy had to be initiated to bring about and to achieve a high growth rate vital for progressive improvement in the standard of living of people. Planning appears crucial for economic development of Manipur. Planning seems the only legitimate means to increase the productive capacity, output and the rate of growth for economic development of Manipur. Hence, ‘Development Planning’ - as an instrument of social and economic transformation is inevitable for a socially and economically weak state in India like Manipur.