CHAPTER - VI

POLICY RECOMMENDATIONS

Sustainable development can be realized when long lasting drivers of growth are identified and understood properly. Both national and sub-national finances today face many hard constraints. There is the mandatory requirement to reduce fiscal deficit and eliminate revenue deficit as per the Finance Commission awards. Backward States because of their backwardness have a fragile resource base. When these considerations are factored in, the importance of understanding the net impact of every activity becomes obvious. In a backward state like Manipur, the Government has been very proactive in creating the environment for development. Though the Private Sector is there, the Public Sector still occupies the place of pride. The growth of Private Sector has been highly constrained by the uncertain law and order problem. The law and order problem has stymied the growth of a business environment conducive to growth. Investment from outside the state is also not forthcoming despite efforts by the State Government to invite such investment. In the meantime the expectation of the people has grown exponentially. The recent changes across the world which are viable everywhere have raised the expectation of the public. This has magnified the responsibility of the government to do more. Inclusive development should ensure that no one is left behind.
Plan investment is one of the many things a Government does to usher in economic development and growth. It is an important component of public expenditure despite the criticism in its classification. Items included in non-plan expenditure also can influence the objectives. In other words, what is being attempted is to understand the interface between plan expenditure and economic growth.

Though lots of works have already been done in this area, there is not much work at sub-national level. The available sub-national studies in India also deal with major states only. Assam is the only state in this region which has been rigorously studied. Smallness of the States and the quality of data base have been cited as major reasons behind the paucity of the serious work. These small states are not in any position to mobilize on its own the enormous requirement of financial resources. Central Government has been financing their expenses. How effectively and judiciously the resources have been used, therefore, is an important issue. The leaky-bucket-syndrome should not be allowed to raise the free rider problem. It is in this context that the interface between economic growth, on the one hand, and plan expenditure and its various components, on the other hand, has been studied.
Manipur has been chosen the subject of study on various considerations. It is a small state in the north-eastern India and is not a tribal state. It has a long history going back to First Century and has a place in Sports and Culture. It has been plagued by insurgency for decades. It has a high literacy rate and a large proportion of job seekers. It is going to be the gate-way of South East Asia through its border town of Moreh.

Ever since the coronation of the first Meitei King, ‘Nongda Lairen Pakhangba’, in 33 A.D., Manipur has been trying to grow in a very broad sense. Its course of development changed in 1891 after the Anglo-Manipuri War, and it took another turn in 1949 when Manipur became a part of India. Manipur became a full-fledged State in 1971 and this was considered the beginning of responsible and real planning in Manipur. Prior to that, as a Union Territory, the local specificities were never given their due importance. At the time of independence the economy of the north-eastern region of India was in doldrums as partition had destroyed much of the infrastructure for trade and commerce that had been developed over centuries. The region was reduced to a periphery from being a regional hub. This affected the process of trade and commerce in the region and stagnation set in. Such changes were not understood by the Planners despite their good intentions. Thus, the Pre-Statehood decades were in many ways, wasted decades for planned development. The study covers the period 1970-71 to 2006-07 for rigorous analysis. The information on the economy has been updated wherever possible to avoid becoming a dated exercise.
Investment is an important source of productivity and economic growth, a link that depends critically on an understanding of the economic development process. Economists have recognized the importance of investments in human beings. Expenditures on education, job-training, labour migration, and health care are rightly called investments as all these expenditures increase the quality of human labour and enhance productivity. Expenditures on research and development (R&D) that improves the production process by imparting new knowledge are also classified as investment. In a government, plan investment provides budgetary support for government spending for improving infrastructures, human capital and many other diverse fields. Government spending through public investment provides public goods like transport infrastructures which benefit users and directly or indirectly improve productivity. Plan investment, therefore, considered as a direct government intervention is for creation of institutions and infrastructure for smooth functioning of the market. 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. Plan investment is considered as one of the most important and crucial source of productivity and economic growth.
Developmental exercise in India started in 1951 with the formulation and implementation of its First Five-Year Plan. Since its First Five-Year Plan in 1951, India has had 11 Five Year Plans and three ad-hoc, rolling plans. Currently, the Twelfth Five-Year Plan (2012 – 2017) which commenced on April 1, 2012 is going on. A Five-Year Plan is a strategy formulated for stepping up the rate of economic development. The strategy, objectives and targets of the Five-Year Plans were implemented through the Annual Plans. The expenditure incurred on the items relating to Five-Year Plans propel development activities and economic growth in the country. India began to pursue a policy of reform in the late 1980s and started opening up to the rest of the world in the 1990s. Since then the Indian economy has been growing rapidly, scoring great achievements. During the Tenth and Eleventh Plan the Indian economy entered an unprecedented period of rapid growth together with rapid advances in science and technology. The Hindu rate of growth (average real gross domestic product (GDP) growth rate around 3 per cent per year) was a thing of the past, as the growth rate in the Tenth Plan period increased to 7.9 per cent. Although India’s national income is not large enough to have a big impact on the world economy, its sustained rapid economic growth, despite a global recession in 2009, sent a message to and enhanced the confidence in the world economic recovery¹. In recent years the rapidly growing Indian economy has been a bright spot in the world economy.

Soon after the Anglo Manipuri war in 1891, the closed agrarian economy of the ancient princely state of Manipur started opening-up. The economy changed more rapidly and was getting increasingly integrated in the mainstream economy after Manipur became a part of India in 1949. There was a decline of employment in the secondary sector as household industries set in and budding modern tertiary sector had become functional. Substantial investments made in key sectors like social services, irrigation, energy, transport, agriculture etc. under successive plans paved the way for creation of social infrastructures and other social benefit schemes necessary to improve the human development index. Manipur had made large strides in raising literacy and school enrolments and improving health. At the same time the number of educated unemployed youths increased due to poor industrial base and productive private sector enterprises. Economic Planning plays an important role in steering development and regeneration in the State.

A Five-Year Plan is a strategy formulated for stepping up the rate of economic development. It is difficult to relate the performance under the Plan to the developments in the economy partly because of lack of data and partly because in the years for which data are available, the course of plan implementation had been different from that envisaged.
Much importance was given to the development of infrastructures like roads, irrigation networks, power stations, transmission and distribution lines, etc. in the earlier Five-Year Plans of the State. Industry was hardly given the due importance it deserves in any of the Five-Year Plans. The absence of any medium and large scale industry in the state is due to negligence of this sector in the various plans of the State. Manipur has made large strides in raising literacy and school enrolments and improving health. With the important sectors like Social Services, Irrigation, Energy, Transport, and Agriculture while enjoying a substantial share of the plan investment, it is questionable whether the inputs are commensurate with the outputs.

The sectors, expenditure heads considered and corresponding abbreviation used for the expenditure heads in the analysis are:

i) Sector-I: Agriculture & Allied Activities including Cooperation (AGR),

ii) Sector-II: Rural Development, Special Area Programme, Community Development (RD),

iii) Sector-III: Water (Irrigation & Flood Control) (IRR),

iv) Sector-IV: Energy (Power, Non-Conventional Sources of Energy) (ENGY),

v) Sector-V: Industries & Minerals (IND),

vi) Sector-VI: Transport & Communication (TSC),

vii) Sector-VII: Science Technology & Environment (STE),

viii) Sector-VIII: General Economic Services (GES),
B. Social Services

ix) Sector-IX: Social Services (SOC), and

C. General Services

x) Sector-X: General Services (GES2).

Both revenue and capital spending accounted as plan expenditure under the plan heads are covered. Year-wise plan expenditure (Revenue plus Capital accounts) for all the ten sectors for the period 1970-71 to 2006-07 has been compiled to study –

i) the pattern of plan investment in Manipur, and

ii) the relationship between the plan investment and its components on the one hand and economic growth on the other.

The data have been converted to 1999-2000 prices to ensure comparatively.

The trend of investment share in Agriculture and allied services over the years 1970-2007 shows that the highest share in this sector was 20.1 per cent during 1980-81, while the lowest share was 3.76 per cent during 2006-07. This shows a gap of 16.34 per cent in investment under the sector. The
Investment in Rural Development fluctuates from a minimum share of 1.29 per cent in 2000-01 to a maximum share of 12.91 per cent in 2001-02 over the period in between 1970 and 2007. This shows a wide gap of 11.62 per cent in investment between two successive years. The investment trend in Irrigation over the period 1970-2007 shows a sharp fluctuation, the highest share of 26.40 per cent invested in 2006-07 and a lowest share of 1.75 per cent recorded in 1969-70. This indicates an improvement (24.65 per cent) in investment under the sector over the years 1970-2007. Investment share of 33.45 per cent in 1999-2000 was found to be the highest in Energy sector while the lowest share was recorded in 1982-83 with 1.83 per cent which shows a gap of 31.62 per cent in investment over the years 1970-2007. The investment in Industries sector over the years 1970-2007 shows an upward trend. The share of investment in this sector got improved from a minimum of 1.86 per cent in 1969-70 to a maximum of 11.37 per cent share in 2003-04. The gap in investment observed over the years 1970-2007 was of 9.51 per cent showing improvement in the investment trend. In 1969-70 the transport sector was invested with 63.54 per cent being the highest share and in 2003-04 only 6.3 per cent, thereby giving a gap in investment (57.24 per cent) over the period 1969-2007. The investment trend in ‘Science Technology and Environment’ clearly shows the ignorance of this sector by the general public and planners. The sector, on its inception in 1987-88 received 0.31 percent of the total investment. The highest share of investment in this sector, 1.12 per cent was in 2002-03 and the lowest share of 0.23 per cent was in 1997-98. This indicates a minimum gap of 0.89 per cent (less than 1 per cent) in investment
under the sector over the years 1988-2007. The highest investment in General Economic Services sector of 6.16 per cent was during 2001-02 and the lowest share of 0.14 per cent was during 1974-75. A gap of 6.02 percent in investment under the sector was observed over the years 1970-2007. This share of investment in Social Service sector during 1969-70 was the lowest at 12.77 per cent. The highest investment made in this sector with 50.46 per cent was during 2004-05. An improvement in investment with a gap of 37.69 per cent over the period 1969-2007 is a strong indication of the importance given to this sector for various welfare schemes. The highest share in General Services sector, 22.69 per cent was found invested during 2005-06 and the lowest share of 1.20 per cent was during 1976-77. This indicates a gap of 21.49 per cent in investment under the sector over the years 1973-2007.

While calculating the mean value and Coefficient of Variation (CV) in terms of their percentage share of the ten sectors over the years (1970-2007), it has been observed that share of Social services has scored highest mean value (29.24 per cent) and lowest Coefficient of Variation. Science Technology & Environment is placed at the lowest percentage of mean value (0.28) and highest CV (1.16). This indicates that the mean value is inversely proportional to the corresponding coefficient of variation.
Agriculture was given due importance only from the Fifth Plan onwards which is apparent from the sectoral allocation in the Plans. Despite considerable investment in this sector, the state could not meet its food requirement. Before the planning era there were hardly any industries worth mentioning in the state except those in the form of small and village industries in handlooms and handicraft, that too, in small scales. Small Scale Industry (SSI) in Manipur which was not much popular in the pre statehood period has made a significant stride after statehood. Most of the State owned Public Sector Units are sick. The performance of the public sector undertakings in the state demands a critical examination in the right perspectives.

The thrust given to transport for the socio-economic development of the State in the early period of economic planning is evident from the size of the sectoral allocation in the Five-Year Plans. Due importance given to transport sector in this landlocked mountainous State, in the absence of other mode of transport such as Railways, Mass Rapid Transit System and Waterways is quite understandable. The construction of considerable length of village roads under the Bharat Nirman Scheme led to improvement of connectivity in the rural areas which also increased the road density considerably. The share of transport that dwindles down the succeeding plans causes the road density in terms of kms per 100 sq km in the state much below the all India average. The disturbing fact is that the gap in the road density in the state and the all India average goes on widening. The existing condition of
the road infrastructure also calls for a re-look in the investments in this sector and formulation of a Road Policy of the State Government. One may wonder whether the maximum priority given to the development of Transport and road infrastructure in the State since the beginning of the First Five-Year Plan (1951-56) commensurate with physical development and desired level of improvement in this sector.

The outcome in the Irrigation and Power sectors seems not commensurate with the significant investments made in Irrigation and Power, as evident from the state’s dependence on imported food grains and low per capita power consumption, which warranted for a re-look and policy changes in these sectors. There had been inordinate delay in completing Multipurpose Irrigation Projects, perhaps due to inadequate preparatory investigations, laxity of pre-clearance appraisal, hostile environment and non-conducive law and order situation caused serious underestimation of costs and overcapitalization, underutilization of their potential. The power situation in the state is grim. Paucity of funds in the 1960s and early part of 1970s did not allow any headway for planning major power generation projects. The State purchased significant amount of electricity as the demand of power could not be met with the State’s own generated sources and its share of power from the 105 MW - Loktak Hydro Electric Project (LHEP). The situation would have improved had there been production from the multipurpose projects. The utility of electrification even for domestic purposes was only marginal due to
low degree of dependability on supply. The per capita consumption of electricity which was reported improved from 77.13 KWH in 2001 to 207 KWH in 2007, in the absence of major industries in the State, is much lower than India’s per capita electricity consumption of 543 KWH in 2007. The inordinate delay in the completion of multipurpose projects demands a critical examination and further thought for further investment while the power scenario requires much improvement.

The economy of Manipur has gradually transformed into a predominantly services-oriented economy and the growth is mainly driven by the service sector. The Social sector has improved as shown by a relatively improved literacy rate, from 53.7 per cent in 1971 to 86.49 per cent in 2011 and indicators in health care facility, mortality at birth and infant mortality rate. Number of doctors and beds per lakh population and hospitals increased from 11 in 1971 to 42 in 2011, from 832 in 1971 to 2286 in 2011, from 78 in 1971 to 100 in 2011 respectively. Despite efforts made over the Five-Year Plans for development in physical infrastructure, the quality of health care needs much desired to be improved to meet the present demand and quality of health care in the State. It is desirable for shifting priority from new construction to strengthening of existing facilities, upkeep of buildings, adequate earmarking of standard equipment/machines, medicines and manpower including medical specialists in the health centres including hospitals.
There had been substantial increase in the plan assistance and plan expenditure in Manipur in the last six decades of planning. However, increasing plan expenditure, in particular, and public expenditure, in general, do not guarantee economic growth. The inefficiencies associated with public expenditure and crowding out effect caused by large plan expenditure may at times even lower economic growth. Social sector, an important sector is found to have no long run association with economic growth. However the results suggest the importance of agriculture. It is widely agreed that given the socio economic backdrop of the region in general and Manipur in particular agricultural development is more inclusive than any other sector. Our results also show that even in the short run it has a high positive impact on income despite having a very small positive impact in the long run. It immediately raises questions about the dynamics of the impact over time. There is a need to ensure that the strong impacts in the short run are not diminished over time.

The inordinate delay in completing the multipurpose projects, due to inadequate preparatory investigations and laxity of pre-clearance appraisal resulted in serious underestimation of costs and overcapitalization, underutilization of their potential. These inordinate delays lead to accumulation of a huge overhang of incomplete projects which ultimately turned many State Financed Projects dead investment. This calls for strengthening of existing facilities, upkeep of buildings, adequate earmarking
of standard equipment/machines, medicines and manpower including medical specialists in the health centres including hospitals rather than going for new constructions. Maintenance of installed infrastructure has been a weak spot in public expenditure which routinely stressed on new constructions.

**Recommendations**

Agriculture, even though, not significantly related in the long-run with plan expenditure needs to be critically examined considering the fact that the state does have neither any large industries nor productive sector where employment can be generated. Adequate investment in agriculture is still required keeping in mind the food security act and to meet the challenge to produce sufficient food-grains, particularly rice by increasing intensity of cropping, providing improved irrigation facility, power supply and scientific techniques. Shifting cultivation in the hills has to be replaced with modernized methods not only to improve productivity, but also, conserve the environment. Thus the portfolio of projects in agriculture needs to be re-examined. The agricultural technology itself needs to be upgraded. There is no denial of the need for investment in industries. However the state should re-examine the problems faced by industries because the persistent failure of industrial policies indicates a gap in understanding of the issues. Government investment in both education and health are particularly important as there are direct and indirect benefits of such investments. The long-term intergenerational effects of health and education show the importance of promoting social sector
investments despite tight current fiscal constraints. Once a generation of children are exposed to life without adequate health care, nutrition or schooling, there is little that can be done during their adulthood to reverse the damage. The irreversible effects of such failures should be the guiding principle to make such investments. The empirical result to some extent may also be a reflection of not only the quality of data base but also the weakness of the modelling process. A multivariate model could have shown better insights than the bivariate model adopted in this study.

If avenues for attracting investment from multinational corporations are to be debated for its viability in Manipur for economic growth and prosperity, then, different factors, such as gender equality and foreign investment, need to be taken into consideration in explaining prosperity and development.

The Five-Year Development Plans in Manipur were framed within the National Plan Framework. However Planning in Manipur appears to be not following any of the investment criteria usually prescribed in the literature such as modified social marginal productivity (SMP), embodying the total effectiveness of capital in contributing to stated objectives of development. The study reveals that there is much room for improvement in the coverage and application of the pay-off criterion and in the use of cost-benefit analysis of major irrigation multipurpose projects, ascertainment of available capital, and the adequate
appraisal of sick public sector units established in the state with active support from the State Government. 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 it can be concluded with some thoughts on the impact of plan investment on growth in terms of real NSDP.

Sufficiently long time series data is required to run ARDL test with more lags. Hence, further specialised research with updated data on specific sectors like agriculture, transport, energy, industry, etc. may throw more meaningful and realistic light on the causes and the impact of government investment on growth – both short term and long term. Since the importance of education towards growth is questioned so much so that the question arises whether economic growth influences education. In social sector, it will be more pertinent if one could establish the relationship between investment and growth, particularly for education and health.

The failure in finding a long-run robust Keynesian relationship in this study shows the importance of further studies that focus on the weak association between government activity and economic development in Manipur. It should be investigated whether or not there are periods in which the government activity is exposed to structural distortions breaking its association with
economic development. Better and longer database should be developed so that better and more sophisticated techniques can be meaningfully used to unravel the relationship among the variables.

...