CHAPTER: 7

POLICY IMPLICATIONS
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Economic policies in India have undergone much change over the last few years and more changes are on the anvil. The essential aspects of these reforms initiated in 1991 are greater reliance on the market mechanism and a class of public policies including deregulation and government controls, greater autonomy of private investment, less use of public sector, more opening of the economy to international trade, less restrictions on the convertibility of the rupee etc. It will not be wide-off-the-mark to comment that given the extremely heterogeneous character of the Indian economy and society there is no guarantee that these reforms will create a growth-friendly environment everywhere. It is important to have an objective idea of the state of the economy before any comment about the suitability or otherwise of the policy is made.

It will be pertinent to highlight the state of infrastructure first. The road system in the state is still inadequate and suffers from other deficiencies such as poor geometry, narrow and weak bridges and insufficient cross drainage works etc. It is highly vulnerable to vagaries of weather particularly land-slides and sinking of roads. It is further compounded by political instability whose one of many manifestations is road blockades put up by tribals inhabiting the hills.

Though the state is endowed with rich hydropower potentials, power shortage is acute in this state. The percapita consumption of power in Manipur is much below the all India percapita consumption. Major portion of the electric power in Manipur is utilised for domestic lighting. Banking infrastructure is also inadequate with the average population covered per bank in the state being 21,612. The credit deposit ratio in the state also has declined. There is no industry worth the name and majority of public sector units are not able to generate any profit.

An analysis of the agrarian structure of the state reveals that cultivation is practiced by numerous cultivators belonging to marginal and small sized categories of holdings both in terms of numbers of operational holdings and ownership holdings. These cultivators also face the problem of fragmentation, which adversely affects the efficient use of their land resources. Low degree of mechanisation and poor resource
base characterises these cultivators. In short, the dominance of marginal and small farmers impedes modernisation of agriculture.

The growth rate of population in Manipur has been higher than that of all India. The distribution of workers reveals the predominance of agriculture, which employs about 68 percent of the total workers. The backwardness of agriculture thus may explain to a large extent the high percentage of population below the poverty line. The number of persons on the live register of the employment exchanges has been growing.

However around 75% of the total registrants are under matrix and matriculates. Their skill levels may be incompatible with skill- matrix required for development.

These facets of the state economy suggest the continuing relevance of Government intervention in all key sectors of the economy. Infrastructure development and human capital formation do not figure prominently in the private investment portfolio anywhere. The pertinent question now is-what type of policy options do the preceding exercise reveal for raising economic growth and price stability?

The analysis of structural change in Manipur shows that the state economy has been becoming more and more tertiary sector oriented. The real per capita income of Manipur was not only lower than that of all India, but also the gap was widening. The share of primary sector declines at a decreasing rate and those of secondary and tertiary sectors increase at a declining rate. If the economy continues to grow at the current growth rate the share of tertiary sector is likely to stabilize around 60 percent, that of secondary sector around 10 percent and that of primary sectors around 30 percent. In general the growth rate of services was independent of the growth rate of commodity sector income. Except in trade sub-sector the growth rate of commodity output had a poor relationship with services income. Demand as represented by commodity output can explain only a small portion of growth of services income in Manipur. This indicates that there are other exogenous factors determining the growth of services income.

In terms of impact on real NSDP, income originating in real estate, ownership of dwelling had the greatest current impact. Income originating in agriculture had a stronger impact on real NSDP than that of manufacturing. There was no significant relationship between income originating in agriculture and
manufacturing. Public expenditure in power also had positive significant impact on real NSDP. Cropping intensity was found to be the only variable with positive significant impact on growth of per capita income originating in the primary sector. There was positive association between growth rate of per capita income originating in tertiary sector and secondary sector. Number of educational institutions were found to have significant negative impact on the growth rate of per capita income originating in the tertiary sector.

These findings suggest some policy measures for enhancing economic growth and influencing for economic structure. Real NSDP can be raised by raising the public expenditure in power. As of now, the earlier hopes in the Loktak Hydroelectric project have not been realized. The inadequate and erratic supplies of power over the years have not been conducive to the industrialisation scenario in the state. With major portion of electric power available being used for domestic lighting, little is left for industrialisation. Thus once adequate and regular supply of power is made available, the hitherto aborted process of industrialisation will receive a big push. So far the usual concessions like subsidised transport, tax holidays have failed to attract investment.

It is pertinent to point out that the power sector suffers from other ills like power theft, unpaid power tariffs and substantial transmission loss. These issues become predominant during scarcity. Once the power shortage scenario is converted into a power-surplus scenario these issues are likely to become less important.

The absence of any strong linkage between agricultural income and manufacturing income is compatible with the absence of industries in general. Real NSDP can also be raised by raising income originating in real estate, ownership of dwelling etc. This can be achieved even by speculative market, which tries to take advantage of growing demand for real estate & housing.

The growth of per capita income originating in the primary sector can be enhanced by raising the cropping intensity. Due to rapid population growth and hilly character of the topography, there is little hope for expansion of area under cultivation. The asset base of the dominant marginal and small farmers also limit the scope for raising yield by adopting modern agricultural practices. However provision of adequate irrigation infrastructure will encourage the cultivators to go in for multiple cropping the benefits of which can be fully reaped by the cultivators with the existing asset base. Multiple cropping will stem the tide of seasonal rural-to - urban
migration of workers. Not only will the rural workers be with work for a longer period, the pressure on urban amenities will be less. In short every step should be taken to marginalise any factor inhibiting wider practice of multiple cropping.

Establishment of educational institutions has the effect of withdrawing workers from the economy. An interesting finding of this study is its negative impact on the growth rate of per capita income originating in Tertiary sector. It is compatible with the higher skill requirement of work in this sector than in agriculture. However number of educational institutes disaggregated over different levels would have been more meaningful. It has already been shown that the skill level of most of our job seekers are very low and they need training for developing a compatible skill matrix. Thus even if the training has a negative effect immediately, it should have a positive effect in the long run.

Regarding forecast of various prices, structural modeling suffers from general lack of data. While stochastic time series modeling was studied for 10 prices, structural modeling could be attempted for only three prices. Among the stochastic time series models only 2 out of 10 were found to have ARIMA (p,d,q) characteristic. 8 models had only IMA (d,q) characteristic. A MA model has memory for limited period equal to its order. Hence forecasts can be obtained for only limited periods in the future.

In the case of retail price of rice RRICE a one percent rise in its value lagged by one percent would raise the current period price by 1.024 percent. Little can be achieved by manipulating demand-supply gap. The positive impact of NSDPR on WRICE and of WRICE on RRICE indicates that RRICE will rise inexorably. Its dynamics seems to be mainly determined by factors exogenous to the economy. The state has little policy option to lower RRICE.

In the case of RFI, the demand-supply gap was found to influence it. A one percent rise in GAPFI would raise RFI by 0.27%. An increase in supply for a given level of demand would reduce the gap and help lowering RFI. Thus policies for enhancing the total availability of fish by more widespread and efficient pisciculture in the state and by ensuring smooth inflow of fish imports would help in lowering RFI.

Overall, price forecasting needs much more development and refinement of data of price variables and their correlates. Stochastic time series monthly forecasts based on moving average specifications are not valid even for a year. The preference
for structural models can be meaningful only when data for their correlates are available.

As to the question, whether high inflation rate would impede economic growth, the answer is in the negative. Even though inflation rate had negative impact on rate of growth of real NSDP and per capita real NSDP, it was not significant. The evidence also did not support the existence of any threshold level of inflation. It implies that economic growth is compatible with several inflation rates. Given the tertiary sector dominated economic structure, the lack of any significant relationship between economic growth and inflation rate is surprising. In a sector as commercialised as the tertiary sector price signals are expected to play an important role in decision making. The finding thus re-inforces the lack of integration among the sectors. It also indicates the possible existence of some unidentified non-economic factors behind the growth of the tertiary sector. This further underscores the limited scope for economic policy.