CHAPTER-VII
POLICY IMPLICATIONS AND CONCLUSION
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7.1 Policy Implications and Conclusion

In the last few years, there has been a radical change in the policy of the central government and also state governments in their view of public expenditure. The earlier notion of the need for raising public expenditure to finance the ever growing involvement of the government in development planning has changed. The image of the government with limitless resources at hand has changed. The events of the early 90’s have underscored the need for incurring public expenditure efficiently. The recommendation of the 12th Finance Commission also introduced a system of rewarding fiscally prudent state governments. It is in this backdrop that this study has been undertaken to examine public expenditure of Manipur in its totality. The issues that have been examined include- pattern of growth of public expenditure in Manipur, impacts of public expenditure on a few objectives of the five year plans and the determinants of public expenditure. There is also an attempt to provide forecast of public expenditure for a few years. At the core of this thesis, there is the issue of management of public expenditure. The impacts of public expenditure and its various components on the objectives of five year plans have to be understood and comprehensively examined for proper management of public expenditure. The issue is not how to minimise public expenditure. The issue is how to utilise public expenditure optimally. In other words, as long as the impact of public expenditure on the various objectives of our five year plans is unambiguous, the level of public expenditure, however high it may be, does not matter.

The study has found bi-directional causality between total expenditure of Manipur and total revenue of Manipur. Central grant Granger causes total revenue of Manipur. This confirms an obvious fact that it is central grant that determine the total expenditure. With our limited resources, it is not possible to sustain any large scale increase in public expenditure without a large dose of central grant.
During 1972-73 to 1982-83, expenditure on pension and misc. services (EPSM), fiscal services (EFSM), organs of state (EOSM) and non-plan expenditure (NPEM) are found to be growing very fast. During 1982-83 to 1992-93, expenditure on pension and misc. services (EPSM), interest payment (EIPM) and non-plan expenditure (NPEM) are growing very fast. During 1992-93 to 2002-03, expenditure on pension and misc. services (EPSM), interest payment (EIPM) and general services (EGSM) are growing very fast. The pattern of growth shows consistently high growth rate of expenditure on pension and misc. services (EPSM). The stability test shows that expenditure on pension and misc. services (EPSM) has the maximum constant rate of growth. As expected, most of the sub-heads of public expenditure had higher growth rates during the pre-reform period than that of post-reform period. Though the growth rates of expenditure heads have declined during the post-reform period, the fact that expenditure on pension and miscellaneous services (EPSM) has been growing fastest has certain implications. Pensionary benefits are purely transfer payments not related with any current production. It is also a committed expenditure, the denial of which raises several ethical questions. As expenditure on pension and miscellaneous services (EPSM) has come to constitute a large share of public expenditure, the issue of its proper management becomes very crucial. Enhancing the age of retirement of each employee will be only temporary solution of the problem. Like the central government, the state government should established a pension fund. This fund created with contribution of the employees and the government should be professionally managed.

Using the log linear model to examine the determinants of public expenditure, it is found that political dummy (PDUM) and price inflation (PI) have no significant effects on all expenditure variables. The fact that the impact of political dummy (PDUM) has been insignificant shows that every government has been
raising the level of public expenditure irrespective of whether it is a congress or a non-congress government. The emergence of regional parties makes non-congress government more real. However, our finding shows that any type of government is not going to lower the level of public expenditure. This issue, thus, is above party politics. It is a welcome sign because party politics does not dictate the level of expenditure. Some important determinants of total expenditure are per capita total revenue (PCTR), per capita NSDP (PCNSDPM), population (POPM), rate of unemployment (RUNEMP) and percentage of urban population to total population (PCPOPOPUR). The positive impact of population on total expenditure shows that the growth of public expenditure is largely due to the need for financing the basic needs of the population. There is a trade-off between unemployment rate and total expenditure; the higher is the unemployment rate, the lower is the total expenditure. This is due to the fact that public sector employment is the dominant source of employment in the state. A decline in total expenditure is reflected in a shrinkage in economic activities undertaken by the government. This leads to retrenchment and abortion of job opportunities.

Total public expenditure does not have statistically significant impact on NSDP. However, various components of total expenditure are found to have significant impact on NSDP. The sub-heads of expenditure having the largest significant impact on NSDP is expenditure on rural development (ERDM). Other expenditure sub-heads having significant impact on NSDP are expenditure on agriculture and allied services, capital expenditure and expenditure on economic services. In order to have the maximum impact on NSDP, top priority should be given to rural development. As the majority of the people are in the rural areas and rural resources are not optimally utilised, rural development through a substantial hike in public expenditure on rural development will make growth more inclusive. The same logic prevails for a plea to raise public expenditure on agriculture and
allied services and capital expenditure. It is known that one of the biggest problems faced by agriculture is the stagnancy in public capital formation in agriculture. In agriculture, public investment is followed by private investment. If public investment in irrigation and power infrastructure is not forthcoming, private investment also will not be forthcoming. Given the general poverty of the rural areas, provision of the enabling environment through public and private capital formation is absolutely necessary to bring any significant change in rural areas. Thus, the argument is not for raising public expenditure, per se, but rather certain components of it. Essentially, it is an argument for introducing a rural bias in public expenditure.

The study shows that public expenditure has limited impact on various objectives of planning, such as enhancement of employment and maintenance of price level. However, total expenditure raises total revenue. Thus, increase in public expenditure leads to an increase of total revenue. Since the impact of public expenditure on tax revenue is found to be insignificant, the increase in total revenue seems to be mainly due to non-tax revenue.

Of the many methods of forecasting a time series, VAR model is found to be the best. Using this model, we can make reasonably good forecast of public expenditure. In order to forecast total expenditure, total revenue should be analysed properly. It is a positive sign that expenditure is based on revenue. If the relationship between revenue on one hand and expenditure on the other is maintained, it will be of great help in maintaining balance between expenditure and revenue. There is a widespread belief that the level of public expenditure in Manipur is not constrained in any way by the amount of resources at the disposal of the government. Our findings clearly show that contrary to the popular belief, public expenditure is largely dictated by revenue receipts of the government. In order to forecast the value of public expenditure, future values of total revenue should be known.
In the case of time series analysis using Box-Jenkins's method, knowing the past values of the same variable is sufficient to forecast the future values of the dependent variable. However, in the case of VAR method, the values of revenue receipts are to be known in advance.

7.2 Limitation of the study

The expenditures are mostly at current prices due to the non-availability of appropriate price deflator. The analysis of impact in real terms would have been more instructive. Just as expenditure heads were disaggregated into various sub-heads, variables like NSDP, employment and price also could have been examined at more disaggregated levels.

7.3 Scope for further study

Since the coverage of the study is very wide, each and every aspect of public expenditure can not be studied. This means that a more segregated study of public expenditure is needed. The following points may be probed further:

1. The role and necessity of public expenditure for the promotion of economic development of Manipur can be examined in more detail.

2. The increase in tax and non-tax revenue is comparatively low with respect to total expenditure to be incurred. So, the inter linkage between revenue collection and expenditure and the appropriate mechanism for bridging the gap should be examined thoroughly.

3. Administration and control of public expenditure or its management is also an important aspect of public expenditure policy. Most of the problems arise because of improper administration. So, it is the need of the hour to examine the problems and prospects of administration and control of public expenditure in Manipur.
4. Public debt is a related problem of public expenditure and committed expenditures like interest payment affect the freedom of public expenditure policy. Without proper knowledge of the dynamics of public debt, the management of public expenditure is imperfect. So, the issues in the management of public debt should be examined.