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1.1. Introduction

Fiscal policy as a part of the economic policy and economic reforms for growth and development influences in a wide range of economic activities. In a mixed economy with a federal form of government, fiscal policy plays an important role for growth and for improving the structure of an economy. The tax system and the expenditure policy as an instrument of fiscal policy aimed at maintaining an adequate consumption, a high level of production, employment, national income and equitable distribution of income and wealth. A delicate balance has to be struck between the revenue requirements of the government for the huge expenditure on the one side, and the investment requirements of a developing economy on the other side. A prudent debt management and accountability in financial administration is also covered by the Fiscal policy.

The fiscal scenario for the last ten years, since the beginning of the 21st century in Manipur is quite a chagrin. Many have studied the past behavior and opined that the fiscal health of the state is very weak. The fiscal health of
the state depends on revenues from state taxes, non-tax and as well as constitutional and other transfers from the central government. The fiscal policy of an economy, for a particular period, gives a picture of public revenue, public expenditure, and borrowing patterns for the year and financial administration of the economy. The sources of revenue are very limited and depend on the financial transfers from the centre. The expenditure of the state in not in the proper direction for development and deficit budget has become a regular phenomenon in the economy. The resource allocation through financial administration for the state economy hardly brings social welfare of the state. The development experience of many developed countries shows that there is a positive relationship between the growth of fiscal sector and the development of the economy. “The fiscal system and fiscal policy of any country reflects its citizens’ general economic views and aspirations which it may have in common with other countries’ social and cultural institution, the distribution of income, the structure of its economy, resource endowment and also political conditions”. The unhealthy fiscal system of Manipur’s economy reflects the backward condition of the state. The State’s economy is an underdeveloped one, because its fiscal system is very weak compared to other advanced States of the economy.

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The Indian constitution provides independent revenue raising and spending power to the central and state governments. India has a federal form of government, the fiscal responsibilities being divided between centre and state and centre had assigned more responsibility. There is the provision for the formation of finance commission every five years to assign the responsibility on centre-state financial relation. The planning commission is a non-statutory body in this regard and also responsible on financial relation between centre and state. The constitution also provides that for every financial year, the state and central governments shall place before the legislature a statement of receipts and expenditure of the year. The constitution directs the central government to transfer resources to the state. This is termed as central transfer.

Manipur, as one of the backward state of India, has been facing the developmental problem especially in the field of management in finance. Manipur got statehood in 1972. During the period of 1949-1972, there was no proper planning and the planned investment was very low. Manipur during the first three plans, during a period of 15 years, has Rs.20.68 crores only. For the annual plans of three years (1966-69), the total plan outlay of Manipur was Rs. 10.14 crores. The reasons for the low plan outlay in Manipur during the period of 15 years (1951 to 1966) were because of the thinness of economic development programmes of the union government. There was no proper financial system and the fiscal health had totally failed during the period of 1949-1972.
In the last three decades of the 20th century since Manipur got statehood on 21st January, 1972 the process of economic development and proper functioning of financial machinery has started. The approved plan outlay touches the treble digit during the sixth plan (1980-85) and it was Rs. 240.00 crores. The 10th plan (2002-07) and 11th plan (2007-12) reached the plan outlay of Rs.2804.00 crores and Rs.8154.00 crores (projected) respectively. The plan outlays of the various five years plan are given in the table 1.1.

“From the very beginning Manipur’s fiscal state has been precarious. The own revenue receipts of the state are so meager that it constituted only 1.5% of the GSDP of the state in 1985-86. The situation has changed little. The non-tax revenue of the state was also insignificant. Grants from the centre and shareable central taxes contribute major share of the state’s revenue receipts. But, the precarious situation of the fiscal health of the state has been compounded with the implementation of the fifth pay commission recommendations. For the first time in the state, the revenue account turned into deficit in 1999-2000. Fiscal deficit touched a very high figure of Rs. 659 crores and accounted for 22.8 percent of the GSDP in 1999-2000.”

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According to the RBI report of 1998, Manipur was on overdraft for 118 days in 1997-98. It rose to 289 days during the financial year 2000-01. The State finance department remains closed and was not working at all. During 1999-2000 the fiscal deficit rose to an unprecedented level of 22.8 percent of gross state domestic product and the surplus on revenue account turned into deficit. The crisis adversely affected the delivery of public services as well as operation and maintenance of existing public sector assets.3

The development of fiscal policy to the economic policy and practice has undergone revolutionary changes in the recent years. “Indeed, the classical concept of passive public finance has given way to functional finance to deal with the complexities of modern economics which requires constant monitoring on the part of fiscal authorities to avoid various disequilibria.”4 From the chaos of the depression in 1930’s, the importance of fiscal policy was mentioned by Keynes in his study and in his book, “General Theory of Employment, Interest and Money-1936”. The General theory brought out that the depression was mainly caused due to lack of Aggregate Demand which can be stimulated by increase in Government expenditure. It means that the fiscal policy could play an effective role in initiating the process of recovery during depression. With this initiative of the Keynes’, the

3 Government of Manipur (2000-01) - Finance Accounts, p.34.
fiscal policy has by now become a major instrument of economic policy of the Government in all the Economies.

“The post-war economic performance of most western countries in respect of employment, production and growth has been vastly superior to that pre-war year mainly because governments have increasingly accepted responsibility for the promotion and maintenance of high employment and steady economic growth.”\textsuperscript{5} And “where fiscal policy has been used consistently, it has made a major contribution to the achievement and maintenance of high employment”\textsuperscript{6} and “inequalities of wealth and income….. have been narrowed in most of the developed economies by a combination of increases in the productivity and various redistribution policies of the government.”\textsuperscript{7} The experience of using fiscal policy by developed and advanced countries encourages too many developing and underdeveloped countries as a policy to their economic development.

Being a late-initiator, Manipur could not exploit the vast field of modern information and technology. When the problem of economic development is considered in the Manipur context there would be no need of finding optimum combinations for given resources and factors of production, but of finding the resources that are unutilized and disguised. Being a democratic state of a democratic country, resource mobilization cannot be done through authoritarian method in Manipur. As the Planning commission has observed,

\textsuperscript{6} Ibid,p.97
“a democratic system of planning eschews direct commandeering of resources……”

Therefore, in order to achieve the desire objectives in Manipur, it has to be operated through the direct and democratic instruments of fiscal policy.

The 21st century Manipur’s economic development is the development of finance and its policy. A right policy and reform will bring the development in the economy. The development of Agriculture, Industry, Trade and overall development of the economy is very much depending on its fiscal policy. A good taxation policy is economically beneficial and right direction of expenditure is socially desirable. The advanced administrative mechanism and proper management in the financial arena are now employed as developmental instruments in the developed economy. The term, “Development and Finance” is signifying the needs of responsible citizen and responsible government. A right way of expenditure and responsible government is very much related. The policy reformers and implementers should know the direction of development in the economy. Expenditure policy is the policy of the government for the development of the economy. Development of an economy is a multi-aspect and relates to the socio-economic conditions and resource availability. Development policy and expenditure policy are the two interrelated terms in public economics.

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8 Government of India (1956)- Planning Commission, Second Five Year Plan, p.38
The role of fiscal policy in developed countries is to maintain the condition of full employment, economic growth and stability, while in a developing economy; the fiscal policy’s role is to accelerate the rate of capital formation and investment. By doing so, the productive capacity of the economy is developed and economic development becomes possible in the developing economy. Besides, fiscal policy can influence the pattern of production, the price level and bring about economic justice.

The fiscal operations of the government for promoting the economic development in Manipur is as an investor, as an resource collection, as an stabilizer, as a saver and as an income redistribution. Fiscal policy in a developing economy of Manipur is concerned with the government’s taxing, borrowing, and spending policies to achieve rapid economic development with reasonable stability in macroeconomic variables. The special feature of fiscal policy in Manipur’s economy is to give priority on the economic growth and capital accumulation. The state’s per capita real income is low because of insufficient productive resources both in quantity and quality also due to inefficient and ineffective use of such resources. There are frictions and impediments in the way of economic growth and progress among the socio-economic variables in the state’s economy.

The 21\textsuperscript{st} century will be a special one regarding the economic growth and development in the state’s economy. In this era, the fiscal policy in the state is going to play a great role on the path of development. It is the right
time and right stage to apply a right way of fiscal instrument and practices. Government should introduce a policy on taxation to earn more revenue in the state. The development of agriculture, Industry and trade are very much related to its expenditure policy. Special analysis of industrial expenditure for industrial development is the present requirement in the state.
**Table - 1.1**  

**Plan outlays of Manipur**

<table>
<thead>
<tr>
<th>Plan</th>
<th>Year</th>
<th>Approved Outlay (Rs. crores)</th>
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</thead>
<tbody>
<tr>
<td>1st</td>
<td>1951-56</td>
<td>1.55</td>
</tr>
<tr>
<td>2nd</td>
<td>1956-61</td>
<td>6.25</td>
</tr>
<tr>
<td>3rd</td>
<td>1961-66</td>
<td>12.88</td>
</tr>
<tr>
<td>Annual</td>
<td>1966-69</td>
<td>10.14</td>
</tr>
<tr>
<td>4th</td>
<td>1969-74</td>
<td>30.25</td>
</tr>
<tr>
<td>5th</td>
<td>1974-79</td>
<td>92.86</td>
</tr>
<tr>
<td>Annual</td>
<td>1979-80</td>
<td>31.00</td>
</tr>
<tr>
<td>6th</td>
<td>1980-85</td>
<td>240-00</td>
</tr>
<tr>
<td>7th</td>
<td>1985-90</td>
<td>430.00</td>
</tr>
<tr>
<td>Annual</td>
<td>1990-92</td>
<td>365.00</td>
</tr>
<tr>
<td>8th</td>
<td>1992-97</td>
<td>979.00</td>
</tr>
<tr>
<td>9th</td>
<td>1997-02</td>
<td>2426.69</td>
</tr>
<tr>
<td>10th</td>
<td>2002-07</td>
<td>2804.00</td>
</tr>
<tr>
<td>11th</td>
<td>2007-12</td>
<td>8154.00</td>
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Source: Government of Manipur, Planning Department, Various Issues
1.2. Socio-economic policy and Fiscal policy:

Socio-economic policy is the policy or reforms of the country – state regarding its economic development. “Social policy has many facets and each one requires a different line of attack to achieve (social) equality among citizens – equal rewards for equal efforts and removal of unjust selection mechanisms. Whatever be the practical approach followed any policy, social or otherwise, needs a regular evaluation of its performance to verify if it is making the right impact towards meeting its goal.”\

9 Freidmann defines, “growth as an expansion of the system in one or more dimensions without a change in its structure and development as an innovative process leading to the structural transformation of social system”10. It is the structural transformation of social system that socio-economic policy relates to economic development. We have to transform with the changing environment, the outdated and inconvenient method of social system to a new one. A new Agricultural policy for agricultural development, a new industrial policy should substitute the previous one, Education policy for educational development etc. that the transformation of social system defined. A new social order and transformation of economic system require changing the method and policy of the government with the reforms and implementation of

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fiscal variables. Fiscal policy should encourage the flow of money into those channels which are considered socially desirable. Socio-economic overheads and Fiscal policy plays a constructive role in economic development. Expenditure on agriculture, transport, power, education & training etc., as a socio-economic overheads are for the development of the economy. So, the term social development and economic development relate to fiscal policy. A true and right way of fiscal policy and reforms is the right way of the socio-economic policy, which can bring economic development.

1.2.1. Fiscal policy and Socio-economic Justice:

The motive of individual is try to make own satisfaction. In the society, there are many individuals and they are trying the same. Human wants are unlimited, but resources are limited. The social satisfaction is the collection and the combination of all the individuals’ satisfaction. Then the question is how to make social equilibrium, which means the social satisfaction for all. Social justice and economic justice are related to social equilibrium. The equal satisfaction of all the individuals can be considered as economic justice. Fiscal policy is very much related to economic justice. Thus, the equitable distribution of income and wealth is considered as economic justice, a part of social justice. For equitable distribution of income and wealth, fiscal policy plays an important role.
The power of government expenditure for improving the weaker section of the society through many social welfare programme as an instruments of fiscal policy, constitutes to socio-economic justice. Similarly, taxation from the individuals, particularly from the higher income individuals can bring the equal distribution of income for stable socio-economic justice. The structure and level of taxation and public expenditure along with conscious management of public resources are operated through the budgetary process.

Government aims at removing the income and wealth inequality by higher taxation for the rich and proportionately lower taxation and sometimes even exemption for the poorer sections of the society through the instrumentality of the fiscal policy. Development and the society are multi-variety concepts and can be analyzed in plural sense. There are social variables and developmental dimension for each of the analysis.

Social variable includes religion, norms and tradition, language, caste, etc. making social difference. Resource, strategy, financing, policy formulation and implementation, peace and harmony etc., are the multi dimensional aspects of development. Money and finance play an important role to bridge the gaps of such variances. Fiscal policy is one of the modern economic variables to make socio-economic justice. The policy of inclusive growth is one of the initiatives for social and economic justice. Development and growth for all need adequate finance and proper distribution of resources
in the economy. It is the fiscal policy and reforms that redistribution of resources can take place.

“Much of our corruption control policy goes wrong when it comes to implementation because of one fundamental error, a propensity to treat the enforcers of the law—the policemen, the bureaucrats and administrators—as robotic agents, who will carry out the task they are supposed to do mechanically and flawlessly. Once we recognize that the shopkeeper who runs the government-controlled ration shop has his own objectives and will violate his assigned rules if it turns out to be beneficial to do so, and the bureaucrat who is supposed to monitor the ration shop has similar personal aims and ambitions, we begin to approach the problem very differently.”

For bringing social justice, stability in the social variables is also equally important with that of fiscal policy. The authorities of the various departments need to be sincere and have to be social minded. On the other side, it requires and demands the perfect harmony among the social variables.

We have chief minister for all the ministers then, it is interestingly to assert the Human question: Who will police the police officer? This leads to the answer that whatever system we suggest, must have the property of being a self-enforcing equilibrium. At first sight, this may appear to be too cynical a view of human beings as all selfish characters. But that is certainly not the intention here. As mentioned above and a lot of literature confirms human beings have in themselves innate tendencies to be moral and altruistic.

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However, the strength of these propensities can vary across individuals and societies and can change over time\textsuperscript{12}.

“While India has acquired considerable sophistication in terms of regular economic policymaking, such as those pertaining to monetary and fiscal policies, we still have a lot of distance to go in understanding the social and political foundations of economic development and how these can be strengthened.”\textsuperscript{13} We have and had lot of good policy and program, but a proper policy activism is the important thing. An active and dynamic management, accountability and the people’s support are the other important variables for socio-economic development.

1.2.2. Fiscal Policy and Monetary Policy:

The dichotomy of fiscal and monetary policy concerning macroeconomic policy framework, the exact and perfect macro character is monetary policy. Fiscal policy is less pronounced than monetary policy in regard to macroeconomic matter. In India, there exists the federal forms of government, divide the power into Central and State, and centre has more power and responsibility assigning the unitary power. In fiscal matter under fiscal federalism, centre has more fiscal power than the State. It does not

\textsuperscript{12} ibid, p.24.
\textsuperscript{13} Ibid, p.24.
mean that the State fiscal concerns are totally controlled or separated from the centre.

However, fiscal policy is a macroeconomic policy and macro character; we can analyze it separately in small units also. States in India have their State’s own fiscal policy and reforms following the norm of the centre. We have one and only one Central Bank i.e. the RBI. The RBI does all the monetary matters and concerns. States in India has no separate monetary authority, but the government of the States is the fiscal authority of the particular State. That is why the perfect macro character in India is monetary policy.

1.2.3. Fiscal Policy and Education:

Education having certain role in expanding choices, enabling greater participation at individual level, and facilitating change and development at the social level are well delineated in the economic development literature. In Manipur, both the government and non-government agencies have been main facilitators of education during the era of globalization. The effects of globalization, liberalization and privatization make certain changes on education and its policy.

It is important to examine that fiscal policy and provision of finance for education is one of the important aspects of government, which needs thorough examination. “Since it is public policy on education that is the
crucial determinant of available educational places and opportunities in our country, it (6 percent) is the centre and state expenditure on education that is used for policy planning and implementation, this includes both plan and non-plan outlays"\textsuperscript{14}. “In a science based world, education and research are critical to the entire development process of a country, its welfare, progress and security.”\textsuperscript{15} The total expenditure on education in the country increased by 75\% to Rs. 1,05,618.8 crore during the year 2007-08 from Rs. 60,267.30 crore in 2000-01. Arunachal Pradesh, Mizoram, Manipur and Goa are the states, which have witnessed a decline in actual allocation under this head during the period 2000 to 2007. Whereas, the budgetary allocation for education in Meghalaya is abnormally increased by 31.6 \% from Rs. 390.86 crores in 2006-07 to Rs. 514.48 crore in 2007-08.\textsuperscript{16} Dauda\textsuperscript{17} (2010) examined the effect of investment spending in education on economic growth in Nigeria using thirty-one (31) years time series data from 1977 to 2007. The study employs cointegration and error correction techniques. The result shows positive and significant effect of educational expenditure on economic growth.

\textsuperscript{14} Anand Sarup – \textit{Challenge of Education}, Government of India, 1985, p.253
\textsuperscript{15} Letter of submission of the report by DS Kothari, Addressed to MC Changla, Minister of Education (1966).
1.2.4. Fiscal Policy and Environment:

The environment we survive in has a close relationship with fiscal policy. Fiscal policy is for development and development is for happy and meaningful life. All are connected with the environment and happening in the environment. The development gift of today is the degradation of environment. Pollution and toxic materials are the development presents to the beloved mother, Environment. Then, the question is why staying silent the mechanistic fiscal policy. Start your taxing policy to those who pollute the environment. Give heavy duty for environmental maintenance from them. Let us start to give subsidy and spend more and more money for eco-friendly productive activities. “Lack of political commitment of a comprehensive environmental policy can be a major barrier. It is very important to have an enabling environment and commitment at the highest levels to deal with the changes happening in the environmental sphere and take actions that will contain the challenges for the future.”¹⁸ The development in the future with sustainable environment should be linked the Fiscal policy of the economy. If we do not introduce moral fiscal policy for sustainable development, after a few years everyone will suffer instead of getting fruits from development, the harmful effect of environment caused by development.