Chapter VII

Conclusion:

Findings and Suggestions

The study of “Fiscal policy: with reference to 21st century Manipur’s Economic Development” is one of the important area and the sub-national level study in the economy. The research carried out and applied all the fiscal instruments during the period 2000 to 2010 in the Manipur’s Economy. The research gives a new dimension and contributes to the financial development literature in the State’s economy. Fiscal management becomes an ingredient for the modern economic development. Finance is the life-blood of an economy and right fiscal management is the means for growth and development. We have studied in the forgoing chapters, how the State raises the income, how they spend and manage the funds and their trends in the State economy. This chapter will focus on the conclusion, the main findings and suggestions.
7.1. Findings of the study:

The following findings and conclusions have been made and drawn on the basis of the study of State’s revenues, Developmental and Non-development expenditure, comparison between sources of Revenues and magnitude of Expenditure, Public Debt and Financial administration in the State and the overall analysis of Fiscal policy and Economic development in Manipur.

7.1.1. Government Revenues in the State economy:

The sources of income of the State government can be categorised into two, namely, tax revenue and non-tax revenue. Tax Revenue is further sub-divided into a) State’s own tax and b) Share in central taxes. Non-tax revenue is divided into a) State’s own non-tax and b) grant and contribution from the central government. In regard to State’s Own tax and non-tax revenues, there is very low source of state income. The Revenue Receipts of the State though comparatively better in few years largely depends on central transfers. About 90% of the revenue receipts of the State is from the central transfer. There is low taxable capacity in the State. The tax revenue from different taxes is below 4% of the revenue receipts and the Own Tax-GSDP ratio is around 2 to 3 percent throughout the period 2000 to 2010. VAT was introduced in 2005 in the State. Sale tax or the VAT becomes one of the major components of tax revenue. We have
known that the determination of a good tax in the developing economy of Manipur is a difficult one. A good tax is also related to the socio-economic and political structure of the economy. State government cannot collect adequate tax revenue due to backward socio-economic and political difference. The main findings from the analysis of the State Revenue Receipts are as follows:

1. The State is a dependent State, 90% reliance on Centre.
2. Grant-in-aid was becoming the Major components of the State revenue and about 75% to 80% of the revenue receipts were from Grant-in-aid during the study period of 2000 to 2010.
3. Tax revenue is about 4 percent of the total revenue receipts and Tax-GSDP ratio is around 2 to 3 percent throughout the period.
4. Among the tax, sale tax is the major component. More than 70 percent of the tax revenue is taxes from goods and services.
5. From the imposition of VAT, the tax collection was increasing.
6. The non-tax revenue receipt is also low and is less than 5% of the Total Revenue Receipts.
7. The non-Tax-GSDP is less than 4% throughout the period of analysis.
8. The per capita own tax revenue is less than Rs.500 throughout the period and one of the lowest in the North East State.
9. The taxable capacity is a relative term and it can be said that the capacity of the Manipur economy is low.

10. A good Tax depends on the socio-economic and political structure of the economy. It is very difficult to determine a good tax in the context of Manipur. As of now, VAT becomes the largest source of Tax Revenue and is considered to a good Tax.

**7.1.2. Government Expenditure in the State:**

The powerful instruments of fiscal policy in underdeveloped countries especially the underdeveloped State of Manipur is public expenditure. Government’s expenditure is called a powerful instrument of fiscal policy for underdeveloped countries in which welfare of the people is examined through utilization of resources for the maximization of public satisfaction. Expenses incurred by government Central-State and local either for the development or non-development activities can be termed as public expenditure. The expenditure, which can promote growth, should be termed as developmental expenditure. It comprises the expenditure on economic and social services. The expenditure, which does not promote growth, can be termed as non-developmental expenditure. However, in real practice, it is difficult to consider that the expenditure classified as non-developmental does not in any way can bring the promotion of growth. Non-developmental
expenditure includes General administrative services, Fiscal services, Debt services and grants-in-aid to local institutions & bodies. There is an increasing trend in both the Developmental and Non-Developmental Expenditure in Manipur’s economy.

There is another classification in the government expenditure, namely the Plan and Non-plan Expenditure. In the fiscal year 2000-01, the plan expenditure is Rs.28,831.68 (22.68%) lakhs, the non-plan expenditure is Rs.93,739.61 (73.76%) lakhs and centrally sponsored plan scheme is Rs.4521.97 (3.56%) lakhs respectively. In the fiscal year 2005-06, the total expenditure is Rs.2,62,032.74 lakhs. The respective share of Plan, Non-plan and Centrally sponsored plan scheme are Rs.83,210.3 lakhs, Rs.1,59,231.3 lakhs and Rs.1,991.17 lakhs at the percentage of 31.75%, 60.77% and 7.48% respectively. At the end of the period and in the fiscal year 2010-11, the respective percentage share of Plan, Non-plan and Centrally sponsored plan are 37.95%, 57.15% and 4.9%. The research found that the State has no proper planning and more emphasis on Non-plan activities.

Another analysis of the government expenditure is the expenditure on Economic services. The Expenditure on Economic services is around 10% to 13% of the GSDP. There is increasing trend in the expenditure (Revenue & Capital) on the Economic services during 2000-01 to 2004-05. The highest ratio of 13.40% of the GSDP was in the fiscal year 2001-02.
The main findings from the analysis of the government expenditure in the State are as follows:

1. The Expenditure on revenue account was Rs.1,12,343.73 lakhs in the fiscal year 2000-01. It becomes Rs. 3,36,031.98 lakhs in 2010-11 increasing about triple times(2.99) at 199.11%.

2. The Expenditure on capital account was 14,750 lakhs in the fiscal year 2000-01. It becomes Rs. 1,91,806 lakhs in 2010-11, a 13-fold increase during the 10 years.

3. Both the developmental and non-developmental expenditure are at the increasing trends. More percentage share was found in the developmental expenditure.

4. In the division analysis of total expenditure on revenue account into Economic services, social services and Non-developmental expenditure, more shares was found in Non-developmental Expenditure.

5. More expenditure share was found in the Economic services in the division analysis of expenditure on capital account.

6. The share of plan expenditure to the Total expenditure is very low. It was 22.68% in the fiscal year 2000-01, 31.75% in the fiscal year 2005-06 and 37.95% in 2010-11.

7. There is direct relationship between the increase in the Expenditure on Economic services and the Growth of GSDP.
8. It was found that the Expenditure on Economic Services is 10% to 13% of the GSDP throughout the periods of analysis.

9. It was directed to increase the expenditure on economic services and increase share of plan expenditure to the total expenditure.

**7.1.3. State’s Receipts vs. Expenditure:**

The fiscal policy and fiscal trend of the Manipur’s economy is reflected from the entire financial transactions into the different sectors or heads of account of various years’ composition and direction of the entire state finance. Actually, the financial transaction in the economy is the budgetary information of the government. The State budget has three Accounts namely the Revenue account, the Capital Account and Public Account. The public Account has better position than the other two Accounts. The worse situation was found in the Capital Account. It gives an idea of the State Fiscal Policy direction. In a developing economy like Manipur, the Capital account should be strong in composition and direction. We have found a decline direction in the Receipts and Expenditure on the Capital Account with a Capital deficit. During 2009-10 due to less devolution of Grant-in-aid from the Centre and lesser Non-tax revenue, the revenue surplus fell by Rs.39,160 lakhs in 2009-10, and as a consequence and coupled with increase in Total Expenditure, the overall deficit in the fiscal year 2009-10 is Rs. – 3,616 lakhs in which Capital Account deficit is
Rs. – 1,18,826 lakhs. There is a weak and imbalance scenario in the Capital Account throughout the period.

In the context of Manipur’s Economy, there is a direct relationship between the Increase in Total Receipts of the Government and the growth of GSDP. As GDP is one of the indicator of Economic Growth of an economy and we have the idea that the increase in GDP is the increase in economic growth. During the period of Eleven years i.e. during the period 2000 to 2010, the GSDP of the Manipur’s economy is increasing and at the same time the Total Receipts of the Government is also at the increasing trends. The analysis of Total Expenditure-GSDP in Manipur’s economy the Total Expenditure is more than the GSDP. There is a Government Expenditure-GSDP paradox in the State economy. It is contradictory in the sense that the expenditure made by the government is greater than its earned GSDP. In the fiscal year 2000-01, the GSDP- Total Expenditure ratio is 0.89, and the Total Expenditure-GSDP ratio is 1.11 (Table 4.7). In other words, the GSDP of the Manipur State is 89% of the Total Expenditure and Total Expenditure is 111% of the GSDP in the Fiscal year 2000-01. It is lowest in the fiscal year 2008-09, a ratio of 0.27 i.e. only 27% of the Total Expenditure. The GSDP in the fiscal year 2008-09 was Rs.7,39,900 lakhs and the Total Expenditur was Rs.26,86,222 lakh.
Main findings of the Receipts and Expenditure analysis are as follows:

1. It was found that the state economy has long suffered in overall deficit.

2. The failure in the capital account makes bigger to the worse of fiscal health in the state.

3. There is high correlation ship between Total Receipts and Total Expenditure in the State economy. It gives the value of \( r=0.99 \).

4. The Total Budgetary Receipts is bigger than the GSDP. It is due to many transfers from the centre.

5. The Total Expenditure is much higher than GSDP. The GSDP is only 27% (the lowest) of the Total expenditure in the fiscal year 2008-09. It becomes contradictory in the relationship between GSDP and Expenditure.

6. GSDP is directly related to Expenditure on economic services and Grant-in-aid.

7. GSDP is also positively related to Own tax and Own non-tax Revenue Receipts.

7.1.4. The Debt and Financial Administration:

Borrowing is the routine habit in the State’s economy. The State government cannot forget the timing for borrowing. The borrowing habits
reflect the backward nature of the economy. The mismatch between total expenditure and fund availability has made Manipur’s economy to frequently resort to borrowings. Manipur has been taking loans from the centre for plan purpose and non-plan purpose. Mostly the borrowed amounts were used for unproductive activities. The debt position in the state is more clearly stated with the analysis of the trend in the outstanding debt. The outstanding debt in the beginning of the period 2000-01 was Rs.1,52,049 lakhs (Table 5.1). It is increasing year by year because of the routine habit of the State’s Debt. The Outstanding Debt of the State in the fiscal year 2011 reached Rs.4,58,122 lakhs. More than 50% of the NSDP or more than 0.5 of the NSDP falls on outstanding debt of the state. In the fiscal year 2000-01, the outstanding debt to the NSDP is 60% i.e. debt-NSDP ratio is 0.6. It reaches 65% in the fiscal year 2001-02, the height during the period 2000 to 2010. One of the big problem in the State’s Debt analysis is the interest payment and other debt servicing activities. Every year the state government is spending some certain amount of money for servicing the debt from its expenditure. The interest payment on loans & advances from the central government is highest in the fiscal year 2002-03, constituting an amount of Rs.12,475.97 lakhs. An amount of Rs.24,570.83 lakhs was spend for the interest payment in internal debt in the fiscal year 2010-11.

Financial administration is the management of finances of the government endowed with taxing, spending and borrowing powers. It is the
administration of tax, proper records of the government receipts, Expenditure management and Public debt management. In fact, it is the fiscal management of an economy. Fiscal management or the financial administration is a dynamic process involving continuous and unending operations of spending and raising funds for economic development. A proper fiscal management and good financial administration can bring development in the state. But, there are various loopholes in the administration of finance in the state. There is no accountability and corruption becomes a daily share of food item for every department in the state. The taxing and spending norms of the public finance and the fiscal obligation for growth are becoming contradictory in the state. The head of the institutions of various administrative departments are mostly inexpert and not properly trained in the fiscal field. The main findings of the State Debt and Financial administration are as follows:

1. Every year the State government is borrowing from inside and outside the State economy. It has becomes routine habit.

2. The outstanding Debt is increasing year by year and recorded Rs.4,58,122 lakhs in 2011.

3. About 60% of NSDP are being the amount for outstanding debt throughout the periods.

4. About 4 to 8 percent of the NSDP is for debt servicing in the State during the period 2000 to 2010.
5. Many leakages were found in the financial administration in the State.

6. On the revenue front for raising revenue, all the administrative departments are less responsible and have lack of accountability. So, the state cannot collect adequate revenue.

7. The state faced the inefficiency in expenditure management.

8. It was found that there is ill and outdated financial administration in the State.

**7.2. Suggestions and Prospect:**

On the basis of above findings and conclusion from the study of Fiscal policy and economic development in Manipur, the following suggestions and prospect can be derived for good financial system and growth and development in the state.

**Suggestions for State Revenue:**

1. The first suggestion is to make a strong and vibrant administrative unit (to strengthen the recovery wing of tax collection) and if necessary formation of a task force for collecting and reinforcing the revenue.

2. Introduction of land reforms in all the districts of the state and proper implementation of the reforms.

3. Revenue realization through minimizing the rate of electricity charges and reorganization of collection, transmission and distribution. Different rates for different purpose and uses can be established.
4. VAT should cover and operate in all the dealers and proper management in the state.

5. Imposition of taxes on pollution, solids wastes and Air pollution. The government can impose tax for Air pollution from each vehicle for raising revenue and for keeping Ecological balance.

**Suggestions for the Expenditure side:**

1. More and bigger share is required on the Economic Services for increasing the GSDP. The condition of agricultural and industrial sectors is worse with compared to other states. We are importing Food grains and other industrial product from neighbouring states. The suggestion is to make improvement in these sectors through big push expenditure.

2. The State has no proper Planning mechanism. It is suggested to increase more and bigger share on Plan Expenditure and to make the planning effective.

3. The state government should take initiative role for creating the environment for various productive activities especially in the industrial field. Tourism and small-scale industries & enterprises will be suitable for Manipur’s economy.
4. It is suggested for efficient management in expenditure by the expert committee a multiyear horizon in the budgeting approach, a longer view of planning and to make complete of the setup goals.

**Suggestions for Debt and Financial Administration:**

1. It is suggested to borrow with a project of productive activity. The cost of the project and the prospective yield of the project should be consider and examined.

2. Make debt and pay the debt within a specified period only then we can reduce the outstanding debt.

3. A board of public debt management is required to form for prudent debt management. The member should be academician, economist and social activist with the finance minister as chairperson.

4. Reorganization and coordination of State finance commission and planning commission and to chalk out the direction of State finance. In financial administration Planning, directing and budgeting are the important elements. With an apex body of finance for coordinating the various departments, the two commissions with expert fiscal members are to be organized.
Suggestions to improve the overall Fiscal Health

- Selection of Fiscal expert and Trained Person;
  1. He should be conscious of the financial situation.
  2. He should be a fiscal expert.
  3. The financial leaders should be trained.
  4. Should know about the direction of expenditure.

Above all the State requires Fiscal leader who is well known about the State fiscal variables. A regular training of all the staff in relation to finance is suggested for sound financial administration. How to manage the State finance and how to make better should be in the “mind and heart” of all the staff leaders of various administrative departments.

- Stick Rule and Punishment for Ill Administration;
  1. For tax collection, both the payers and the collectors of the various administrative departments should know the responsibility; if it is not followed heavy punishment can be imposed.
  2. Misuse of funds, misappropriation or theft of public property and other maladministration by administrators should be given heavy punishment.
3. The irresponsible ministers and administrators should resign for the interest of the State or otherwise action should be taken.

- Advertisement and Awareness programme and People Participation;

1. To advertise and to create awareness about the use of finance and development. To make known to the people and the government about management of finance that lead to economic growth.

2. Government should clearly inform and advertise to the public about the ongoing projects, the plan for future, etc. It can make people somewhat responsible and will be able to cooperate with the government.

3. People’s participation and partnership in good governance and administration, as recommended by the Expert committee on efficient management in Expenditure.
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