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Government Finance and Economic Growth in North East India: A comparative Study of Manipur, Nagaland and Assam

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Abstract:

Government finance plays an important role for building up a basic infrastructure in a developing economy. And, infrastructure again, is a very important component for growth and development of a country. Above all, government finance influences directly or indirectly to the growth of GSDP of a State. The North East Indian States has a rich ecosystem comprising of various flora and fauna and talented Mankind. Unfortunately, the NER has suffered developmental neglect over the decades since Indian independence in 1947. Many areas of the NER were also impacted by insurgent activity and terrorism related distortion especially in the states of Manipur and Nagaland. Annual plan outlays for Manipur have gone from an expenditure of Rs.1336. 50 crore (in 2007- 2008) to an approved outlay of Rs. 3500 crore (in 2012-2013) and a proposed outlay of Rs. 4398.43 crore (in 2013-14). Similarly for Nagaland annual plan outlays stood at an expenditure of Rs.845.63 crore (for 2007-08) and approved outlay stood at Rs.2300 crore (for 2012-13). In the case of Assam, the total expenditure for 2017-18 is estimated to be Rs 85,923 crore, a 3.5 % increase over the revised estimate of 2016-17. In 2016 -17, there was an increase of Rs 4,764 crore (6.1%) in the revised estimate over the budgeted estimate.

The finding regarding the relationship of government finance and economic growth, the problems of the three north eastern states and their developmental activities will provide useful information to the academicians, administrators and the policy makers.

Key Words: Government finance, Economic Growth, North East India, GSDP

Introduction:

Government finance as an instrument of the economic policy and economic reforms influences in a wide range of economic activities for growth and development in the economy. In a mixed economy with a federal form of government, Government finance plays an important role for growth and for improvement in the structure of an economy. The tax reform 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 under the government finance. "A government that creates a favorable enabling environment has a large role to play, for instance in ensuring the provision of infrastructure, including social services, such as poverty alleviation, basic education, and access to health care; public security; a stable macroeconomic framework; and an efficient fiscal and regulatory system"[1]

The economic growth rate in North Eastern (NE) states of India is low, which is caused by inadequate infrastructure and partial utilisation of central Government funds for productive purposes (Roy and Dastidar, 2011). The fund and Grant in Aid given by Central Government are incurred at the maximum level in unproductive purposes. According to Mr. Mani Shankar Aiyar the North East is land-locked by its neighboring countries and there is little infrastructure that connects the North East with the mainland of India, which hampers its economic development.

The North East Indian States has a rich ecosystem comprising of various flora and fauna and talented Humanity. In addition, it has rich natural resources like land, water and forests resources. However, the larger proportions of the resources are underutilized. The per capita Net State Domestic Product (NSDP) at current prices for the year 1993 -94 in the region is lower than per capita net domestic product at the national level except Arunachal Pradesh so that the NE region is less economically developed than the rest of India (Srivastav, 2006). The World Bank describes the conditions of the North East region as a low-level equilibrium of poverty, non-development, civil conflict and lack of faith in political leadership. Of course, the North East Region is trap by low level equilibrium growth due to social conflict, ideological differences and infrastructure bottleneck. Therefore, it is the urgent needs from the side of the government to initiate a sound principle of Public finance in spending and taxing policies.

The North Eastern region, which is heavily dependent on the agriculture sector, needs agricultural revolution through irrigation project and high yielding seeds. Then, it can eradicate poverty and faster economic growth (GSDP) is possible. Such a revolution must be adequately backed by financial institutions, warehousing and marketing, Government spending, Research and Development. Above all, public expenditure on tourism is a much at present in these region.

Objectives of the Study:

1. To analyse the economic growth trends of Manipur, Nagaland and Assam.
2. To examine the relationship of Government expenditure and growth of GSDP.
3. To analyse the growth of Own tax revenue receipts of the states of Manipur, Nagaland and Assam.

Research Design and Methodology:

[1] Fischer, S. & Thomas, V. – Policies for Economic Development, American journal of Agricultural Economics, No. 72 August, 1990, p.809-14.

The methodological discipline will start with the existing secondary data like summaries, journals, different research papers, bibliographical works, general works, specialized works and reports from government sources, diaries, manuscripts and related records of finance department concerning the economy. The collected material will be examined and presented with an analytical outlook of the objectives, approach and contents of this proposed research study, with a view to deriving the basic framework of hypothesis and reference. A method of analytical and formulative-research is applied in the present study. The objective is to gain familiarity with a phenomenon or to achieve new insights into it. In this type of research the emphasis is not on finding exactly the cause – effect relationship but mainly on the analysis of the impact, contribution and transformation aspects with the help of relevant indicators especially formulated for this purpose by the researcher. The people of North Eastern States are facing many problems i.e. lack of finance, lack of industrial location, lack of raw material, bottleneck of transport and communication, low standard of living, crime and corruption, lack of education, lack of advanced administrative mechanism and ethno-social problem etc. It is the right direction and proper government policy and reforms that could bring the economy of these regions to the path of development.

Demographic and Economic profiles of the States of Manipur, Nagaland and Assam:

Manipur got statehood in 21st January 1972 with a legislative assembly of 60 seats and is bounded by Nagaland to the north, Mizoram to the south, and Assam to the west; Burma lies to its east. The state covers an area of 22,327 sq. km. and people of various community including Meitei, Naga and Kuki. According to 2011 census the population of Manipur was 27,21,756 with the density of 122 person per sq. Km. and 79.85 literacy rate (Table 1). The per capita income of the state is worked out at Rs. 47,453 in 2016-17 which is below the national average of 1,03,007.

Assam accounts for about 2.4 per cent of total geographical area in the country and 2.6 per cent of India's population. The density of population is 394 per square kilometer which is slightly higher than the all-India density of 382 as per 2011 census data. A noteworthy recent demographic feature is that the decadal population growth rate was 16.93 percent during 2001 to 2011 census with a literacy rate of 73.18 % in Assam.

Nagaland was formed on 1 December 1963 in the North-Eastern region of Indian Territory. It is bordering with three States viz. Arunachal Pradesh in East, Assam in North and West and Manipur in the South. It has an international border with Myanmar in the East. The State of Nagaland is topographically, mountainous and the altitude varies approximately between 194 metres and 3048 metres above the sea level. The total geographical area is 16579 sq. kms i.e. about 0.59 per cent of country's total land area; Nagaland provides shelter to 0.16 per cent population of the country. Nagaland has a lower density of population, low per capita income, higher literacy rate and higher proportion of rural population as compared to the All India Average figures.

Table 1: Profile of the three States

Particular \ States	Manipur	Nagaland	Assam
Area (% of Total Area of India)	22,327 (0.7 %)	16,579 (0.59 %)	78,438 (2.4 %)
Population 2011 census	27,21,756	19,78,502	31,169,272
Density of population 2011 census (All India average 382 person per Sq. Km)	122	119	394
Literacy rate 2011 (All India average 74.04)	79.85	80.11	73.18
GSDP 2014-15 at current prices	14,000 crore	18,000 crore	1,59,000 crore
Per Capita Income 2013-14 (at 2011-12 prices) - All India 68717	41,445	58,784	43,002

Source: 1. Planning commission, government of India (GSDP Figure)

2. Economic survey of the three States

Government Expenditure and Economic Growth:

Government expenditure plays an important role for the growth of an economy. The government expenditure is increasing very fast during the last two decades in India in general, and the north east states particularly Manipur, Nagaland and Assam. The expenditure on Human capital, the expenditure on Road, other Transportation and Communications are the basic and merit infrastructure given by government. These are the merit goods of infrastructure absolutely responsible by the government. It contributes directly and indirectly to the growth of an economy. The growth of "Government expenditure reacts to changing potential output as a result of the adaptation of the public sector to a modified size of the economy. However, it also true that shocks to government expenditure translate into aggregate demand and then changed GDP levels, *i.e.*, it is difficult to disentangle *a priori* whether the relation between government expenditure and GDP goes from the latter to the former or vice-versa"[2].

TABLE 2: YEARLY ACHEIVEMENTS OF GROWTH RATES 11TH PLAN

State	Targets fixed for 11th Plan By Planning Commission	**Growth rates at constant prices (2004-2005)**					
		2007-	2008-09	2009-	2010-	2011-	AVERAGE

[2] Alfonso, A & Turrini, A - *Government Expenditure and Economic Growth in the EU: Long-run Tendencies and Short-term Adjustment, European Commission,* 2008, *P.805.*

	(2007-2012)	08		10	11	12	2007-2012
Manipur	5.90	5.96	6.56	6.89	-0.58	9.67	5.70
Nagaland	9.30	7.31	6.34	6.90	9.35	8.32	7.64
Assam	6.50	4.82	5.72	9.00	5.23	4.63	5.88
ALL INDIA	9.00	9.32	6.72	8.59	8.91	6.69	8.05

Source: 1. Planning Commission, Government of India

2. Central Statistical Organisation, Government of India

Table 2 indicates the economic growth rates of the States of Assam, Manipur and Nagaland during the 11th five years plan. All the three States are below the all India growth rates and none achieved the targets fixed by the planning commission. It is due to the neglects of the plan priorities, non performance of the industrial units and poor infrastructure and frequent Bandth and Blockade (in case of Manipur State). Negative growth rate (-0.58) was there in Manipur during 2010-11 otherwise the targets can be achieved. This can be termed as ***community issues retarded growth*** in the Socio-Economic context of Manipur.

Table 3: Total Expenditure and GSDP

Manipur (Rs. In lakhs)			Nagaland		Assam	
Year	Total Revenue Expenditure	GSDP	Total Revenue Expenditure	GSDP	Total Revenue Expenditure	GSDP
2010-11		919780	418783	925399	2295182	9597500
2011-12	500692	1291500	511944	1183800	2652855	14317500
2012-13	531652	1374800	523060	1361900	2913692	15686400
2013-14	571883	1619800	NA	1661200	3198988	17774500
2014-	726730	1804300	676241	1841400	3907816	19809800

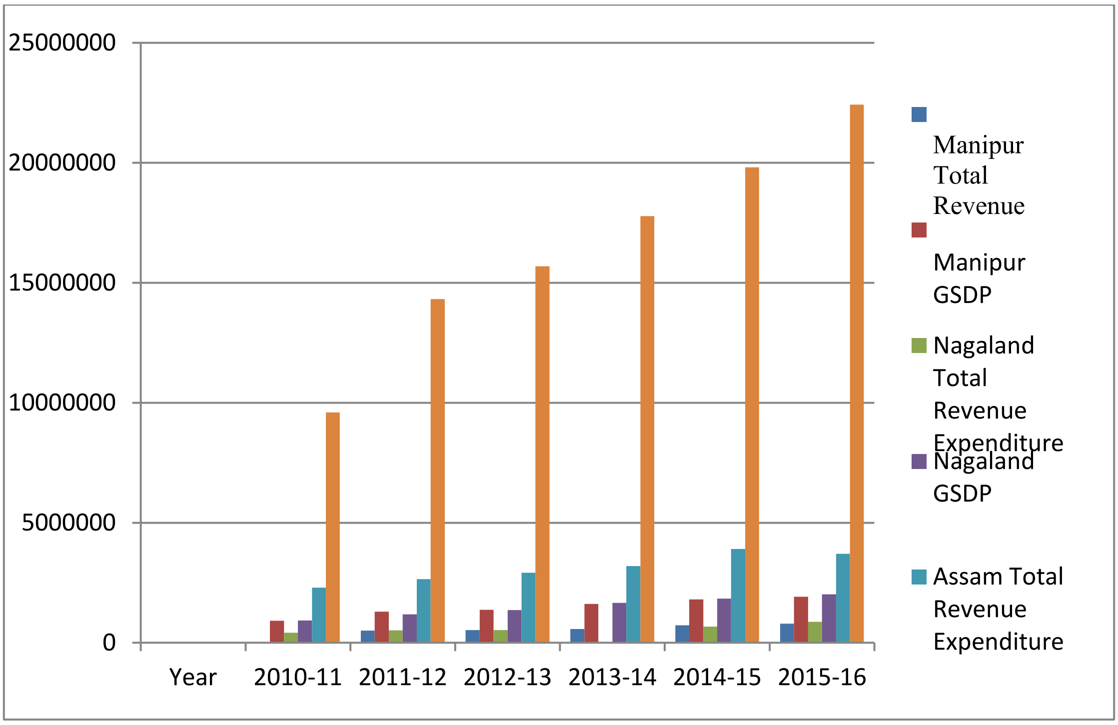
15						
2015-16	79,6508	19,16314	86,6162	20,21600	3701142	2,24,23400

** Total Expenditure = Plan Expenditure + Non- Plan Expenditure ** GSDP at current prices

Source:

1. Economic Survey, (2015-16) - Government of Manipur, Directorate of Economics and Statistics
2. Economic Survey, (2015-16) - Government of Assam
3. Department of finance (Economic Affairs), - Government of Assam
4. Statistical Handbook of Nagaland, (2013) - Government of Nagaland

The above table shows the relationship between GSDP and government Revenue Expenditure. There is increasing tendency of both the two variables, though GSDP might be influence by many other factors. Revenue expenditure is made out of Revenue Receipts which is very much connected with the growth of the economy i.e., the expansion of GSDP. The state of Assam has higher GSDP and higher Government Expenditure than the States of Manipur and Nagaland. In the fiscal year 2015-16, Nagaland led Manipur in both GSDP and Government Expenditure. Government revenue expenditures were more in Manipur than the Nagaland in the previous financial year. Manipur was ahead of Nagaland in GSDP in the two fiscal years 2011-12 and 2012-13.



Bar Chart indicating GSDP and Government Total Revenue Expenditure of Assam, Manipur and Nagaland

Economic growth and Own tax Revenue:

Theoretically, there is direct relationship between economic growth and tax revenue of the government. Higher the GDP Higher will be the tax Collection. The linkage is that higher GDP is turning out due to Government expenditure on various economic activities and then government again make higher tax revenue yield.

A lot of literature was found that the inverse relationship between tax and GDP. It is due to imposition of taxes on production activities. "Raising the level of taxes turns fiscal policy into a restrictive policy which inhibits economic growth. By increasing taxes, the State diminishes the level of disposable income Yd, which is reflected in the reduction of consumption and, eventually, in the decrease of aggregate demand; the reduction of aggregate demand results in a decrease in output Y"[3]. Okidim and Tuaneh derive similar case study. [4] It is general understanding that more the GDP more will be the Tax and Non-tax revenue. However, more tax imposed is a retarding factor for GDP. If we impose more and more taxes on goods and services, its impact is reduction of production. Therefore, it makes a decrease in GDP and does not mean that increase in GDP decrease the tax revenue.

Per Capita Own Tax Revenue Receipts of North East States:

Since quite long time, Manipur becomes one of the lowest own tax revenue receipts among the eight North East States of India. The highest among the North East States is Sikkim and next is Assam. The tax capacity in the Manipur State is very low. In the fiscal year 2000-01, the per capita own tax revenue of Manipur is Rs.195 and in the same year the state's of Sikkim is Rs.1,177. Assam contributed Rs.539 in that year (Table 4.). However, Manipur lead Nagaland in the fiscal year 2015-16.

Table 4

Per Capita State's Own tax Revenue of North-East States										
				Accounts						
(In Rupees) States	1990-91	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07 RE	2015-16
Arunachal Pradesh.	33	119	174	313	327	381	431	530	592	
Assam	**171**	**471**	**539**	**588**	**707**	**743**	**958**	**1122**	**1218**	**9449.8**

[3] Luis-Raul Boroaca - *Fiscal Policy and Economic Growth in France, Germany and Greece,* University of Sibiu, 57 Someşului Str., 550003 Sibiu, Romania, 2012.
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Manipur	**327**	**161**	**195**	**218**	**266**	**278**	**323**	**373**	**430**	**516.83**
Meghalaya	315	429	487	590	612	741	855	1027	1077	939
Mizoram	49	115	152	215	306	366	422	580	656	266.5
Nagaland	**212**	**262**	**334**	**264**	**301**	**329**	**373**	**497**	**553**	**388.61**
Sikkim	283	567	1177	1489	1901	1918	2052	2556	2228	658.24
Tripura	100	275	332	497	562	670	714	870	1025	1174

Source: Government of India, State Finance- A Study of Budget 2007-08, RBI, Dec.2007

Conclusion:

Government finance is becoming a powerful instrument in underdeveloped and developing countries especially the underdeveloped States of North east India. 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. 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 the States of Manipur, Nagaland and Assam.

With the growth of Gross State Domestic Product there exist an expansion of Government Expenditure both developmental and non-developmental on the one side and plan and non-plan expenditure on the other. In north eastern states of Manipur, Nagaland and Assam, the government expenditure is increasing very fast and as a result the GSDP becomes larger and larger. The per capita own tax revenue is also expanding due to raise in GSDP. The scope and volume of government finance is increasing to these three north eastern States of India.

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