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- Sharma T., Kwatra, G. (2008) Effectiveness of Social Advertising: A Study of Selected Campaigns, Corporate Social Responsibility, Edited by David Crowther & Nicholas Capaldi, Ashgate Research Companion to Corporate Social Responsibility, Chapter 15, pp 287-303.

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FISCAL EXPANSION AND ECONOMIC GROWTH IN MANIPUR

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ABSTRACT

This paper assesses how the fiscal expansion and its component influence economic growth in the State economy of Manipur. It uses for analysis the available data on State's Fiscal variables during the periods 2000 to 2010. There are three sources of state's revenue, namely State own tax revenue, own non- tax revenue and central transfers. The central transfers to the state are coming through three channels, (a) Finance commission's transfers, (b) Planning commission's transfers and (c) Departmental or discretionary transfers. The selected fiscal variables for analysis are own tax, own non-tax revenue, Expenditure on Economic Services on both the Account Revenue and Capital and Grant-in-aid from the centre. The paper is mainly focus on the relationship between the fiscal variables and GSDP. The findings will provide useful information for policy makers and reformers that can help broaden their understanding of the relationship between Fiscal policy and Economic development.

KEYWORDS
fiscal policy, economic growth, total receipts, gsdp, total expenditure.

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.

The fiscal policy and fiscal trend of the Manipur's economy is reflected from the 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. Sometimes and for general understanding, the last two can be treated as "Capital Account". We should avoid such misconception. The overall finance of the State Government can be analysed under the following heads:

1. Consolidated Fund,
2. Contingency Fund and
3. Public Account

The consolidated Fund has two main divisions namely Revenue Account and Capital Account including State Debt. The Revenue Account consists of revenue receipts and revenue expenditure. As we have analysed before, the revenue receipts are mainly derived from taxes and non-tax. The direct and indirect taxes including the share of the union tax constitute the tax revenue. The non-tax revenue receipts include income from social and economic services, general services, fees & fines, Grant-in-aid and other receipts grouped as revenue of the State. The revenue expenditure includes interest payment & servicing of debt, expenditure for collection of taxes and other receipts, social service and developmental expenditure and other expenditure from revenue accounts. The difference between the total revenue receipts and total revenue expenditure is the revenue surplus or deficit.

The capital account deals with capital receipts and capital expenditure (outlay). The receipts from state debt (internal, loans & advances from central govt.), recoveries from loans and other capital receipts are under the capital receipts. The capital expenditure includes expenditure on Social, Economic services including developmental expenditure and other expenditure incurred for creating concrete assets of material characteristics of reducing recurring.

The contingency fund is the fund for meeting the unforeseen and emergency purpose of the government. Expenditure from this fund need not prior sanction but has to be approved later by the State Legislature. Till now Manipur state legislature has no such statement.

The public account of the State's government comprises of unfunded debt, deposits and advances and remittances. Funds in the public Account do not belong to the government but are credited to this account as the same cannot be credited to the consolidated fund. This fund includes funds collected on account of provident funds, small saving, suspense & other.

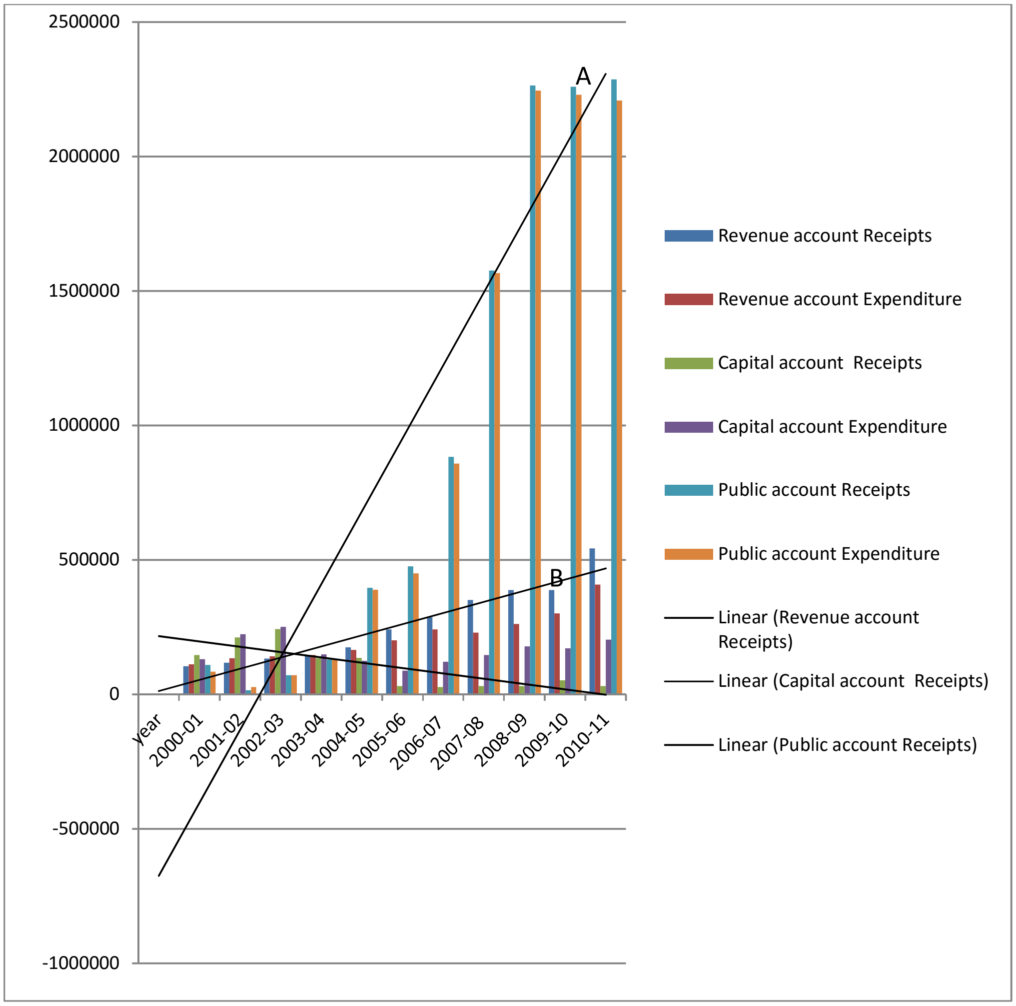
TABLE 1.1: RECEIPTS AND EXPENDITURE UNDER THE THREE ACCOUNT (Rs. Lakhs)

	Revenue account		Capital account		Public account	
year	Receipts	Expenditure	Receipts	Expenditure	Receipts	Expenditure
2000-01	104461.87	112343.08	147142.4	130369.35	109519.39	83408.18
2001-02	117677.88	133795.63	211416.1	223761.96	14944.74	26205.48
2002-03	132798.61	141510.56	243311.6	250609.39	71524.21	71931.97
2003-04	141971.41	146346.81	133936.6	149259.27	129847.64	128829.66
2004-05	174275.85	165118.81	135232.6	123958.74	396812.08	389112.03
2005-06	240894.94	200450.67	30965.44	88412.67	476205.26	449029.29
2006-07	286273.94	241464.7	26686.09	120896.42	883806.43	859087.74
2007-08	350826.72	229252.31	30208.99	146242.72	1576628.64	1566492.9
2008-09	387261.82	262228.14	31519.64	177767.29	2264523.08	2246227.4
2009-10	387313.46	301439.41	52317.27	171142.84	2259782.43	2230446.91
2010-11	542994.38	407800.66	29959.61	203687.59	2287409.17	2209298.36

Source: Government of Manipur (2012-13) - A Picture of Manipur Budget, Directorate of Economics & Statistics, Imphal.

In the fiscal year 2003-04, the three accounts are equally distributed. There is a declining trend in the capital receipts of the capital account. We can find downward sloping linear capital receipts curve. The composition of the public account in the budget is increasing at a sudden spurt from the fiscal year 2006-07. The steep sloping upward linear line-A is the Receipts of the public account. Both the receipts and expenditure from the public account is at the increasing direction. There is slow movement increasing trend in the revenue account of the State Budget. Linear line-B is the Revenue Receipts line sloping gently upward to the right.

FIGURE 1.1: CHARTS OF THE THREE ACCOUNT



2. A RELATIVE COMPARISON OF TOTAL RECEIPTS AND EXPENDITURE

"An important element in the organization of government transaction is the choice of those receipts and payments which are to be counted in determining the government's deficit or surplus. In any system of cash accounting, total receipts plus any decrease in cash holdings must equal total payments plus any increase in cash holdings. Transactions however differ in many significant respects, and by channeling only certain kinds of transactions as deficit-determining transactions and other kinds as deficit-financing transactions one may derive a meaningful measure of the balance of government operations with respect to some analytical criterion."[1] The implementation of fiscal policy is essentially routed through government's budget, centre and state. State's budget reflects and shapes the state's economic nature. A budget is balanced if, receipts equal expenditure. It is surplus if, receipts is bigger than expenditure. More expenditure than the receipts is the deficit budget. Accordingly, it can be written as:

1. Balance budget, TR=TE
2. Surplus budget, TR>TE
3. Deficit budget, TR<TE. TR and TE are total receipts and expenditure.

In the context of Manipur, we cannot find balanced budget and in general, it does not occur frequently. Generally, a budget can be surplus or deficit. There is surplus budget in the beginning of the century (2000-01) in Manipur's economy. In the next four fiscal years, starting from 2001-02 to 2004-05 the economy falls in deficit. There is a wave like movement trends in the budget surplus/deficit after 2004-05 in the economy.

It is interesting to analyze the average receipts and average expenditure of the government budget during the period 2000 to 2010. Again, it is very interesting to study the regression statistics between the TR and TE. Rs.1289814.118 is the average receipts and average expenditure is 1291599.065 lakhs. The average expenditure is higher than the receipts during the period 2000 to 2010. There is high co relationship between receipts and expenditure. It gives the value of 0.99. It shows the positive relationship between the two variables. The corresponding multiple R, R square and adjusted R square and standard error of the 11 observations are 0.999, 0.999, 0.999 and 2.555 respectively (Table 1.12). From the correlation and regression statistics of the total receipts and expenditure, the authority can make a plan for raising more revenue and that revenue can be utilized for various socio-economic activities. The State requires huge amount of income for developmental activities. We are depending on central transfers. It is suggested to raise State own revenue through collecting more taxes and make more productivity from the different sectors of the economy. The respective data of total receipts and total expenditure of the ten years (2000 to 2010) are given below (Table 1.2).

2.1 TRENDS IN TOTAL RECEIPTS AND TOTAL EXPENDITURE

The trends in total receipts and the total expenditure are shown in the table 1.2. In overall analysis, both the receipts and expenditure are in the increasing trends. Nevertheless, in the fiscal year 2003-04 both the receipts and expenditure are falling. The first fiscal year 2000-01 of the analysis, the total receipts were Rs.361123.69 lakhs and total expenditure was Rs.326121.26 lakhs making a surplus of Rs.35002.43 lakhs. In the following fiscal years 2001-02, 2002-03, 2003-04 and 2004-05 the total expenditure is more than total receipts and the Economy falls in deficit. The total receipts become Rs.748065.64 lakhs in the mid of the analysis (2005-06) and the respective total expenditure is Rs.737892.63 lakhs.

[1] Srivastava, D.K. and Sankar, U. – Development and Public Finance: Essays in honour of Raja. J. Chelliah, Sage Publication, New Delhi, 2012, p.15.

TABLE 1.2: TOTAL RECEIPTS AND EXPENDITURE (2000 TO 2010) IN MANIPUR (Rs. In lakhs)

year	Receipts	Expenditure	Surplus\deficit (+)\(-)
2000-01	361123.69	326121.26	35002.43
2001-02	344038.74	383763.07	-39724.33
2002-03	447634.43	464051.92	-16417.49
2003-04	405755.63	424435.77	-18680.14
2004-05	706320.53	678189.59	-28130.94
2005-06	748065.64	737892.634	10173.01
2006-07	1196766.48	1221448.83	-24682.35
2007-08	1957664.35	1941987.93	15676.42
2008-09	2683304.54	2686222.87	-2918.33
2009-10	2699413.16	2703029.16	-3616
2010-11	2860363.16	2820786.61	39576.55

Source: Compiled and computed from Government of India, Economic Survey, 2009-10 (CSO) and Government of Manipur, Economic Survey 2010-11, Directorate of Economics and Statistics, Manipur

FIGURE 1.2: RELATIVE COMPOSITION OF TOTAL RECEIPTS, TOTAL EXPENDITURE & SURPLUS/DEFICIT

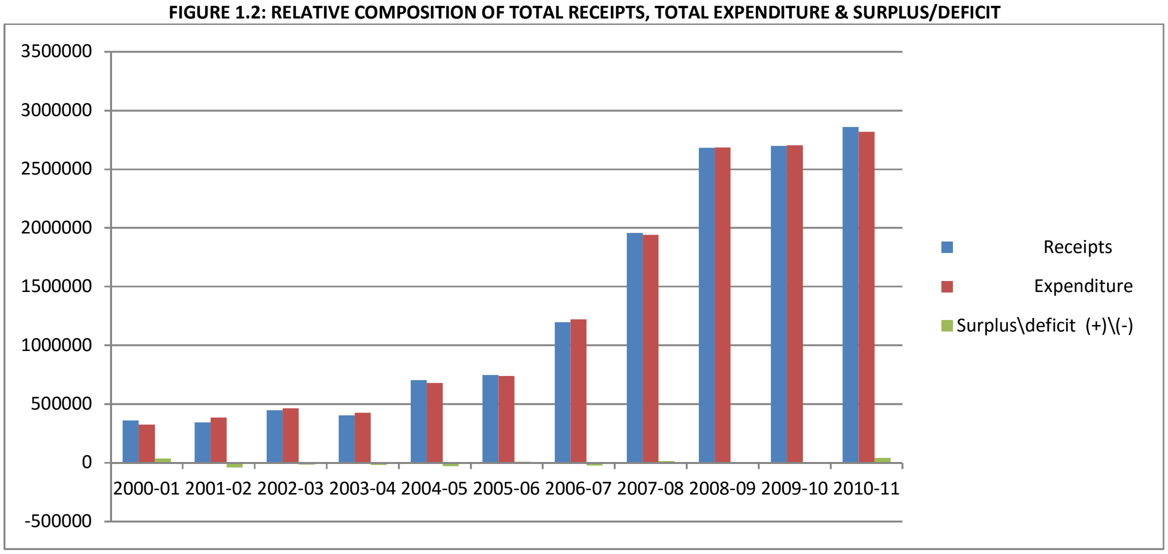
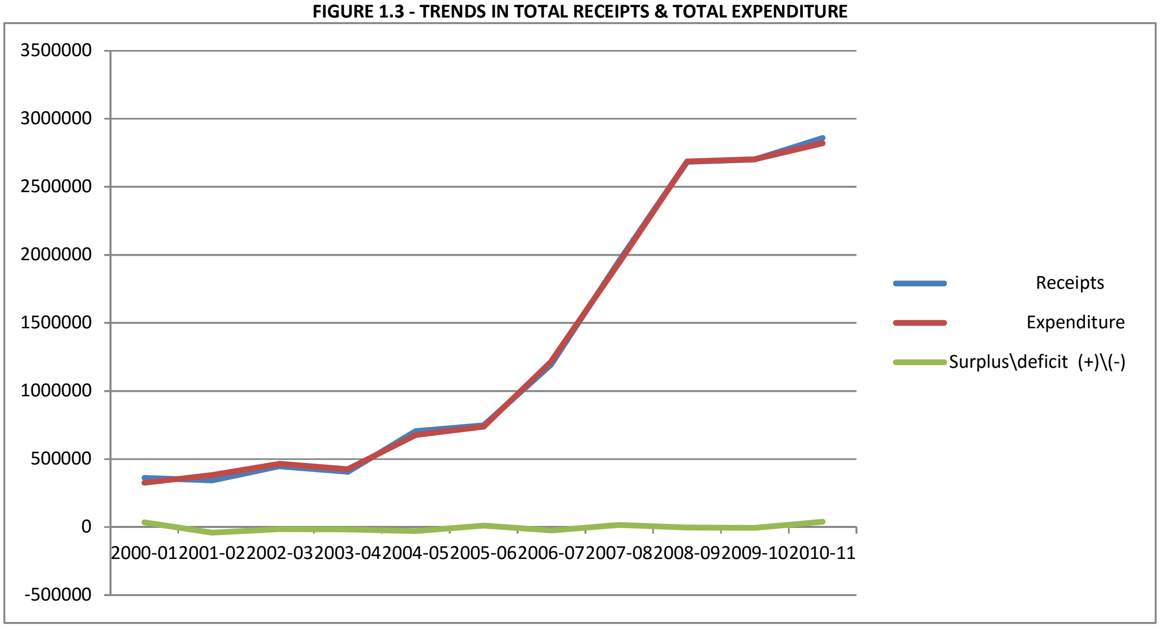


FIGURE 1.3 - TRENDS IN TOTAL RECEIPTS & TOTAL EXPENDITURE



During the period 2000 to 2010, the average surplus is less than the average deficit. The more portion of the surplus/deficit line is below 0-line i.e. below the horizontal axis. We can see a less portion of the line above the axis, which signifies that the state is falling deficit during the periods. The overall fiscal position of the state during the period is said to be in imbalance with a greater percentage on deficit.

THE REVENUE ACCOUNT: REVENUE RECEIPTS Vs. EXPENDITURE

The revenue surplus or deficit of an economy is determined from the nature of revenue receipts and revenue expenditure. It is one of the indicators of the state's fiscal health. There is inadequacy in the revenue, which becomes the major problem in Manipur. In 2001-02 only 6.78 percent of the State's total expenditure (Rs.383763.07 lakhs) was met from own tax (Rs.5197 Lakhs) and own non-tax (Rs.2873 lakhs) revenue. If we include the share of central taxes (Rs.14118 lakhs) this becomes 22.63% of the total expenditure. The remaining comes from the grants and Contribution (Rs.95490 lakhs) from the centre. Above all, the revenue expenditure in the year is Rs. 133796 lakhs exceeding from the revenue receipts and making revenue deficit of Rs. (-) 16118 lakhs. In the four fiscal years, 2000-01, 2001-02, 2002-03 and 2003-04 the state economy falls in revenue deficit. (Table 1.3)

In the succeeding years, the State's economy can improve a lot. In the mid of the 2000's, the fiscal year 2005-06, the State can make a revenue surplus of Rs.40444 lakhs. Both the revenue receipts and expenditure are increasing with a revenue surplus. It is because of the huge transfer of resources from the central government. Out of the total revenue receipts of Rs.240895 lakhs, the Grants-in-aid from the centre was Rs.189540 lakhs which is about 79% of the revenue receipts in the fiscal year 2005-06. In the same year the share of central taxes was Rs.34214 lakhs (14%) and the own tax revenue is RS.9495 lakhs (3.94%) and own non-tax revenue is Rs. 7646 lakhs (3.18%). In the previous chapters, we have known that the State Economy is more than 90% reliance for its resources from the centre.

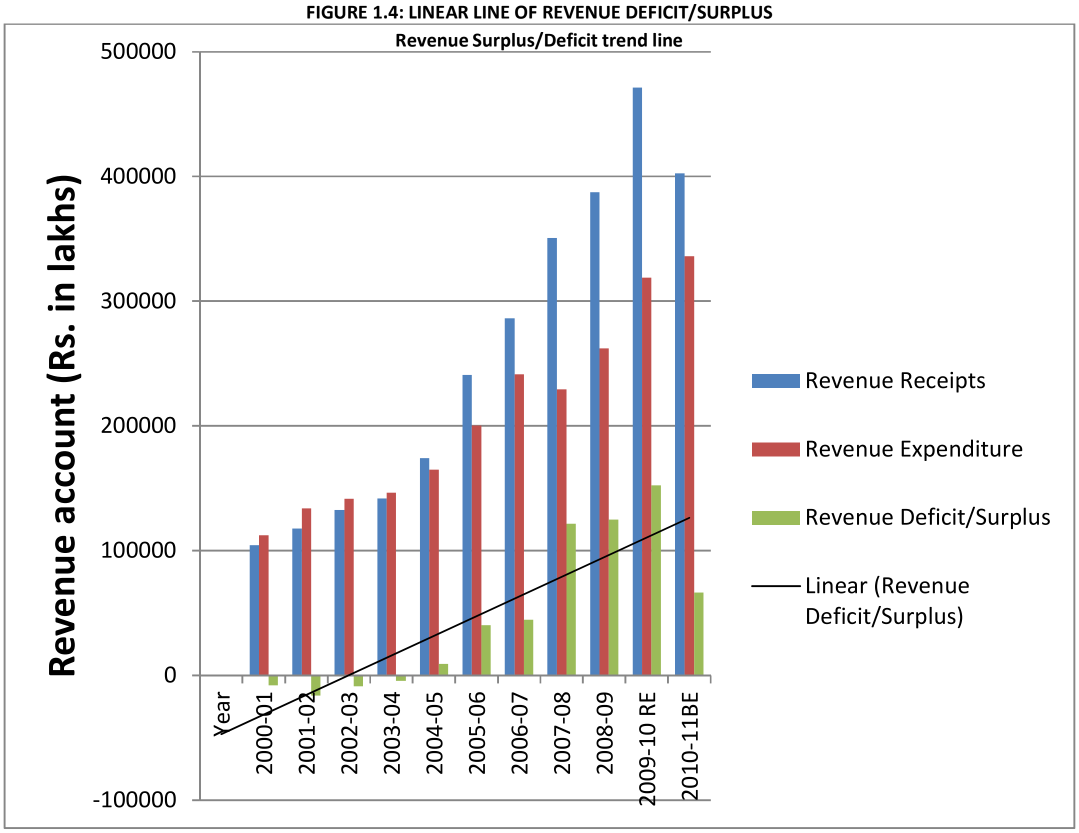
TABLE 1.3: REVENUE RECEIPTS Vs. REVENUE EXPENDITURE (Rs. In lakhs)

Year	Revenue Receipts	Revenue Expenditure	Revenue Deficit/Surplus
2000-01	104462	112344	-7882
2001-02	117678	133796	-16118
2002-03	132799	141511	-8712
2003-04	141971	146347	-4375
2004-05	174276	165119	9157
2005-06	240895	200451	40444
2006-07	286274	241465	44809
2007-08	350827	229252	121575
2008-09	387262	262228	125034
2009-10	387313	301439	85874
2010-11	542994	407801	135193

Source: Government of Manipur (2007-08) – A Picture of Manipur Budget, Directorate of Economics and Statistics, Imphal and Government of Manipur (2010-11) – Economic Survey Manipur, Directorate of Economics and Statistics, Imphal.

An important idea we can put is that our own sources of revenue is low. Above all, the State is not using all the revenue receipts and making simply surplus. The State is developing and a developing economy requires huge amount of resources for development and to manage the increasing activities of the government. It shows that the State has no Proper direction of investment for Growth and development.

FIGURE 1.4: LINEAR LINE OF REVENUE DEFICIT/SURPLUS



There is an increasing trend in the revenue account of the government budget. From the fiscal year 2004-05 onwards, we can find a good record of revenue receipts and the revenue expenditure that is increasing with a surplus in this account. The linear revenue surplus/deficit line also sloping upward, this shows a good condition.

3. AN ANALYSIS OF CAPITAL ACCOUNT: CAPITAL RECEIPTS Vs. EXPENDITURE

The capital account includes creation and disposal of assets and liabilities. It includes those items which do not belong to the government and which lead to variation in physical assets of Government i.e. acquisitions, creation or disposal of physical assets.

CAPITAL RECEIPTS

Capital receipts are government loans raised from the public, government borrowings from the Reserve Bank and treasury bills, loans received from foreign bodies and governments, divestment of equity holding in public sector enterprises, securities against small savings, state provident funds, and special deposits. It includes, Recovery of loans and advances given to various corporations, co-operatives and Government servants. Loan portion of the central assistance, small saving loan, market borrowing, loan from NABARD, LIC, GIC, HUDCO etc. and loan from General Provident Fund Account (GPF) of the employees. Misc. Capital Receipts such as proceeds of disinvestment and sale of capital assets are also included.

CAPITAL EXPENDITURE

It is an expenditure, which results in creation of permanent assets such as Roads, Bridges, Building, irrigation projects, Dams, Power House etc. It is broadly defined as expenditure incurred, which is the object of increasing concrete assets of material and permanent character. The difference between the capital receipts and capital expenditure is the capital deficit.

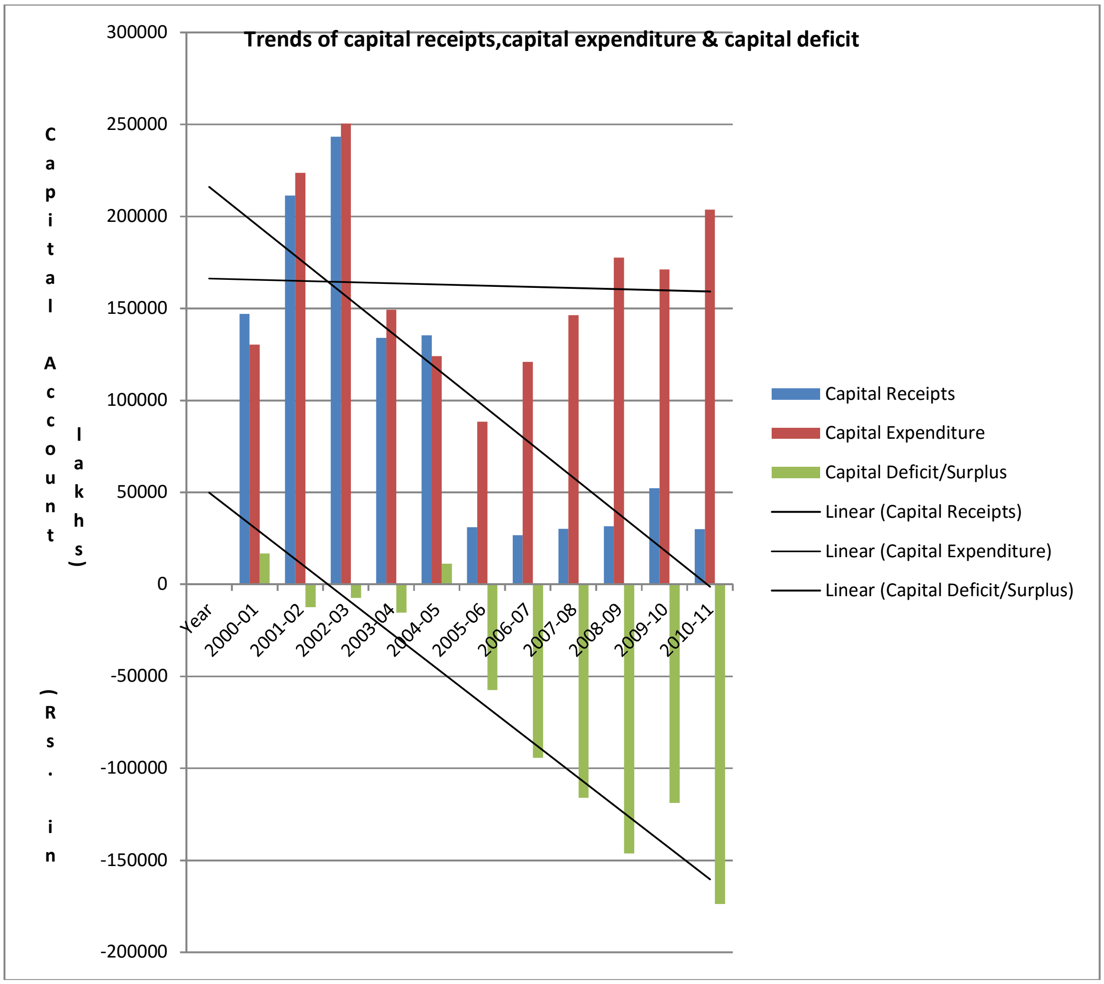
In the beginning of the study period 2000-01, the capital receipts are Rs.1,47,142 lakhs and Capital expenditure is Rs.1,30,369 lakhs with a capital surplus of Rs. 16,773 lakhs. In the next three fiscal years 2001-02, 2002-03 & 2003-04 the economy falls in capital deficit. There is continuous fall in capital deficit except the fiscal year 2004-05 in the economy. The capital deficit is maximum in the fiscal year 2010-11 with a deficit at the tone of Rs.1,73,728 lakhs (Table 1.4).

TABLE 1.4: CAPITAL ACCOUNT DURING 2000 TO 2010 (Rs. In lakhs)

Year	Capital Receipts	Capital Expenditure	Capital Deficit/Surplus
2000-01	147142	130369	16773
2001-02	211416	223762	-12346
2002-03	243312	250609	-7298
2003-04	133937	149259	-15322
2004-05	135233	123959	11274
2005-06	30965	88413	-57448
2006-07	26686	120896	-94210
2007-08	30209	146243	-116034
2008-09	31520	177767	-146247
2009-10	52317	171143	-118826
2010-11	29960	203688	-173728

Source: Government of Manipur (2012-13), A Picture of Manipur Budget, Directorate of Economics and Statistics, IMPHAL.

FIGURE 1.5: TRENDS IN CAPITAL ACCOUNT



All the Capital Account components are in the decreasing direction. The linear trend lines of the capital receipts, capital expenditure and capital deficit/surplus are downward sloping from left to right. It shows the inverse relationship between the capital receipts and the successive year during the period 2000 to 2010. It can be termed as "capital gap" because the economy is not getting enough capital receipts and fall in capital deficit. On the other side, the capital expenditure is also declining due to low capital receipts. There is capital imbalance and capital gap in the Manipur economy during the periods 2000 to 2010. It is a serious matter and has becomes critical in the process of development.

4. PUBLIC ACCOUNTS

Expenditure from Public Account does not require the approval of the Legislature but the net receipt in the Public Account is taken into account for balancing the Budget.

The Public Accounts as defined in Article 266(2) of the Constitution of India comprises all public money received by or on behalf of the Government, which are not credited to the Consolidated Fund of the State. The Public Accounts comprises of the followings:

1. Unfunded Debt (Shares of Small Savings and Provident Fund)
2. Deposit and Advances
3. Reserve Funds.
4. Remittances, Suspense and Misc.

The unfunded Debt (Provident Fund) and Deposit and Advances record transactions in respect of which Government act only as a banker by receiving amounts which is paid afterwards and make advances other than loans, which are repayable. The suspense and remittances are only adjusting heads and all entries in these accounts are eventually cleared by corresponding Credit/Debit to the final head of accounts.

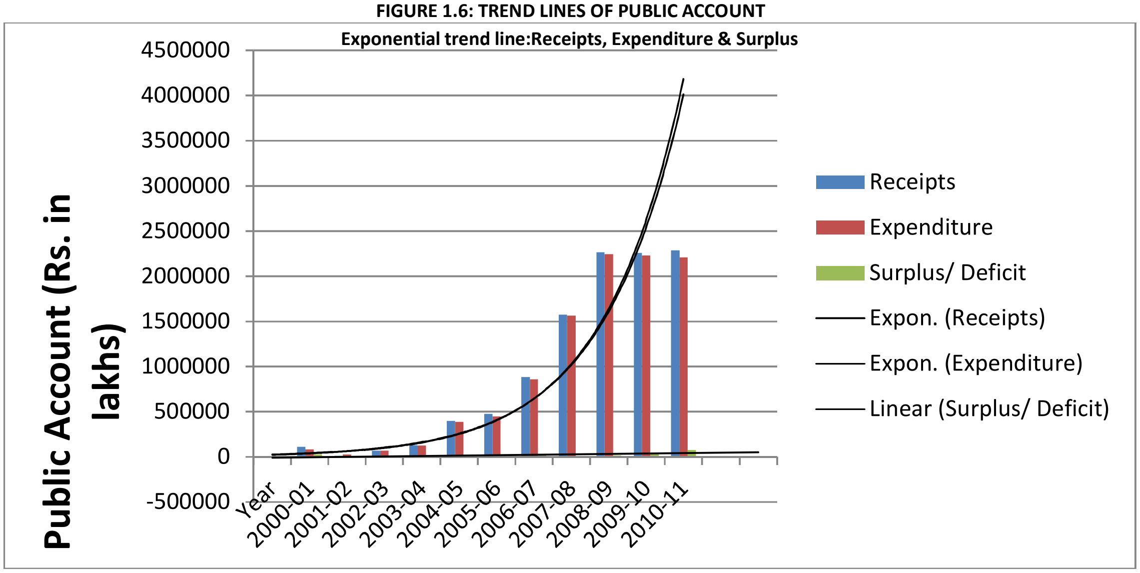
There is good record of receipts and expenditure in the Public Account during the period 2000 to 2010 except the two fiscal years 2001-02 and 2002-03. The public Account was in deficit at the tone of Rs. -11,260 and Rs. -405 lakhs (see Table 1.5) during 2001-02 and 2002-03 fiscal years respectively. The account on Suspense and Misc. has been a major component of the Public Account. Out of the Total public Account Receipts of Rs.22,87,409 lakhs, the Receipts on Suspense and Misc. was Rs.18,91,866 lakhs[2] in the fiscal year 2010-11.

TABLE 1.5: PUBLIC ACCOUNT OF STATE DURING 2000 TO 2010 Rs. In lakhs.

	Receipts	Expenditure	Surplus/ Deficit
Year			
2000-01	109519	83408	26111
2001-02	14945	26205	-11260
2002-03	71524	71932	-408
2003-04	129848	128830	1018
2004-05	396812	389112	7700
2005-06	476205	449029	27176
2006-07	883806	859088	24718
2007-08	1576629	1566493	10136
2008-09	2264523	2246227	18296
2009-10	2259782	2230447	29335
2010-11	2287409	2209298	78111

Sources: Government of Manipur (2007-08), Finance Department, Annual Financial Statement. & Government of Manipur (2012-13), A Picture of Manipur Budget, Directorate of Economics & statistics, Imphal.

FIGURE 1.6: TREND LINES OF PUBLIC ACCOUNT



The Exponential trend lines of the receipts and expenditure in the Public Account shows the increasing direction of the account. The upward sloping curves of the Receipts and Expenditure highlight the positivity. The flat portion of the curve shows the two is increasing at the slow rate in the first five fiscal years. The curve is steep from the fiscal year 2007-08 to 2010-11 indicating a sudden and spurt increase in both the Receipts and Expenditure.

5. SUMMING UP OF THE THREE ACCOUNT VIS-À-VIS THE FISCAL POSITION

In the foregoing section, we have presented and analyses the Revenue account, the Capital Account and the Public Account separately during the period 2000 to 2010. 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. It has 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.

The overall fiscal condition can be maintained with a proper check in the Revenue and Capital Account. The State Government should consider initiating steps on an urgent basis to make efforts to maintain a surplus on both the Account. The deficit in the state is not that of the quality of public finance. The deficit is undesirable deficit one and it was the maintenance of unproductive activities. If the deficit is for productive activity, it will generate more public revenue and ultimately for the development of the economy.

[2] Government of Manipur (2012-13) – A Picture of Manipur Budget, Directorate of Economics & Statistics, Imphal

6. TOTAL RECEIPTS VIS-À-VIS GSDP: A LINK TO ECONOMIC GROWTH

The relationship between Total Receipts of the Government and Economic Growth can be established from the analysis of total receipts of various years and the various years' figures of GSDP of the economy. 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 year 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 trend (Table 1.6).

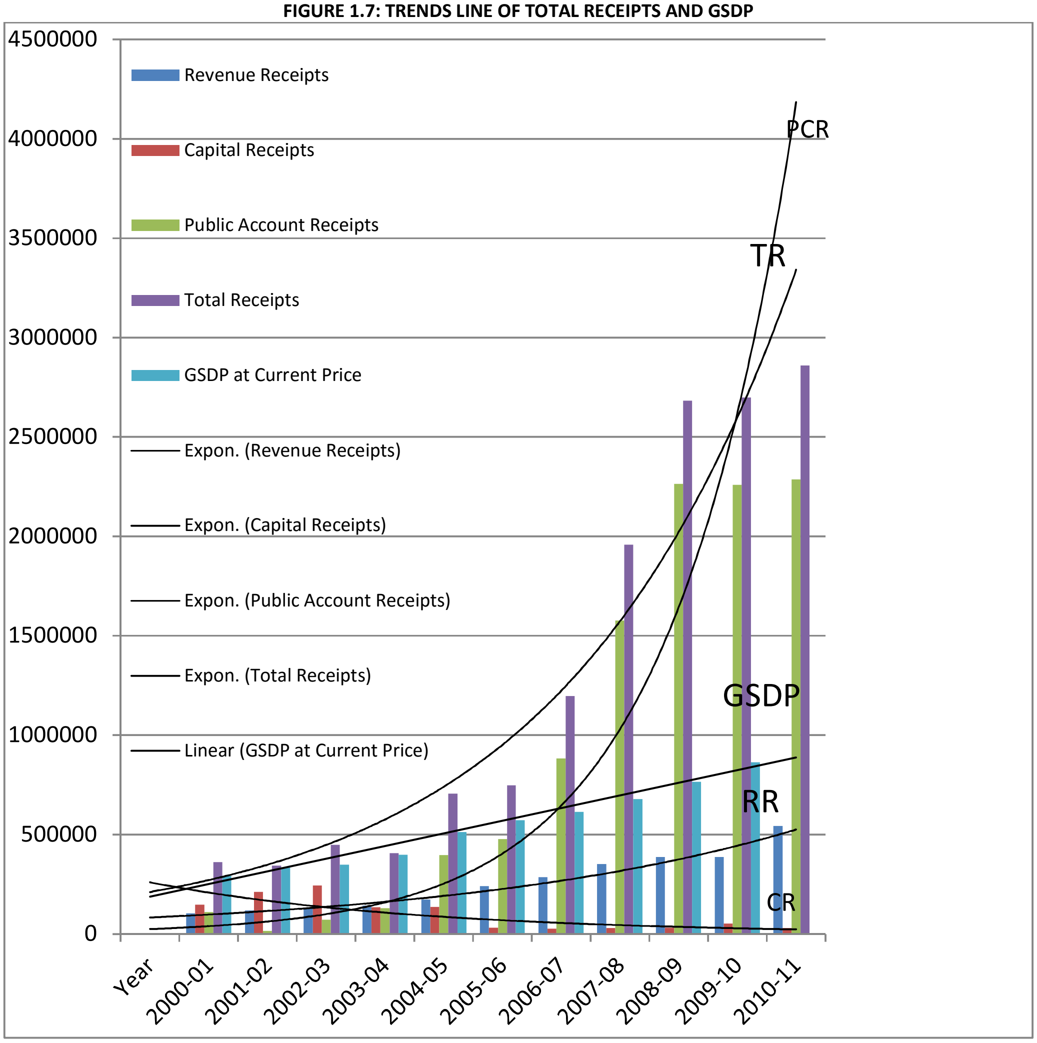
Our budget Receipts includes Debt and other borrowing. The State cannot meet all its Expenditure from its own sources of income. It is the reason that the GSDP is less than Total Budgeted Receipts. People frequently speak about Tax-GDP ratio because tax is a part of GDP. But, here it can express GSDP-Total Receipts ratio. Our Budgeted Receipts becomes treble times of the GSDP in the fiscal year 2010-11. It means that Rs. 100 of GSDP the Total Receipts is more than Rs. 300 in the fiscal year 2010-11.

TABLE 1.6: TOTAL RECEIPTS VS. GSDP AND THEIR RATIO (Rs. In lakhs.)

YEAR	REVENUE RECEIPTS	CAPITAL RECEIPTS	PUBLIC ACCOUNT RECEIPTS	TOTAL RECEIPTS	GSDP AT CURRENT PRICE	GSDP-RECEIPTS RATIO %	GSDP- RECEIPTS RATIO
2000-01	104462	147142	109519	361123	292010	123.66	1.236
2001-02	117678	211416	14945	344039	334423	102.87	1.028
2002-03	132799	243312	71524	447635	348171	128.56	1.285
2003-04	141971	133937	129848	405756	397924	101.96	1.019
2004-05	174276	135233	396812	706321	513336	137.59	1.375
2005-06	240895	30965	476205	748065	571988	130.78	1.307
2006-07	286274	26686	883806	1196766	613258	195.14	1.951
2007-08	350827	30208	1576629	1957664	678131	288.68	2.886
2008-09	387262	31520	2264523	2683305	739900	362.80	3.628
2009-10	387313	52317	2259782	2699412	831350	324.70	3.247
2010-11	542994	29960	2287409	2860363	919780	310.98	3.109

Sources: Government of Manipur (2005-06) & (2010-11), Economic Survey Manipur, Directorate of Economics and Statistics, Imphal. And Government of Manipur (2012-13), A Picture of Manipur Budget, Directorate of Economics & Statistics, Imphal

FIGURE 1.7: TRENDS LINE OF TOTAL RECEIPTS AND GSDP



The above figure represents the yearly trends of the components of Total Receipts and the GSDP. In the figure TR, PAR, RR, GSDP and CR are the Exponential and linear Curve of Total Receipts, Public Account Receipts, Revenue Receipts, Gross State Domestic Product and Capital Receipts. All the variables are in increasing direction except the Capital Receipts. The CR curve is sloping downward indicating the decreasing direction. The Revenue receipts and GSDP curve is increasing at a somewhat similar rate than the other variables. The two variables TR and PAR are increasing at the increasing rate from the year 2006-07 onwards.

7. THE GOVERNMENT EXPENDITURE VIA-A-VIA GSDP

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"[3]. There is no uniqueness in the relationship between the growth of Government expenditure and the GDP growth. "Fiscal reaction functions generally analyse the behaviour of the share of primary government budget balance over GDP, but estimates have been carried out separately for government primary expenditure as a share on GDP. Results show in general that government expenditure tend to fall in relation to GDP as debt/GDP ratios fall, a result consistent with the hypothesis that fiscal authorities set expenditure motivated also by the purpose of stabilising debt"[4] .

In most of the developed and developing economies, there is some certain share of government expenditure to the GDP. Total Expenditure should be lesser than to its GDP. *"The spead in the size of government spending relative to GDP has narrowed in OECD member countries. Whereas government expenditures ranged from about 20% and 65% of GDP in 1995, today spending comprises between 30% and 55% of GDP in OECD member countries."*[5] However, in the context of 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 1.7). 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 Expenditure was Rs.26,86,222 lakh.

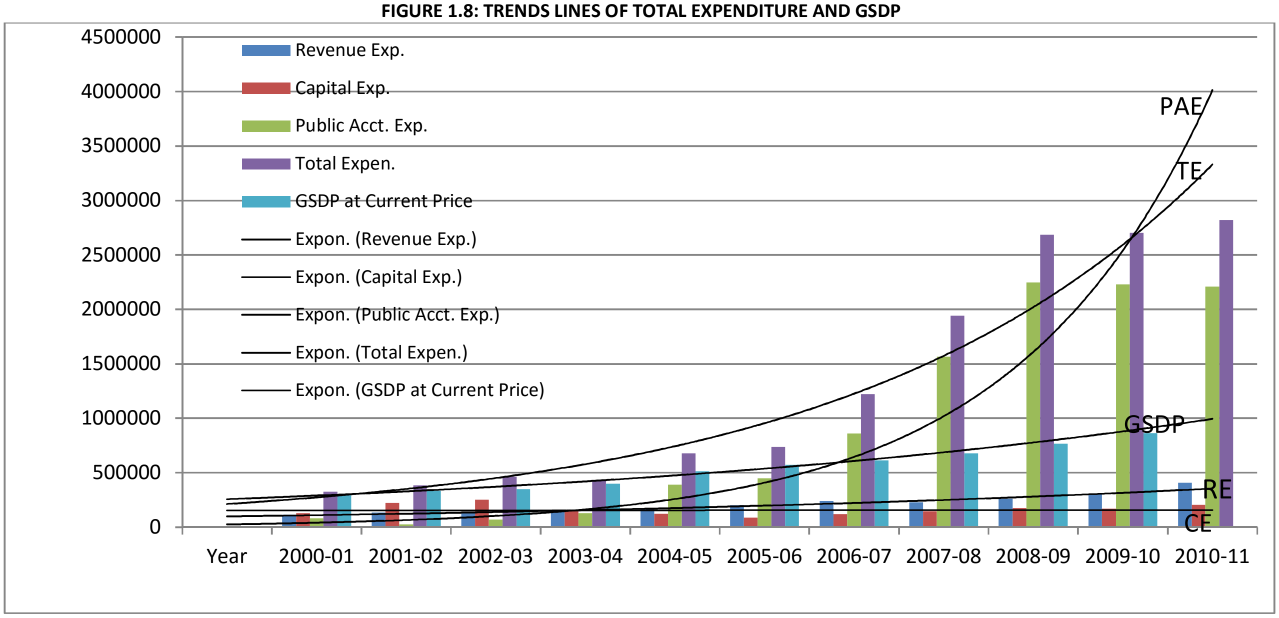
The great mismatch between Total Expenditure and the GSDP arises in the economy. There are various reasons for such a big difference and the lesser value of GSDP. It can be analysed from the expenditure side of the government, specially the nature of expenditure on developmental and non-developmental activities. In an underdeveloped and developing economy, the share of non-developmental expenditure to the total expenditure is higher than to that of developed economy. As the economy goes forward, and the economy becomes more and more advanced, the percentage share of non-developmental expenditure to the total expenditure decreases. It is because in an underdeveloped economy the government spend huge amount for its initiative role for a planned economic development. If the expenditure is for income generation activities only, then it may not raise the question for such less income or the big differences between GSDP and Total Expenditure. It is a general understanding that GSDP must be higher than Expenditure. An initial increase in Investment can generate multiple expansion of Income. This applicability can be brought soon in Manipur's economy, if the policy setters have the knowledge of right spending and proper direction of expenditure. Economic growth and increase in GSDP depends on many factor especially the nature of government expenditure, state of infrastructure, the tax rate, private investment etc.

TABLE 1.7: GSDP, TOTAL EXPENDITURE AND THEIR RATIOS (Rs. In lakhs)

Year	Revenue Exp.	Capital Exp.	Public Acct. Exp.	Total Exp.	GSDP at Current Price	Ratio of T0tal Expen. to GSDP	Ratio of GSDP to Total Expen.
2000-01	112344	130369	83408	326121	292010	1.116	0.895
2001-02	133796	223762	26205	383763	334423	1.147	0.871
2002-03	141511	250609	71932	464052	348171	1.332	0.750
2003-04	146347	149259	128830	424436	397924	1.066	0.937
2004-05	165119	123959	389112	678190	513336	1.321	0.756
2005-06	200451	88413	449029	737893	571988	1.290	0.775
2006-07	241465	120896	859087	1221448	613258	1.991	0.502
2007-08	229252	146243	1566492	1941987	678131	2.863	0.349
2008-09	262228	177767	2246227	2686222	739900	3.630	0.274
2009-10	301439	171143	2230446	2703028	831350	3.129	0.319
2010-11	407801	203688	2209298	2820787	919780	3.068	0.326

Source: Same as Table No. 1.6

FIGURE 1.8: TRENDS LINES OF TOTAL EXPENDITURE AND GSDP



The above diagram shows the trends in the expenditure components and the GSDP of the State economy. TE, PAE, GSDP, RE and CE are representing the Exponential Curve of Total Expenditure, Public Account Expenditure, Gross State Domestic Product, Revenue Expenditure and Capital Expenditure respectively. All

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

[4] Ibid, p.833

[5] OECD library (2009-10), Government at a Glance 2009.

the variables are at the increasing direction except the Capital Expenditure. As the Total Expenditure and its other components increased, the GSDP also increased signifying that growth is relates to the expenditure.

8. ECONOMIC GROWTH, DEVELOPMENT, GSDP AND THE FISCAL POLICY

The important goal of fiscal policy and reforms is to attain growth and development. Economic growth is a quantitative aspects and development is both qualitative and quantitative aspects. Economic development is a wider concept. It is the economic growth plus changes in the structure of the economy. According to Khosravi and Karimi[6] (2010), classical studies estimate that economic growth is largely linked to labour and capital as factors of production. The endogenous growth theory has suggested the role of other factors in explaining the economic growth phenomenon (Bogdanov, 2010)[7]. Economic growth as a quantitative aspect represents the expansion of a country or State's potential GDP or output. Economic growth and Fiscal policy gave insight into why state grows at different rates over years and influences government in the choice of tax rates and expenditure levels that will influence the GDP growth rate.
"Development implies change, and this is one sense in which the term development is used, that is, to describe the process of economic and social transformation within countries."[8]The term economic development constituted a persuasive definition an increase in real income per head as a desirable objective. During the 1950's and early 1960's, development policies emphasized the maximization of growth of GNP through capital accumulation and industrialization based on import substitution. In view of a distrust of markets and a belief in the pervasiveness of market failure, government also turned to central planning.[9] Economic development is much bigger than the growth of GSDP and the role of government is the creation of a favorable environment for economic activity. "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"[10]. Economic development covers all these structure and it is economic growth plus the change in the structure of the economy. It includes the growth of GSDP and in this regard fiscal policy play an important role. The relationship between growth of GSDP and fiscal policy can be analyzed with the help of Econometric model. Correlation, Multiple and Simple regressions were used to analyze the model. Estimation of parameters of the model required data on government expenditure on Economic Services (capital and revenue), own tax revenue receipts, own non-tax revenue receipts, grant-in-aid and Gross State Domestic product at current prices. Some criteria such as correlation, coefficient of determination (R2), t-test and F-ratio were used in the analysis. F-ratio test was employed for the test of overall significance.
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"[11]. Okidim and Tuaneh derive similar case study. [12] 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.

MODEL SPECIFICATION

The following relationship is arrived.
For Multiple Regression
GSDP = F (x1, x2, x3, x4, x5) + Ut
Where,
GSDP = Gross State Domestic Product (y)
X1 = Own tax revenue.
X 2 = Own non-tax revenue.
X3 = Expenditure on economic services from revenue account (EESRA).
X4 = Expenditure on economic services from capital account (EESCA).
X5 = Grant-in-aid.
Ut = Stochastic variable, is the disturbance term measures the deviation of each observed Y value from the true but unobserved regression line.
Where GSDP is the dependent variable and X1 …….. X5 are independent variables, which influence growth (Dependent). The above relationship can be rewrite as
Y = a + b1 X1+ b2 X2+ b3 X3+ b4 X4 + b5 X5 + Ut …………..1
And for simple linear regression
Y = a + b Xi +Ut …………..2
Where, b1, b2…..b5 are the co-efficient.

TABLE 1.8: GSDP AND FISCAL COMPONENTS

	GSDP at current price	Own Tax	Own Non-tax	Govt. Exp.on Economic Services		Grants-in-aid
Year				Revenue Exp.	Capital Exp.	
2000-01	292010	4907	4166	21050	10563	79037
2001-02	334423	5101	2873	32545	12281	95490
2002-03	348171	6516	5649	30308	8077	101822
2003-04	397924	6824	4933	37145	13389	106126
2004-05	513336	8139	6975	42369	24864	130459
2005-06	571988	9495	7646	59788	29766	189540
2006-07	613258	12151	18104	87734	46502	212380
2007-08	678131	14742	16471	64235	62542	264571
2008-09	739900	17006	25346	72463	86486	286828
2009-10	831350	19604	23974	81598	92567	283979
2010-11	919780	26741	25988	108368	105257	391244

Source: Government of Manipur (2012-13) - A Picture of Manipur Budget, Directorate of Economics and Statistics, Imphal and Government of Manipur - Economic Survey, Directorate of Economics and Statistics, Imphal, Various issues.

6 Khosravi, A. & Karimi, M.S. – To Investigate the Relationship between Monetary Policy, Fiscal Policy and Economic Growth in Iran: Autoregressive Distriduted Lag Approach to Cointegration, American Journal of Applied Sciences, 7(3); 2010, p.420-424.
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12 Okidim, I. A and Tuaneh, G. L. - *Econometric Analysis of the Effectiveness of Fiscal Policy in Economic Growth and Stability in Nigeria (1985-2003),* Journal of Economics and Sustainable Development www.iiste.org ISSN 2222-1700 (Paper) ISSN 2222-2855 (Online) Vol.3, No.9, 2012

TABLE 1.9: CORRELATIONSHIP OF THE VARIOUS VARIABLES

VARIABLES	GSDP	OWN TAX	OWN NON-TAX	REVENUE EXP.	CAPITAL EXP.	GRANT-IN-AID
GSDP	1					
OWN TAX	0.965794	1				
NON-TAX	0.940835	0.936183	1			
EESRA	0.938885	0.917524	0.90499	1		
EESCA	0.970148	0.973471	0.974284	0.892647	1	
GRANT-IN-AID	0.977369	0.981513	0.942942	0.937043	0.971602	1

There is high correlation ship among the explanatory variables as shown in the table 1.9. A problem of Multicollinearity existed in the Multiple Regression. It makes insignificant to all the variables according to their t-value at 5% level of significance. However, from the values of R2 and F-ratio derive at an overall significant (Table 1.10). Now, it is better to estimate the significant levels in simple regression to derive a better conclusion.

TABLE 1.10: MULTIPLE REGRESSION

Parameter	Coefficients	Error	t-Value	Prob>|t|
Y-Intercept	236048.1	54159.43	4.35839	0.0073
OWN-TAX	-6.53008	13.19959	-0.49472	0.64177
OWN NON-TAX	-9.1557	8.93226	-1.02502	0.35236
Revenue expenditure	3.03857	1.89046	1.60731	0.1689
Capital expenditure	5.72342	3.51192	1.62971	0.16409
Grant-in-aid	0.48887	0.97615	0.50082	0.63776
R Square (COD)	Adj. R-Square	Root-MSE(SD)		F-value
0.97555	0.9511	46794.06		39.90152

TABLE 1.11: SIMPLE REGRESSION VALUES OF FISCAL VARIABLES

Variables	b	t	F	R2	p-value
Own tax	29.388	11.173	124.8	0.93	1.41E-06
Own Non-tax	21.668	8.32	69.29	0.88	1.6E-05
Grant-in-aid	2.026	13.860	192.11	0.95	2.24E-07
EESRA	7.165	8.182	66.95	0.88	1.85E-05
EESCA	5.654	12.001	144.03	0.94	7.69E-07

9. RESULTS AND DISCUSSION

Table (1.8 to 1.11) shows the various values of both dependent and independent variables. It shows GSDP at current prices, own tax revenue, own non-tax revenue, government expenditure on economic services (revenue and capital) and Grant-in-aid. For analyzing the impacts of Fiscal variables on GSDP, the time series data of selected fiscal variables for different heads were regressed on GSDP.

In the model, the Gross State Domestic product is the dependent variable. The GSDP had continued to grow from 2000 to 2010 with a higher growth rate in 2004-05. Likewise, government revenue (X1 and X2), government expenditure (X3 and X4) also increased and this increased the Grant-in-aid (X5). Within this period (2000-2010) own tax revenue, own non-tax revenue and expenditure on economic services increased. The research shows that increase in government expenditure on economic services, (X3) and (X4), increase gross state domestic product (GSDP). The values of b denote the absolute increase in GSDP because of one-unit increase in the heads of the selected fiscal variables. All the variables are significantly contributing to the growth of GSDP according to their P-value, R2, F and t statistics (Table 1.11).

Test of overall significance of the multiple regressions (F-test)[13]

The overall significance of the regression can be tested with the ratio of the explained to the unexplained variance. This follows an F distribution with k-1 and n-k degrees of freedom, where n is number of observations and k is number of parameters estimated.

The calculated F-value is 39.90 which exceeded the tabular value of F – 5.05 with (5, 5) degrees of freedom at 5% level of significance. The hypothesis (The growth of GSDP is depends on the growth of Fiscal Variables) is accepted that the regression parameters are not equal to zero and R2 is significantly different from zero. The high value for the F statistic suggests a significant relationship between the dependent and independent variables i.e. the GSDP and the selected Fiscal Variables, the Own tax, Own non-tax, Expenditure on Economic Services both capital and revenue account and grant-in-aid.

The conclusion emerging from the study is that the selected fiscal variables like own tax, own non-tax, Expenditure on economic services and Grant-in-aid have been contributing to the growth of GSDP. Base on the findings and outcome of this study, the following recommendations are being made. The Own tax and Non-tax revenue of the State are raise at the maximum from taxes on consumption and services. Therefore, it does not reduce the GSDP as it is not affected the production activities. Government should redirect its expenditure towards directly productive investment i.e. Expenditure on Economic services so as to increase output (GSDP). The amount of grant-in-aid can best used in the developmental activities for more GSDP growth.

[13]Salvatore, D. and Reagle, D. – Theory and Problems of Statistics and Econometrics, 2nd edition, McGraw Hill, Schaum's Outline Series, www.LisAri.Com, p.158.

TABLE: 1.12

SUMMARY OUTPUT of Total Receipts & Total Expenditure

Regression Statistics	
Multiple R	0.999709
R Square	0.999418
Adjusted R Square	0.999354
Standard Error	25502.11
Observation	11

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	1	1.01E+13	1.01E+13	15461.03	7.15E-16
Residual	9	5.85E+09	6.5E+08		
Total	10	1.01E+13			

	Coefficients	*Standard Error*	*t Stat*	*P-value*
Intercept	3446.826	12901.44	0.267166	0.795363
X Variable 1	0.998712	0.008032	124.3424	7.15E-16

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