CHAPTER 9

SUMMARY AND CONCLUSIONS

9.1 THE PERSPECTIVE OF THE STUDY

This study is concerned with the analysis of the structure of U.P.'s economy and the effects of income redistribution policies in it. Uttar Pradesh is the largest state of India on the basis of population and 4th largest among the Indian states on the basis of area. This state exhibits all salient features of an over populated and underdeveloped economy with an acute level of poverty. The economic conditions of the state require immediate attention to evolve a comprehensive strategy for rapid economic development, which needs efficient planning. The first requirement of such planning is to understand the structure of the state economy.

The present study was an effort in this direction. This study was undertaken with two well defined objectives : (i) to understand the structure of the state's economy by identifying the interrelatedness and interdependence of the various segments of the economy, (ii) to study the effects of income redistribution policies on the output, income and employment level of the state economy.

The study was conducted by using input-output technique. An interindustry flow matrix for the state economy has been used in which whole state economy is divided into 64 economic sectors. As a Ist step of the structural analysis of the state economy, the interindustry flow matrix has been decomposed into a few self sufficient groups of sectors by using the graph theoretic approach. At the next stage, the Leontief open I-O model has been used to compute sectoral backward and forward linkages related to different policy objectives like income, output, equity and employment maximization ,the linkage indices have been used to identify the key sectors for the state economy. This analysis further extended by estimating the direct, indirect and induced effects of exogeneous changes in final demand. The semiclosed I-O model has been applied for this. The model, has also been used to compute various types of income and employment multipliers for the state economy. Such coefficients along with the linkage indices were used to identify the key sectors for the state economy for development.

The semiclosed input output model was further used to analyse the effects of income redistribution in the state economy. For this purpose, the value added sector and the sector of household consumption were disaggregated into three income groups each, i.e., poor, middle and the top, in rural and urban areas separately. Three different types

of income redistribution policies were considered in this study :

(i) Income redistribution in which additional income is injected to various income levels exogeneously without affecting the income of other income groups,
(ii) in this type, income transfer takes place from top income group to bottom and middle income groups but for 'once only',
(iii) a more effective income redistribution, in which income of the target income group is increased by some amount and then maintained at the new higher level. This process will affect the shares in value added of both the income recipient and 'donor' groups.

The effects of such policies on output structures employment and income potential have been analyzed in detail. The structure of the industries in the organized and unorganized sectors of the state economy has also been studied in order to complete the structural analysis of the state economy.

9.2 MAJOR FINDINGS AND POLICY IMPLICATIONS

The major findings of the study can be summarized as follows :

From the Ist stage of analyses we observe the following salient features of the state economy (a) The state economy is mainly a rural based agricultural economy. Agriculture

and allied goods sector is the most important economic sector from the point of view of income and employment generation. This sector has less intersectoral dependency, than the industrial sector and it is drawing very little amount of inputs from the industrial sector at present. (b) Industrially, U.P. is a backward state. Most of the industries in the state are agrobased, which are mainly drawing inputs from agriculture and allied goods sector, (c) capital and intermediate goods industries are still in developing phase in the state. Most of these products are either not being produced in the state or their production is very much inadequate to satisfy the interindustry needs of the state economy.

On the basis of the linkage indices and sectoral multipliers following are the key sectors for the state economy for various plan objectives : (a) metal products, iron and steel, nonferrous metals, oils, cotton textiles, misc. chemicals and services are the sectors which maximize output of the state,whereas agricultural sector, leather and leather products, cotton-textiles and services are the key sectors from the income generation point of view. Similarly, cereals, pulses, fruit vegetable and spices, animal husbandry, gur and khandsari, cotton textiles and oils are the sectors which show higher equity linkage. These sectors are generating relatively larger magnitude of income for the people of

the bottom income class. Likewise, from the employment generation point of view, agricultural products, cotton textile and services are the key sectors in the state economy. In this regard special attention should be paid on the pulses sector which satisfy the income, equity and employment objectives simultaneously. Cotton textile sector is very crucial for the state economy, as it satisfies all the four plan objectives viz., output income, employment and equity maximization, simultaneously. As a policy measure, the keysector analysis can help us a lot for the proper allocation of investment resources which is the core of efficient planning. Regional planners of the state must give priority to the keysectors in development plan of the state to attain the balanced economic growth of the state economy.

To deal with the problem of acute level of poverty in the state economy, the effects of income redistribution policy were studied. It has been emperically tested and found that the distribution of value added is very much in favour of rich and against the poor in most of the economic sectors of the state. This is the root cause of poverty. As a result of which the rural and urban bottom income classes, are not getting much advantages from the income redistribution strategies.

Ist and IInd types of income redistribution policies bring only a temporary increase in the incomes of the bottom income classes, only the IIIrd type of income redistribution policy can improve the relative position of the bottom income classes, where income transfer from top to bottom income classes takes place on permanent basis. This is possible by changing the institutional structure of the distribution of value added in favour of bottom income class.

The highest employment potential is created when additional income goes to rural and urban bottom classes. This result support the earlier studies Paukeret et al. (1974) and contrary to the results drawn by Sinha et al. (1979) about Indian economy. Income transfer from top to bottom income classes doesn't create significant level of additional employment.

As a policy measure, if the income of bottom income class is to be increased in order to reduce income inequalities, then this must be either through economic growth or through a change in the distribution of value-added created at the sectoral level in favour of the bottom income classes.

In order to complete the structural analysis of the state economy, the structure of the industries of the organized and unorganized sectors has also been analyzed.

The crucial industries of the state economy in the organized sector are cement, canning and preservation and printing and publishing, whereas silk and other textiles industries, in the unorganized sector. These industries satisfy all the three plan objectives viz., income, output and employment maximization simultaneously. This analysis also reveals that iron and steel and misc. chemicals are the major input supplier to the industries of unorganized sector, whereas these two industries along with cement are main input supplier to the organized sector of the state economy. This implies that as a policy measure, production of these products viz., iron and steel, misc. chemicals and cement should be given priority to develop the overall industrial sector of the state economy.

9.3 GUIDE-LINES FOR FURTHER RESEARCH

The present study is a macro-analysis of the state economy. There is a need of micro level studies, which can be conducted at firm level in order to find intersectoral dependences and effects of change in technology, final consumption on output and income etc., within the industry as well as outside the industry. Construction of the input-output table using firm wise data is of course a difficult task. A dynamic approach can also be adopted which will

incorporate the rates of growth of sectoral output, final demand and population. These structural variables can be projected and estimated for future. Such type of model can also deal with the trades off between growth and equity and they may suggest us some guidelines for required structural changes to reduce the dependency of population on agriculture. But such type of study require lot of secondary data base and statistical information which is not available at present, in the state.

Input-output table,exclusively for agricultural sector, is available at the state level. This can be used to study the required rate of growth and technological changes to fulfil the growing food requirements and the demands that the agricultural sector is likely to place on other sectors.

The present semiclosed model can also be extended to study the effects of production of the various sectors and this will suggest the optimum product mix for the state economy. Such type of study will also answer the question 'whether the shift of sectoral production from organized to unorganized sector will make redistribution policies more effective?' . The topic of interindustry analysis for study is certainly a challenging one. This is our observation, after going through the entire exercise of this study. It is expected that this particular area of study will attract more and more attention from the social scientists in future.