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Care economy vaccine and beyond: Does the Kerala budget open a countercyclical window?

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Pandemic COVID19 is not just a public health or epidemiological crisis; it is a moral economy crisis, too, which demands a moral economy solution. In both the supplementary budget by Balagopal and the earlier budget by Thomas Isaac in January 2021, the state government has taken measures in the direction of ethical economy even though it has yet to adopt a moral economy resolution. Both the budgets address the double negatives that have emerged in the first and second waves of Covid19 conditions: a contraction of both demand and supply that renders new taxes impossible, yet demands further public expenditure, if the state maintains its social democratic approach to governance (see Oommen 2021; Chakravartti P and Anitha Kumary 2021). In a time when many economies around the world are still grappling with healthcare crises and crisis-ridden democratic institutions, this is essential. Even under the economic pressures of the Covid19 pandemic, the state refuses to hollow out social security measures and instead reiterates its commitment to ensuring the people's security and safety. Knowing from experience that imposing taxes when aggregate demand is weak would be counterproductive, the budget has not attempted to do the same, although the tax potential has not yet dried up. I will return to this shortly.

In the announcement of the second economic package worth Rs20000 crores - a care economy package indeed - which is the first in India, and equivalent to last year's relief package, the Kerala government has once again demonstrated its concern for vulnerable social groups in a crisis. Health is the first element of the package (Rs2800 crores) by taking precautionary measures against the cyclical occurrence of Covid19, followed by livelihood and welfare (Rs8900 crores). This was accompanied by coastal developments, scaling up of MSMEs, diversification of plantations, livestock developments, as well as loans and interest subsidies (Rs8300 crores) resulting from the moral economy crisis that Covid has caused to the state. The proposed Comprehensive Financial Rejuvenation Loan Scheme is an ambitious project as it would involve the full utilisation of existing refinancing schemes (NABARD, for instance) and more importantly, the Cooperative Initiative for Agriculture Infrastructure in Kerala (CAIK). This will certainly produce a paradigm shift from crop credit to investment credit in processing centres for meat, fish, dairy products, fruits and vegetables, which in turn will increase the income flow to farmers and create new employment opportunities, aside from ensuring food security. Its goal is to make cheap, subsidised loans available to sectors without sufficient funds. Kerala Bank will often work with NABARD on this.

Further, funds would be made available at low interest rates for imaginative schemes in sectors such as Labour Enterprises and Kudumbasree Neighbourhood Groups. Venture Capital Fund initiative with a corpus of Rs.100 crore aims to scale up small-scale enterprises and start-ups and help the state to achieve V-shape recovery is also important. A new knowledge economy is being achieved, thanks to KIIFB, by upgrading higher education, digital innovation, and multi-skilling, thus making Kerala an exciting and valuable new education hub; KIIFB plays an important role in this transformation.

An increased emphasis on three levels of infrastructure - technological (roads, bridges, canals etc.), social infrastructure (schools, skill centres) and financial (KIIFB, public-private participation and other sources of resource mobilisation) reveals the state's planned approach to sustainable development by taking into account the resilience of the region and the relevance of modern technology across sectors such as IT and MSME in rebuilding the state. In spite of the claim that Kerala has already borrowed huge funds at high interest rates, and that the debt could not be sustained, the state's debt-to-GDP ratio in Kerala is lower than in Congress-led Punjab (40.3%) and in BJP-led Uttar Pradesh (34%). Secondly, an economy like Kerala's can sustain the economy so long as there is no debt overhang and, thirdly, the loans raised are also used to fund the state's otherwise lagging infrastructure projects, which would enhance the quality of social development (also see Joseph and Kumar 2020).

As the new finance minister is fortunate enough to have a favourable access to the revenue deficit grants of the 15th finance commission - worth of Rs19891 crores this year alone and Rs13174 crores next year - and sectoral grants to health and Covid19 protection measures and a provision for additional borrowing within the FRBM regulations, this would provide the state maximum manageability to address the fiscal challenges and developmental efforts. It is equally important for the state to address how to scale up the productive capacity of the state during these two years. The state would also be eligible for GST compensation worth of Rs4500 crores. Nevertheless, new sources of tax revenue could be identified and tax revenues could be increased by improving tax collection efficiency.

Evidence suggests that due to the economic impact of Covid19, various state governments' tax revenues have collapsed in an unprecedented manner. States have slashed their developmental expenditures. In the case of Maharashtra, it was reported that the government had imposed a 67 per cent cut on all developmental expenditure, a freeze on hiring, a halt to farm loan relief (already sanctioned), and a 25 per cent cut in departmental expenses. Similar cuts across all states would deepen the demand depression. Both under the earlier finance minister Isaac and now under Balagopal - both with Pinarayi Vijayan as Chief Minister - Kerala has been able to widen its social welfare system with more infrastructure investments. Austerity is a policy that has failed to create the outcomes that are expected, particularly during difficult times, as well as the policies proposed by the IMF for Latin America and East Asia.

As the Covid19 pandemic still haunts the economy, it is likely that the negative growth rate and revenue decline would be much higher than what is explained in the budget. In the budget, for instance, it is stated that there is a decline of 3.82 in GSDP and an 18.77 per cent decline in state revenues. This was a figure relevant until the end of March 2021, and the second wave Covid 19 peak was in April, revealing that the economic catastrophe would be much severe which would compel the state to go for additional borrowing within the FRBM regulations. Further, with the second wave, the double negatives of contraction in both demand and supply have also surfaced. This cyclical occurrence of COVID19 with new layers of economic setbacks would not give space for new taxes as it would prove counterproductive. But it does not mean that all sources of revenue are dried up, and it is also where the state needs to go for post-pandemic tax reforms. A tax reform should be synchronized with the phases of economic transformation. Waiting for the economy to transform before enacting a tax reform is not going to be good economics.

States, who argue that they have high revenue surpluses in contrast to the state's growing deficit, as was the case in Kerala, completely ignore the fact that an increase in central transfers allows them to maintain high revenue surpluses. In some other states such as Bihar, UP and Odisha, it is specifically due to a low allocation of funds for social development and public provisioning that help them to maintain a high revenue surplus. Kerala, in contrast, refuses to hollow out from the social sector expenditure as the state's egalitarian social democratic project could be continued only by an increased expenditure by the state. This doesn't mean that the new sources of tax are dried up. The average own tax-GSDP ratio in India during 2015-16 to 2020-21 has been 6.3% and for Kerala, it is 6.4 per cent. This is much lower when compared to several countries and there is so much potential for Kerala to increase the tax-GSDP ratio.

New sources of revenue

In his maiden budget, K N Balagopal said, "We do not believe in intimidating and coercing traders and industrialists.". State cannot ignore CAG's estimated arrears of revenue of 20,146.39 crores (22 per cent of state revenues), among which 5,765.84 crores (27 per cent of state revenues) were outstanding for over five years. This shows that there is so much tax abuse taking place in the state. While the disposal of certain arrears such as building tax has been highly "appreciable", the government will have to scale up its performance in arrear collection in most of the sectors. The Finance Ministers budget speech with a moral tone that 'if everyone starts remitting their due tax, our fiscal stress could be easily overcome" is positive and his stance that once the economy returns to normalcy, "vigorous efforts will be initiated to increase tax and non-tax revenues" is promising. It is important to look outside the box to think creatively in order to come up with new, more effective ways to deal with fiscal stress. Traditional solutions like one-time settlements and increased lease rent and so on should, of course, be operationalized. But this is not enough. Apart from the traditional way of raising revenues, the government must be able to scale up the existing tax rates and locate imaginative forms of new sources.

A few such sources are worth citing (i) property tax and new tax on vacant houses/flats (ii) digital state cess/digital state tax (DSC/DST) (iii) inheritance wealth tax.

(i) Property tax and new tax on vacant houses/flats

At present, the property tax in India is as low as 0.2 per cent of GDP as against around 3 per cent in advanced countries. Given the fact that Kerala is a state with high cost in land value and mostly with pucca houses, the potential for raising property tax is huge. It is equally important to adhere to the suggestion made by the Kerala Post Disaster Needs Assessment

(PDNA, 2018; Raman 2020) to levy a new tax on vacant houses through local self-governments (LSGs). It is estimated that there are about 1.2 million houses and flats in Kerala vacant for years together. An additional tax of Rs 2 per square feet per year would yield tax revenue of Rs 220 crore. There are three advantages in a symbiotic manner: first, it would help increase the state revenues, particularly the revenues of LSGs; secondly, it would help to bring around 1.2 million houses in the rental market benefiting those IT employees seeking accommodation; this would also help the guest workers who flow in the state and thirdly, it would discourage the over-extraction of natural resources for the building of expensive houses and flats aiming to reap speculative interests only.

(ii) Digital state cess/digital state tax (DSC/DST)

The economy is increasingly oriented to digital economy with the digital transformation is the key driver of the economy and society. Governments should emphasize providing as many public services as possible via e-Government in order to lower the transaction costs for customers and publics. Since such public services are easy to use and take up little time for the citizens, it is reasonable to tax them incrementally. Additionally, it empowers the democratic structure of society by ensuring more accountability and transparency. Furthermore, it would strengthen digital democracy, which otherwise would have been left to those who drive digital technologies alone and improve the productive capacity of the state.

In addition to reducing tax abuse, DST reduces fraud and concealment by reducing electronic transactions. It would also be easier for the government to set compliance targets and increase transparency. DST has one more, and perhaps the most important, rationale. No other state in India is expanding its services sector as fast as in Kerala. More importantly, the Kerala economy is poised for digital transformation, with digital interventions as the key for transforming almost all sectors in the state, particularly education, health, deliveries and even day to day administration. There is a drastic reduction in transaction cost due to digital transformation which would also justify why a portion of the cost advantage should be mopped for the larger society.

It is where the DST should be pitched in and Kerala's "multiple scissors crisis" call for the same. A further advantage of DST for Kerala would be, in contrast to GST, it would allow the state to exercise its rights on it. Otherwise, the state would have plunged in multiple scissors crises, in productive domains as well acting as constraints for improving the productive capacity of the state. DST's additional resources could also be effectively used for cross subsidizing the state's ambitious projects both in the digital domains like K-FON and free computers for the vulnerable social sections, but also in other areas of the state's welfare obligations, which would limit the state's exposure to deficit.

(iii) Inheritance wealth tax

In India, Inheritance Tax (also known as Estate Tax) was imposed until 1985 and was payable when the property was transferred to the heirs. The inherited wealth tax was also in force until 2015. It is time to reintroduce the inheritance tax as one of the instruments to address the rising inequality in the country, particularly in states like Kerala. Also, states could impose their own inheritance taxes.

The post-Covid tax reform must include the establishment of an expert group to help the state develop the resources it needs to expand and strengthen its capacity to serve people more efficiently.