KERALA ECONOMY
2021, VOL.2, NO. 1 pp 03-06 .

ISSN : 2583-4436

Kerala budget 2021-22: More a vision document than a conventional budget

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In a way, Finance Minister, Dr. Thomas Isaac in his Budget Speech for 2021-22 has set aside several conventions of budget presentations that date from the `Thirattu' of Marthanda Varma of Travancore (which really predates Sir Robert Walpole's `bougette' of 1733) to the present. In these hard times of corona pandemic, the Finance Minister looks to the starry sky rather than to the muddy boots, bringing good tidings to nearly 6 million poor pensioners, the COVID-weary ASHA and Anganawadi workers, CDS functionaries, elected representatives of local governments and the list is far wider to envelope non-resident Malayalee's as well. Although Aladdin's wonder lamp exists only in Arabian fairy tales, Kerala people would wish him to have one particularly because he provides for over 5 lakh livelihood jobs besides nearly 6-7 million employment during the next five years. This note is a brief account showing the major salience of the budget.

First, the Budget is a signpost to a welfare state which assumes operational meaning within a social democratic paradigm. Two foundational characteristics of a welfare state are (1) to provide for the mischances of life like old age, unemployment, disability, diseases and ensure social security net, along with equality of opportunity in access to education and (2) eradication of absolute poverty. (part 4 of the budget is exclusively devoted to it). The welfare state paradigm is buttressed further because the Budget seeks to prime the economy to a higher level of employment: livelihood jobs, skilled and unskilled works, educated employment and the spectrum is wider. Even so, I am aware of the fact that in a society where the rate of increase in the income of the top deciles is higher than the bottom deciles, inequality in income will rise and social well-being will suffer grievously. Kerala admittedly is a growing unequal society (see Oommen 2014). While increasing the pensions of the poor by Rs.100 is a great gesture, but when the public resources that flow into the bureaucracy, technocracy and the upper echelons of society far exceed relatively poor strata welfare state can lose its sheen and significance.

Second, to be sure, the most outstanding salience of the Budget is the concerted programme to build a knowledge-based economy and innovative society and the generous allocations provided for universities and centres of research and excellence. K-FON and K-DISC are bold initiatives; the proof of the pudding of course is in its eating. Indeed, there is a great challenge in a society that fosters mediocrity and decries merit and where a higher education happily welcomes a linear expansion of the existing rot system. Do we have the ambience and nursing ground for the knowledge economy to take firm root? Five hundred Nava Kerala post-doctoral fellowship (appealing name cannot turn sand into gold) or 30 or more centres of excellence cannot change a decadent system. I was a teacher who had the feel of the well-entrenched vested interests. You cannot create a plant ecosystem by manuring the green shoots as a Malayalam proverb aptly puts it.

Third, the Budget is avowedly women-friendly, although the road to gender justice is rough and long. Even so the allocation of Rs.5 crore for transgender is a significant step towards gender equity.

Fourth, in the present time of expanding needs and heavy debt-financing, prudence is the keyword. When corruption, consultancy and commission are said to maraud the public finance system, some accountability mechanism or leakage prevention antidotes would have added greater credibility and acceptance.

Annual financial statement: Some caveats

The annual financial statement statutorily mandated by the Indian constitution (see Articles 112 and 202) to be laid before the legislature (the term budget is not recognised by the Indian constitution) is the real kernel of the public finance system. The Budget speech quite often marginalises this core, the details of which one will have to look for in the Budget-in-Brief document and several others that make the fiscal domain.

The total revenue receipts for 2021-22 is estimated to be around Rs.1,28,375.88 crore and including borrowings and other capital receipts, total receipts will add up to Rs. 1,59,427.24

crore. As the revenue expenditure far exceeds the revenue receipts, there is an estimated revenue deficit of Rs. 16,910.12 crore which is way below the revised estimate of Rs.24206.44 crore for the current year. These numbers are not realistic. The budget for 2021-22 expects a lower Union tax share of Rs. 16,760.30 crore as against the actual of Rs. 19,038.17 crore in 2018-19 obviously because of the lower buoyancy of 0.82 in the current year. The budget hopes to compensate the shortfall by a generous grant in the COVID -19 context. Even so the capital expenditure is sought to be maintained at Rs. 14,141.21 crore which in fact is lower than the budgeted amount for 2020-21 but 28% higher than the revised estimate.

With the state's own tax revenue nose-diving to Rs.45,272.15 crore in the revised estimate of current year a quantum jump to Rs. 73,120.63 crore in 2021-22 which is nearly 62% higher is not easily attainable. The additional resource mobilisation is only a paltry sum of Rs. 200 crore. The revenue deficit of Rs. 16,910.12 crore for the budget year is subdued also because several contingent liabilities remain to be fully provided for. The revenue deficit target of 1.93% of GSDP cannot be easily accepted. The slippage in fiscal target does not speak highly of the fiscal management, because the budgeted target for 2020-21 was 1.55% while the revised estimate shot up to 2.94% of the GSDP. A quantum jump off the fiscal marksmanship by a high margin of 90% is also undoubtedly unrealisable. The numbers relating to fiscal deficit are also equally unconvincing.

The derailment in fiscal marksmanship in revenue and fiscal deficits will have a snowball impact on the public debt. Public debt management is a highly subtle and responsible act, because this involves inter-generational equity. Obviously if the borrowed money is spent to finance revenue expenditure, you are accumulating unsustainable debt. This has happened for several years now. The media and the Kerala public are apprehensive of the mounting debt although the per capita burden is sometimes blown out of proportion. For all practical purpose growth rate interest rate matching is a long run dictum when as Keynes famously said, `In the long run we are all dead'. The repayment burden in the short run cannot be wished away. The total outstanding debt as a percentage of GSDP for 2021-22 works out to 37.39% as against 29.82% in 2018-19 just three years back. The debt and fiscal framework recommended by the FRBM Review committee (2017) which is pending as a Bill before parliament may come up with ceilings (for states it is 20% of GDP) and may pose a threat sooner than later. The Damocles sword of central intervention is a possible threat.

In this context the state has to be concerned about KIIFB on which Kerala state leans heavily for the delivery of promises and expansion of infrastructure. The special purpose vehicle KIIFB the outcome of a 1999 ACT is adroitly adapted to meet the growing needs of Kerala's expanding economy. Nearly 25% of the total KIIFB investment is earmarked for the needs provided in this Budget. Dr. Thomas Isaac has attracted brick bats and bouquets for this launch into the deep. If 70% investments prove to be self-liquidating, history will honour him. To be sure an expanding economy cannot be tied down to the arithmetic of the FRBM Act. Risk-taking is inescapable. While Budget speech is part of politics, public investment is a social choice to be done with wisdom, prudence and faithfulness. The key word is tax-payers money.

To conclude, the observations are impromptu but done in good faith. The budget speech has created a record for its length. The gate should be appropriate for the house. The speech is well punctuated with poems by tiny tots and beautified by their surreal paintings. When the promises are kept, the Finance Minister becomes a promising leader par excellence.