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GIFT GULATI INSTITUTE OF FINANCE AND TAXATION

Report on the panel discussion on kerala budget 2023-24 & economic review 2022

GIFT jointly with Department of Political science, University of Kerala and Trivandrum Management Association (TMA) organized a panel discussion on Kerala Budget 2023-24 and Economic Review 2022 wherein policy makers of repute and scholars of eminence participated. This report briefly highlights the reflections of the panelists.

Less logic behind petrol, diesel cess and price regulation

Prof M A Oommen*

Latest Kerala budget states that Kerala had a comprehensive development agenda for several decades together but, my complaint is that there is no comprehensive vision, except during the period of the first communist Ministry. They had an agenda of rehabilitating and reconstructing the Kerala economy on certain lines. But gone are those days. Now we are far away from that and budget is not an integral part of a long vision. It is more adhoc than forward looking. The latest budget said Kerala has made 12.01 per cent growth in real terms and this is a good sign , particularly after a great decline due to the Covid pandemic. Kerala's manufacturing sector has grown by 18.9 per cent during last year. The concern is that share of manufacturing is lower in the GSDP of Kerala.

We are having a sort of precautious servicification. Precautious servicification means, Suppose a boy studying in second standard is very smart in studying . He is smart enough to get double promotion to fourth standard, but then he struggles. Here there is some similarity in the growth process. The economy has to grow from agriculture to secondary manufacturing sector and then to the services sector. Here, a precautious servicification has happened in Kerala as the basic issues remains unaddressed. If there is 5 per cent savings in the estimates of the budget , then that will lead to several fold increase in the savings of the budget.

* Prepared by the GIFT team based on the presentation.

There were so many expenditure commissions created and how much of the recommendations of these commissions are accommodated is a crucial question. When I came to Thiruvananthapuram and started doing research, the main source of data was administrative reports and that was discontinued now even in this budget. It is said that the methodology for writing administrative report will be evolved by IMG and then it will be followed.

One of the expenditure committees had recommended that Rs 25,000 crore were lost because of not following IGST. The sate's excheqer had lost Rs 750 crore because revision was not done at the proper time. Now everybody new that 8400 crores rupees is not going to come. Because revenue deficit grant is not going to be continued. Everybody knew it long back, they you have to provide for that. The GST compensation will stop and this was announced 2 years ago. Rs 5700 crore cannot be entertained. You have to provide for that.

Most of these things were provided and for that purpose Rs 3000 crore additional mobilisation is required. But, have you done your homework for this? Have you set the house in order, before you do that. These are the pertinent questions to be asked. The budget earmarked Rs 2000 crore for controlling the prices. You are collecting Rs 3000 crore additionally and spending Rs 2000 crore for containing inflation in Kerala. Either you anticipate that these additional mobilisation will be skyrocketing the prices and your additional mobilisation is used for regulating the open market prices. This may not stick to a logical conclusion over issues like controlling prices of essential items.

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Kerala hovering around a debt trap

Prof K P Kannan

One of the major announcements in the Budget Speech of Finance Minister K.N. Balagopal is about the recovery of the Kerala economy that registered a real growth rate of 12.01 percent during the year ending 31 March 2022 as against a negative growth rate of 8.43 percent during the previous year. This means that the Kerala economy has more than fully recovered from the impact of the Covid 19 pandemic. However, it also means that the annual average growth rate for the two years is a mere 1.8 percent. The last two years has also witnessed a significant fall in Kerala's Own Revenue to State Income ratio with 6.9 and 7.6 respectively. During this year (2022-23) this is expected to go up to 8.4 that should also be counted as good news.

Despite this short-term relief, Kerala continues to face a public finance crisis. It has been incurring a revenue deficit (revenue expenditure more than revenue income) for the last 38 years without a break. There are only two or three other states in this league. This has meant recourse to public debt not just for capital expenditure but also to meet the excess revenue expenditure. Nearly two thirds of Kerala's public debt is used for closing the revenue deficit. If a state finds itself unable to meet its revenue expenditure without recourse to public debt, it is nothing but a situation of debt trap.

At the root of this debt trap is the declining efficiency in collection of taxes and non-tax revenue by successive governments. What is alarming is the declining efficiency in a historical sense. While Kerala government collected Rs. 12.4 for every 100 rupee of state income during the decade from 1975 to 1986, it steadily declined and by 2018 it reached around 8.2 and a further decline to 6.9 during the Covid year. Had the best performance of 12.4 percent continued, the government would have collected another Rs. 40 thousand crores in 2022-23.

The most important thing is the fiscal deficit which the government of India is worried about because Kerala's revenue deficit plus the annual debt combined is very high. Kerala's fiscal deficit for the last nine years is higher not only compared to its neighbours Tamil Nadu and Karnataka, but also for all States combined.

There are two important items why Kerala has a huge revenue deficit; one is due to the disproportionate burden on pension and the other interest payment. Kerala's interest burden is about 90 percent of the revenue deficit for a nine-year period ending 2019-20 whereas Karnataka has managed a revenue surplus. However, Tamil Nadu finds itself with a share of 65 percent of its revenue deficit. For all States and UTs it is a mere 9 percent.

There is no alternative for Kerala but to enhance its tax collection efforts. Last year seems to have been a year when some concerted efforts have been made in terms of checking of establishments, booking tax dodgers and so on. It was reported that the GST department booked 17,262 cases of tax evasion in 2021-22. In a separate exercise of test purchases, the department is reported to have found that 45 percent of the establishments did not give a bill to the purchases that puts the GST evasion rate at 45 percent. There is urgent need to strengthen the tax collection system with adequate staff, technology, data analysis, hand-holding wherever required for easy filing and a strategic management team to continuously monitor the collection, region-wise and commodity-wise. It also calls for estimating the tax base especially for important goods and services, to begin with

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State's plan size should be enhanced

Shri C P John*

Finance minister had expected Rs 1.34 lakh crore as revenue receipt, last year, of which he could collect Rs 1.29 lakh crore. There is also a dip of nearly Rs 4000 crore in the central transfers last year. This year, he expect a revenue receipt of Rs 1.5 lakh crore. All Finance Ministers, political leaders and experts are lamenting about the decline in the central transfers through Finance Commissions. For Kerala, the share from the central pool is only 1.92 per cent. We have to find out the loss we had in the awards of various finance commissions and the reasons behind this, based on the growth in population of Kerala.

Coming to the fiscal deficit part of the budget, finance minister expect to regulate this at 3.51 per cent of GDP. But, it is not that much possible in this year of difficulties.

The plan size for this year raises concern as not a single rupee is increased this year. This is kept at Rs 30,470 crore almost at the same level of last year. The Government of Kerala is not keen on keeping the plan size high. We should increase the plan size substantially so that the development activities at local level should be vibrant.

But for the last 4 years plan size is stagnant and even decreasing. It was lesser because of so many reasons like Covid and so many other disasters. But what is the logic of this year. Last year we increased the plan size from Rs 27,000 crore to Rs 30,470 crore and I sincerely expected this had to be increased to at least Rs 33,000 crore.

If the plan size had been increased the marginalised section should have got more plan fund. So this is a very wrong approach as far as a left government is concerned. So this is my criticism about the plan size and holding the plan size there is a plan B for this government and that is KIFFB.

The budget proposed to raise the price of diesel and petrol by Rs 2 per liter as social security cess. In this speech and across our social debates there is a discussion regarding overseas migration, but it has happened always for the last 40-50 years. But this year onwards the discussion has changed from migration to exodus.

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Address core issues to tide over fiscal crisis

Prof B Alwin Prakash*

Kerala is facing an unprecedented fiscal crisis and I am trying to analyze the nature of the crisis, Kerala has been experiencing. Reserve Bank of India (RBI) gives a dismal picture about the state finances and the combined revenue deficit in 2020 – 21 and 2021- 22 is about Rs 31, 000 crore, which is about 3.5 per cent of GSDP . The gross fiscal deficit is roughly Rs 46, 000 crore, about 5.1 per cent of GSDP and the outstanding liabilities is about 3.9 lakh crore which comes to 39.1 per cent of GSDP. The major share of this borrowing is used to cover Revenue deficit that means 69 per cent of the borrowing is used for maintaining Revenue expenditure. Here we have to bear in mind that the revenue deficit as per the Kerala fiscal responsibility Act should be 0 per cent.

12 states in India records zero revenue deficit, but for Kerala we find that there has been a steady increase in the revenue deficit. If you compare with the all India average you can find that revenue deficit of all states and union territory is about 0.9 per cent. So by any standard we can say that the revenue deficit in Kerala is very high. Coming to gross fiscal deficit, as per the RBI data in 2001-02 the total gross fiscal deficit is about Rs 46 ,000 crore which is 5.1 per cent of the GSDP . The gross fiscal deficit of all states and Union territories is 3.7 per cent. The outstanding liabilities as percentage of GSDP is 39 per cent in Kerala, while

the national average is 29.5 per cent. All these data suggests that the Kerala's fiscal crisis is at a critical juncture.

Persistent borrowing to meet the non-plan expenditure has led Kerala to unmanageable fiscal crisis and the floods in 2018 and 2019, the unprecedented Health crisis created by the Covid-19 and the pandemic induced recession had affected the finances the state very badly. Unsound fiscal policies and poor fiscal management ruined the state finances. The most important item of expenditure are salary and pension. The salary Bill increased from Rs 28, 000crore in 2021 to Rs 45,000 crore in 2022, which means 58 per cent increase in salary bill for one year . Expenditure on pension has also increased from about Rs 19 000 crore to Rs 27 000 crore, 42 per cent increase. So the salary and pension expenditure include a greater share in the total revenue expenditure of the state. Total expenditure on salary and pension in 2021-22 is Rs 72,579 crore. 62 per cent of the revenue receipts of the state is spent on these two items. The single largest item of expenditure which contributed to the present fiscal crisis is the salary and pension. Salary and pension revision once in five years is the root cause for the persistent fiscal crisis in Kerala. So the state should change the salary and pension revision from once in five years to once in 10 years format.

There was a lot of discussion about the neglect of transfer of Central taxes grants to the state and there is a fall in the amount of share of central taxes due to 15th finance commission recommendations. But there was a huge increase in the amount of grants from the center, so if you take the total amount of transferred you can find that there is an increase in the total revenue deficit grant recommended by the 15th Finance Commission. This was Rs 53,000 crore between 2021-2024. We do not have the fact to say that the central government has neglected Kerala with regard to transfer of central taxes and grants.

Kerala's financial stress build up seems to be a failure both on expenditure control and resource mobilization. Poor expenditure management and over inflated budgets beyond estimated resource capacity leading to under achievement of plans. Hence, the major projects announced in the budget are not matched by the additional resource mobilization. The challenges faced today are similar to those existed in 2016, though a white paper was published in 2016 but no further action was taken to improve the state finances. Due to this the fiscal crisis worsened and reached at an unmanageable level today.

The finance minister should deal what they had found out in the 2016 white paper and make it clear whether they had made any attempt to rectify or make changes on the basis of this. I think the first thing the finance minister ahs to do is to address the basic issues and implement the recommendations proposed in 2016 white paper.

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Expenditure rationalization is crucial

Prof Mary George*

Expenditure rationalization had become a very hot fiscal topic of discussion swince 1990-91 when India was at the brink of a debt trap. We had to go for LPG- liberalization, privatization and globalization in order to tide over the financial crisis prevailed during that period.

Revenue deficit is the difference between revenue receipts and revenue expenditure. Revenue receipt includes tax and non-tax revenues. The major portion of revenue expenditure is committed expenditures like salary, pension and interest. In 2002, Fiscal Responsibility and Budget Management Act (FRBM Act) was passed in the parliament and confirmation acts were passed by the states in 2003. According to this act states have to bring down their revenue deficit to zero level.

The amount that is set apart for investment purposes in the budget comes under capital expenditure. Fiscal deficit is the difference between total expenditure and total receipts. FRBM Act mandated that the Fiscal deficit should be regulated at 3 percent of GSDP within five years. Due to various issues this was rolled back several times and so far we could not maintain fiscal deficit at the 3 per cent level or balancing revenue receipts and revenue expenditures as mandated by FRBM Act.

Hence, expenditure rationalization should be given prime importance by the government of Kerala. Total expenditure of the budget 2023-24 is Rs 176,089 crore which is considered as the total size of the budget . Total revenue expenditure as per 2023 -24 budget estimate is Rs 159,361 crore which is 7 per cent higher than the Revised Estimate of 2022 - 23 . Capital outlay is Rs 14,606 crore that is - 2% of the revised estimate for 2022-23. Thus the net expenditure is Rs 176,089 crore. Three expenditure heads Salary, pension and interest took 81 percent of the revenue receipts in 2021-22. This steep hike in revenue expenditure in the state was due to Covid outbreak in 2020 and the state's pay revision amidst that catastrophy. Revenue expenditure, however, has declined to 70 per cent in 2022-23 . It is pertinent to note that in other Southern states like Tamilnadu, Karnataka etc revenue expenditure is below 50 per cent of the revenue receipts. In 2023-24 revenue expenditure of the state is expected to be 69.3 per cent of the revenue receipts . But to torpedo this, the next pay revision is due in 2025 and then revenue deficit will again shoot up. In the midst of rising revenue and fiscal deficit if the state government is sincere in its efforts to rationalize expenditures it should follow the central pattern of 10 year pay revision. It has also to bridle its unscrupulous extravaganza, without heeding to the objections put forward by the Finance Department. It has to cut down the Welfare Commissions to the minimum as welfare activities can be efficiently brought under one or two with cost effective and professionally headed mode. Reduce Kerala Public Service Commission Members to 7 as UPSC has only 11 members for the whole of India. Further government purchases should be through e-marketing so that bribe is avoided and quality is assured. Again, Scrapage policy of government of india applies, to personal use vehicles, only after 15 years and therefore, GOVT. vehicles should be used for a minimum of that period who ever be using it, because those elected to serve the people are the servants of the people and have to be humble and simple.

Kerala can cultivate a knowledge economy provided the state invest in the knowledge and technology sectors at least 6 percent of the GSDP of the state . Education is in the concurrent list with priority to states. The budget set apart only 2.15 per cent of GSDP for education. This indifference of the government is the main reason for the poor quality of higher education in Kerala. Then how can you build up a knowledge economy. The budget doesn't work at the reality level. For social welfare and nutrition Rs 12, 411 crore set apart, which is only 2 per cent of GSDP. National Family Health Survey 2019-21 reprted that 19.2% of chidren under five years in Kerala are under weight. When social welfare is in top priority, automatically malnutrition would decline, quality of health and education would improve.

The national health policy, 2017 demands that states should spend 8 per cent of their GSDP for health sector by 2020 and the central government should set apart 2.5 per cent of GDP by 2022. The allocation for health in the Union budget is Rs 90, 935 crore, which 6 percent higher than previous year's amount. But when it is considered as percentage of GDP, it is only 0.87 per cent and only 5.64 per cent of total Union budget expenditure. This is highly inadequate. Far more worse is the case of Kerala. The amount set apart for Health and Family Welfare is only Rs.9935 which is 0.88 percent of GSDP and 5.64 percent of total budget expenditure.

What is the position of Kerala's expenditure on key sectors and what is the national average? In the education sector the national averages is 14.8 per cent and in Kerala it is 14 per cent of total expenditure . National average on health expenditure is 6.3 per cent and in Kerala it is 5.7 per cent. In the case of rural development, national average is 5.7 per cent and for Kerala it is 4 per cent. For urban development, national average is 3.5 per cent and for Kerala it is 1 per cent. In the case of home affairs national average is 4.3 per cent and Kerala 2.7 per cent and in the case of roads and bridges national average is 4.5 per cent and in Kerala it is only 2.1 per cent. All the above highlighted points show that Kerala Government does not prioritize expenditures as it is needed in a situation of high scarcity of resources.

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Strengthening welfare system is crucial to Kerala economy

Dr K Ravi Raman

A counter cyclical window was established in the 2022-23 budget by Finance Minister Sri K.N. Balagopal in that he refrained from enacting any additional taxes because the economy's overall demand was so low and doing so would be counterproductive. Though Kerala does not want to compromise on any social welfare program, it does want to strengthen it, he was unwilling to do so with regard to any kind of benefit measures. But for the present budget this year (2023-24), the finance minister imposed new taxes that were justifiable for a number of reasons.

First and foremost, we don't want to undermine the welfare programmes that have already been put in place, and we also want to scale up the programmes that are currently in place, for which the state needs internal resources. As the amount of money being transferred from the Center has decreased, the need to mobilise internal resources has become even more justified. This is in addition to the GST compensation programme being terminated. Second, we find that the economy's ability to generate tax revenue has increased, and we have the data to support this claim. Regardless of whether we look at per capita income, per capita consumption, or gross state domestic product, we have the evidence that the taxable capacity of the state has been increased. We are therefore requesting a modest portion of the state's increasing tax base in order to fund the creation of a care economy that is just intended for people over the age of 60. We have evidence to support the idea that Kerala's economic inequality has decreased over time. We won't cut back on any social spending; instead, we'll keep investing in other industries and work towards other long-term goals, including achieving a carbon-neutral society. Thirdly, Kerala wants to minimise its use of gasoline and diesel because we want to lessen our reliance on fossil fuels. Only then will we be able to achieve Net Zero, also known as a state that is carbon neutral. Only then would we be able to address the problems caused by climate change. We therefore have long-term goals when enacting new forms of taxation.

When we refer to debt as a component of GSDP, we typically add three elements together: market borrowing plus loans and advances, as well as the total state obligations. I believe that is a bad practice, and in the majority of debates we provide this figure by adding those liabilities/obligations; nevertheless, if you exclude those numbers and consider only the public debt, you will discover that the percentage has decreased to 24 percent.

The important thing is that we mobilise public resources when interest costs start to rise because if we don't, we'll need to take out more loans. So, in order to lower our debt burden and thereby avoid debt overhang, we expressly propose a minimal tax increase from the general populace that would be used only to fund the creation of social programmes and the improvement of the economic welfare system.

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Increasing productivity, marketing, value addition is crucial in agri sector

Prof R Ramakumar*

The gross fiscal deficit of Kerala was just 3.4 percent in 2019-20 and it was just 2.9 percent in 2018-19, which is lower than the FRBM limits of 3 percent. Then came COVID and the Union government allowed all states to increase the fiscal deficit level to 5 percent. So, Kerala was legitimately able to increase the fiscal deficit. It was not a crime. It was a one-time allowance given to all state governments.

The corrected fiscal deficit was only 4.57 per cent, again lower than the 5 per cent that the central government allowed for all states. Fiscal deficit for the central government was at 13.3 per cent during the same year. Then come to 2021-22, it further went down to 4.1 percent. So, we are well within limits set by the central government. If we consider the future course of action, by 2025-26, the budget expects the fiscal deficit to return to 3 percent of the GSDP. There is also a question of debt to GSDP ratio, which is not considered as a target for fiscal consolidation by the central government, but let us consider that. The debt to GSDP ratio will be high because it is an accumulated debt, which is in the numerator. So if you are allowed 5 percent fiscal deficit for two years, obviously the accumulated debt will rise to 39 percent. But the point is that we will be at 34.6 per cent by 2025-26.

Agriculture sector

Over the last decade, Kerala's agriculture sector has grown at a negative growth rate. In real terms, the absolute decline in the GSDP from agriculture and allied sectors is close to Rs 8000 crore, which is an extraordinary loss for the Kerala farmers over a decade. Kerala's agricultural sector is scoring a negative growth rate over the last 10 years. Now, there is a green shoot which is, after COVID in 2021-22 our agricultural sector shows a bouncing back with a growth rate of 4.6 per cent. We need to record such positive growth rates for five to six years to catch up with what we lost in the second decade of the century. And that is where we need to think about what must be our strategy in agriculture.

The 14th five-year plan identifies three major challenges in agriculture in Kerala. The first is, there is no agricultural revival possible without a significant rise in the productivity, in a range of crops. In other words, a closing in of the yield gap is an absolute necessity, if we want to raise growth rates in agriculture. The second is that because of the fragmentation of land and produce, we have no proper facilities of aggregation of agricultural produce in India, which leads on to marketing as the next stage. So, we need to have efforts to create facilities for aggregation and marketing of crops. Three, the inability to link farmers' produce to Industrial investments in value addition.

The total subsidies per hectare given to vegetable farmers is around Rs 30,000 crore , if you consider both the state government and LSG assistance given to the farmers. In Paddy, this goes up to Rs 40,000 crore . Kerala is the state which provides the highest amount of subsidies to farmers but the question is, we cannot go on giving direct subsidies unless we are also able to increase production and productivity. We need increased availability of quality seeds, bio-fertilizers and green manure. Integrated nutrient management which is very important because in Kerala the total fertiliser consumption per hectare has fallen from 106 Kgs in 2010, to just 36 Kgs in 2019-20. This is an extremely dangerous trend and it is quite clearly correlated with the stagnation of production and productivity. So integrated nutrient management is a very important goal, so is integrated pest management. We also need Mass campaigns to ensure our agriculture practices Good Agricultural Practices (GAP) and Safe To Eat (STE) standards.

There are important initiatives in the field of animal husbandry and dairy also. Kerala is close to self-sufficiency in milk production which is a laudable achievement. This means that we are going to have a problem of surplus where we need a powder factory and an evaporator plant. We have two big challenges in dairy which is to raise the productivity of milk from the present 10.25 litres per day per animal, where we are ranked second in India after Punjab, which has 14 litres per day.

In marine fisheries, the whole idea has been to strengthen social security as well as physical security including preventing coastal erosion. In inland fisheries, the whole focus has been to increase production. But the big challenge we are facing there is we do not have enough fish seeds, which is a complaint across the state. So, the budget puts more money into hatcheries and fish seed farms. We do not have something in fisheries, which are similar to Krishi Bhavans in agriculture. So there’s a new idea of creating Matsya Bhavans in the Fisheries sector. We are planning to have on each in every block panchayath. 152 blocks will have one Matsya Bhavan each by 2026 and the idea is by 2023-24, 100 block panchayath will be covered with one Matsya Bhavan each. There is also allocation in the budget to expand Vannamei shrimp farming, which is an emerging area in inland fisheries including in brackish water.

Local governments should be strengthened

Prof Jiju P Alex*

Kerala state planning board was aware of what is going to happen with the resources, particularly in view of the fact that there would be reduced receipts to receive from the central government. The board considered the crucial question of how the efficiency of implementation could be increased. So the plan out lay for Local Self Governments (LSGs) was increased substantially to 27.19 per cent from the earlier 26.5 per cent. This includes a share of the World Bank project on solid waste management.

The overall outlay comes to around 41 per cent so that huge amount of money is being spent through the local governments. If you go by absolute numbers it comes to a whopping Rs 3044 crore. Kerala is the only state which gives roughly 27 per cent of the total plan outlay to the local self-government institutions with clear cut instructions on how to spend this money. What should be the thrust areas and how the money has to be spent on various priorities. So this is going to make a huge difference at the grass root level hence, the major thrust this time is on enhancement of production and productivity particularly in view of the financial crisis.

Second point is the emphasis on promotion of Nano and micro enterprises. There is a robust startup ecosystem in Kerala which was evolved over a period of around four years. We wanted to extend this facility to the grass root level so that common man who wants to start an enterprise would be able to straight way walk on to a local body and seek assistance. Now there are provisions at the local government level to provide them with the various inputs, it can be technical know how or funds. We have introduced a new system of providing financial assistance to entrepreneurs by local governments which was not there earlier. Now the local governments can give seed fund, technology transfer and revival fund, incubation fund etc. to Nano entrepreneurs.

There will also be major thrust on establishing various facilities across the state to provide training, skilling and incubation support to these entrepreneurs. Within two, three years this single intervention is going to have much greater especially in the rural economy sector. We have established a few new innovative institutional arrangements to formulate and approve the project proposals which means we are translating the whole concept of startup mission. This is in view of the fact that we have to enhance Nano enterprises and micro enterprises at the grass root level which would certainly enhance the pace of the economy and make progress.

Previous budget proposed an extreme poverty eradication program and identified 64,006 families across the state that are very poor. We have already initiated certain intervention to provide them with the basic facilities. Local bodies have started the second phase of this program, formulating micro plans to provide them with livelihood options. Second phase of the program is going to be launched this year for which the budget earmarked Rs 50 crore.

For those institutions which don't have adequate a plan funds the corpus fund at the state level would be of use to them. They can have money from this corpus fund and MGNRF. This is in contrast to what has actually happened with the union budget as the union budget had reduced the allocation for MGNRF by almost Rs 30,000 crore. This budget earmarked Rs 10 crore to create an additional employment in the state. The urban employment guarantee program is a unique experiment which has been initiated only by the state of Kerala and the budget have given Rs 160 crore to this purpose. The budget has given substantial thrust to care economy.

We have seen huge amount of money earmarked as share of centrally sponsored schemes. But most of them are not suitable to Kerala particularly because of the fact that there is no provision for to improvise the schemes of the central government. We don't have freedom to customize this program to suit our environment, our geography and to our demographic features. Local governments are going to be strengthened much more than what had been done earlier and this would certainly have a great impact on reviving the economy of the State.

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Concerns about public debt in Kerala seem to be overblown: What is the sanctity of 3%?

Shri S Adikesavan

Modern Monetary Theory (MMT) has been receiving increasing attention recently. Till 1973, we had the system of gold standard for currency issuance and now we are in the system of fiat currency where countries have the freedom to issue currency and manage it independently. I am making these observations as a preface because public debt at the all India level and at the state level is mounting up. The ability to mobilize debt from the market based on the savings rate and if needed, the power to resort to quantitative easing measures are there with the central banks and most nations, including the Advanced Economies have been resorting to these steps.

The only risk in this approach is that of easy/loose money leading to inflationary pressures but that can be managed through monetary tools in reverse. These are very fundamental principles for understanding the issue of public debt in general and the idea of public debt has to be differentiated from the conventional idea that we have towards private debt.

So I am differentiating between debt, from an individual household perspective and a state, or a government perspective. A state government debt or a national debt which is mobilized through the issuance of Securities is not something which is normally repaid. On the other hand, at the end of the repayment period, it gets rolled over and therefore we have this phenomenon of debt level of the Union government and the state governments (all of them) continuously increasing as the economy grows.

The debt level is continuously on the upside because there is no effective repayment of the debt which happens neither does the market expect repayment of these Government debts in full . Mainly, the market is constituted by banks like SBI, major banks and insurance companies, and the mutual funds which subscribe to this public debt. The public debt is on a rising trajectory, irrespective of the state, irrespective of the centre.

Now, we come to the question of the debt level that is reflected by the fiscal deficit, the number, which is crystallized for monitoring acceptable public debt levels. The most commonly touted number for fiscal deficit is 3% of the GDP, as an acceptable number even though some analysts also use debt to GDP as an indicator.

Let's take fiscal deficit as a matrix. The fiscal deficit of the Union government has come down to about 6 per cent and last year, it was 6.4 percent from 9.2 per cent during 2020-21. The Union government's fiscal deficit is 5.9 percent as estimated for FY 2023-24.

The deficit of all the States put together in the country, on the basis of the study by RBI is 2 percentage points lower than that of the Union government. So, the Union government raises debt without any of these 3 percent or 4 percent norms being applicable and is none the worse for it. The Government of India is seen as a stable entity despite the higher fiscal deficit numbers and rightly so. But the expectation is that State governments should stick on to the 3 percent or 3.5 percent target !

My question is "What is the sanctity of this 3 - 3.5 percent"? Why not 4 percent? Or on the reverse why not, only 2 per cent? This 3% obsession is the result of the Maastricht consensus. We have moved away from the Washington consensus but now it seems we are yet to break free of the "Maastricht consensus".

The only public document which mandates 3 percent as a desirable fiscal deficit level for government is the European Monetary Union. There is thus a consensus (arising from the European Union maths) that says fiscal deficit should be 3 percent and debt to GDP should be 60 percent and we have blindly copied it. We don't need the Washington consensus. We don't need the Maastricht consensus too.

We need a unique consensus tailored to our realities and our development goals which will suit our concerns, and there, I come back to the status of Kerala because there were interesting comparison made between fiscal deficit of Kerala, fiscal deficit of Tamil Nadu and so on earlier today.

Kerala has been number one in the social SDG index. This is measured independently on the basis of 17 parameters. It means the standard of living of an average Keralite is much better than the standard of living of all other states in India and this is not a small thing.

Which is the state with the best available index score under the multi-dimensional poverty index? Kerala. All other states are below Kerala in terms of the measurement of this index. SDG score of Kerala is 75 and the SDG Score of India as a country is 60.4. A large part of State Government expenditure over the years has enabled this achievement.

But this is not to overlook instances of extravaganza and mis-application of public resources/non-efficient use of public money which exists in Kerala. While that requires a correction, too much tightening and without even a glide path for debt consolidation (on the basis of accepted allocations including for social welfare/health/education) will be counter-productive for the State.

I shall close with one example of this aspect of the concern about debt being unevenly articulated.

Interest payment has been highlighted as one of the areas where our revenue consolidation, revenue deficit is high because interest payments are high. The interest payments budgeted for 2023-24 is Rs 26,000 crore . Total budget expenditure is Rs 176,000 crore, so it is less than 20 per cent of the Kerala budget.

What is the interest payment budgeted by the Union Government? Rs 10 lakh crore on a budget size of Rs 45 lakh crore for 23-24.. For whatever monetary management I know, I support the so-called high levels of debt of the Union Government because of the objectives it pursues and feel that it is sustainable.

My limited point is that let us not restrict any State's developmental goals, tend to restrict welfare objectives by stressing too much on this public debt indicator and a much-hallowed but hardly scientific fiscal deficit indicator of 3%.

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Not just safety, Gender budgeting should focus wage gap, inequality

Dr Sonia George

Provisions in the gender budget are always assessed with its priorities and outlook towards gender equality. It is an attempt to incorporate gender related objectives to the fiscal and administrative policies of the state. Gender budgeting has to ensure that the budget promotes efficient means to address gender inequalities like gender wage gap, lower participation of women in the labour market and specific programs to overcome social and cultural differences that prevail in the society. During the last six years, Kerala has been following a standard process of gender budgeting which includes gender specific allocations and also increase in allocations for women in different categories of budgeting. Transgender and child budgets are also included in the Gender Budget document. The approach in the budget each year definitely have generated momentum towards formulating gender focused programs while planning in detail. Gender Budget 2023-24 follows the same classification as the 2022-23 budget in prioritizing the schemes as (A) women's safety and gender mainstreaming; (B) education, skilling and employment; (C) health and social security; and (D) gender friendly infrastructure. From this prospect in the gender budgeting if we look at the policy and program approach towards gender, apart from certain programs which are 100 % inclusive of women, gender budgeting has not addressed no major structural change.

Contrary to its higher positioning in human development indices with regard to women's literacy, education, health etc., Kerala's highest rates of violence against women raises deep concerns in the public. Women's safety has become a forewarned area for quiet sometime in this context of increasing violence against women in both the public and private spaces. Various activities to tackle violence were initiated through state level systems including police department. Still the prevalence of violence is very common in Kerala public, and the victims are not assured of fearless enquiry or a survivor status. The target of women friendly public and private spaces have remained in the papers even after the establishment of many institutional mechanisms. This points towards a more structural transformation of society through innovative approaches and policy changes. While we closely examine the allocations in Plan A with 100 percent allocation to women, many of them are the continuation of the ongoing programs or setting up infrastructures which accentuates the stereotypical categorization of women into certain jobs and practices. The state has witnessed many cases of dowry related deaths in recent years. When it comes to Scheduled Caste and Tribe women allocation, marriage assistance is the priority in the budget for many years in the special programs. And most of the allocations in Plan B, are generic programs with an additional women component added but not with specifications. With minimal offers, welfarist approach protuberates in the majority of gender mainstreaming activities to satisfy women. Issues of inequality are not perceived seriously while developing gender inclusive programs.

Economic review (2022) mentions that in Kerala, out of the total families, more than 22 per cent are female headed households and it is a big number compared to all India figures. These women have to struggle hard to sustain their families despite all odds. The majority of them engage in informal economy with informal jobs which are not measured in the existing normative. Despite the continuous effort to engage women through Kudumbasree and MNREGA programs, no substantial increase in the work participation rate is seen in the state. With the kind of resources being spent through these programs, there should have been considerable progress in ensuring minimum wages and equal rights at work for women workers. For example, the present wage of MNREGP workers is Rs.300 in the state, which is not even half of the minimum wages of Kerala. Majority of the allocations for women specific programs are distributed through Kudumbasree Mission or Kerala State women Development Corporation or Kerala State Women's Commission. These programs are not linked with the activities of the labor department, which constraints the department's role in developing programs related to women's work. When we look at the gender budget document, the major allocation in labor goes to support the welfare boards to pay maternity benefit for women workers. It is high time that the labor department develop specific programs to support women workers to increase labor participation rate and also ensure minimum wages.

When it comes to agriculture, one of the priorities mentioned is the feminization of agriculture'. The usage of the term 'feminization of agriculture' is an elusive approach. It is explained in the GB document as "State is witnessing a growing feminization of agriculture through group farming initiatives by women. It increases agricultural production by bringing fallow and cultivable waste land into agricultural use and has significance as a food security measure". This approach is palpable as Kerala's agriculture initiatives for some time is being sustained by women. Feminization revokes lot of complexities which women have to face include social and cultural vulnerabilities. Without addressing access to ownership, minimum/ decent wages and other working conditions, feminization of work remains a trend which in most of the cases turns to be an extension of the unpaid household responsibilities of women. This has the chances of transferring the entire food security responsibility to women workers through their cheap labor. Another similar trend in the state is the increasing voluntary workers in health and care services through National Health Mission(NHM) and Integrated Child Development Scheme (ICDS)programs. These workers are overburdened with various local responsibilities with some honorarium. The formalization of these workers is coming out as a national demand but a state like Kerala can act proactively to ensure minimum wages and other benefits as their services are essential in the care and health needs of the state. Kerala is number one in health care systems in the country with highest number of medical or para medical trained people of whom majority are females. In the context of discussing care and knowledge economy, the skills of these women workers could be recognized though innovative approaches and to include their services as active labour force in the state have to be considered seriously. There are large number of women who are engaged in different kinds of production at home for domestic and multinational supply chains. Their contribution to the local and national economy is not recognized as they are mostly considered as women engaged in some 'time pass' activities. These tendencies have huge impact on the fiscal and social realities of the state per se the contribution of women workers.

In most of the programs, women are considered as beneficiaries rather than active participants in the decision making. For example, in Plan B it is mentioned that out of the 90 crores allotted for income support to Workers in Traditional Sectors activities, 75 % is earmarked for women workers. But in the explanation, it is mentioned that the scheme is introduced to give financial support of Rs.1250 to workers engaged in the traditional sectors which is only a one-time financial assistance and will have no impact on the real livelihood crisis of women workers. Majority of the traditional industries in Kerala are survived by women; but when it comes to budget allocation less than 30 per cent is allocated for women to revive the traditional industries either be handloom, bamboo/reed, cashew or coir. This is again an area where the traditional skills of these women workers be upgraded and linked to knowledge economy and the new market possibilities. This process could only scale up the positions of these workers towards decent work and sustainable livelihood.

The Local Self Governments play a key role in generating local economy through local employment and also supporting collectives by establishing sustainable livelihood models. One of the perilous tendencies that are mushrooming within the self-help groups are the increasing credit burdens of the members. The entrepreneurial shift of women workers has added their financial burdens pushing them to relentless crisis without means of repayment. Context specific support programs have to be developed to support the most marginalized women in the fisheries, dalit and tribal sectors. It is noticed in that for women in fisheries, the allocations are very minimal and there has been no mention to address the issues of loss of livelihood and access to fish to fisher women. New technologies and platform economies have taken over fish marketing which directly impact the livelihood of fisherwomen.

While upholding the initiative of the government to develop the Gender Budget with specific budget allotments, there is a need to bridge between the structural issues of inequality and discrimination that women face in public and private spaces and fiscal priorities in the wider context of gender, caste and class. For this a gender responsive policy has to be developed prioritizing the short-term and long-term needs of women in different categories. The Gender Budget document emphasizes the importance of gender disaggregated data in order to develop a gender responsive policy but at the same time the document admits that it is an unfinished task. It is important to assess the distributional effects and also the impact of resource allocation in terms of gender status and diversity. Gender budgeting should build on good governance processes where inclusive participation of stakeholders in the decision-making process is ensured and evidence building based on the micro realities of gender dynamics be developed as a priority. The state should develop targeted strategies and impact assessments based on capability approach combined with allocations.

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Thrust on higher education and knowledge economy

Dr Christabell P J

There is a chapter included in Economic Review 2022 on higher education and there is a subsection for the knowledge economy. This is a welcome attempt on the part of the Kerala State Planning Board to prepare that kind of document, trying to capture the nuances of the knowledge economy and present it in a very thought-provoking manner. The Government of Kerala is trying to take many initiatives to enhance academic standards and increase the enrollment ratio in the higher education segment.

There are many challenges we are facing as far as higher education is concerned and also the knowledge economy regarding the inheritance of benefits of higher education. There exists many inequalities across the region as well as the social groups so the government has to take steps to alleviate all these kinds of things. The review is also bringing into a major concern about the restructuring of the system. We have a very strong system of higher education in our state, not only higher education but also at the school level. So, the Economic Review envisions that we need to have a comprehensive restructuring so that we can move ahead with a knowledge-based economy.

The higher education segment is always criticized for the curriculum they are following and what we can do in order to create a new curriculum has to be discussed widely among the intellectual circles.

Kerala is a state which is having a lot of financial issues. So, the Knowledge Commission suggested some measures to finance the higher education sector in a sustainable manner. The budget this year gives an emphasis on innovation which has to happen as that is the important impetus for research and development activities in the state. Likewise, an international research scholarship has been introduced in order to make some kind of exchange program for teachers and students in different universities and research institutions. A total of Rs 816.79 crore is allocated for higher education and Technical education and a risk fund is given for translational research because research is happening in many of the institutions but it is not translated into products for markets.

The youth of Kerala are moving out of the state, and they have to be retained here and for this purpose, gainful employment opportunities are to be generated. Otherwise, there will be a huge brain drain and this may affect the knowledge economy badly. Cutting Edge Technologies especially artificial intelligence, data analytics and other knowledge-intensive fields ought to be given the utmost importance. On the innovation index, Kerala is in the eighth position and Karnataka is on top. We have a very good scope to reach the first position in the future if we are in ready to change our strategies and work in a concerted manner. The higher education sector, research institutes, universities, industries and overall the government have to join hands and the triple helix model must work in the Kerala economy thereby helping to enhance the knowledge economy in the state.