

Resource mobilization- Key to sound governance, growth and development

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At any level of government, revenue mobilization is the sine-qua-non of growth and development. In Kerala, even though rate of growth of Gross State Domestic Product is quite high during normal years, it is not accompanied by commensurate growth in revenue realization. Perhaps from the British regime onwards Travancore and Cochin registered poor revenue mobilization compared to other areas of India. Thomas (2021) observed that, "In most states, land revenue is the mainstay of the state fisc and is responsible for about a third of the total revenue (Hyderabad 36%, Baroda 36%, and Indore 49%). The corresponding percentage in British provinces are Madras 30%, Bombay 27%, and Bengal 25%. Land revenue plays a smaller part in the maritime states (Travancore 13.7%, Cochin 12%)". (Thomas E.M, 2021)¹. From the above observation, we get some glimpses of the Past performance of major part of Kerala with regard to land revenue mobilization. Land scarce Kerala has high land revenue potential. However the lion's share of it has been untapped for more than a century. Chelliah (1996) ² pointed out that the revenues of Central and State governments have increased over the period, but rate of growth of revenue expenditure is faster due to inefficiency, extravaganza, corruption and many other reasons (p.115). Undemocratic, populist election winning benefit transfers may be added to these "other reasons". Revenue realization is adversely affected in Kerala also due to low tax buoyancy caused by defective tax structure, tax avoidance, evasion, poor compliance, inefficient and corrupt tax administration etc. It is to boost up tax buoyancy that Goods and Services Tax (GST) was introduced in India from July 1st, 2017. However the Tax Expert Scheme (2017) concluded that "India is the first country to implement GST with considerably less clarity regarding the intricacies in its proposed structure, transitional arrangements, administration and procedures, and framework to contain inflammatory ramifications"(p.168). This

observation throws light into the reasons why GST revenue falls short of expectations or potential in the GST era.

Revenue profile of the state

National policies like demonetization (Nov. 2016), introduction of Goods and Services Tax (July 1, 2017), the Ockhi cyclone (2017), devastating flood of 2018, the spread of Nipah Virus, outbreak of Corona virus in 2020 and its drastic spread in 2021, etc. have all adversely affected the normal functioning of the state economy. When revenue requirements increased, revenue receipts declined to levels previously unheard of in the past. The implementation of GST imposed restrictions on states in raising state level taxes. Delay in getting GST compensation, reduction in Central assistance schemes after the 14th Finance Commission Award have added fuel to fire. Let us examine the revenue realization of Kerala during selected years.

When we examine Row-17 of table 1 which tells upon the rate of growth of GSDP, discernible slowdown in growth is visible from 2019-20 onwards on account of reasons stated elsewhere. Row-2, gives account of the rate of growth of revenue receipts. Since the growth figures of GSDP are low and fluctuating, rate of growth of revenue receipts does not give an accurate picture. Sometimes base effect of low and negative GSDP growth gives an exaggerated picture of revenue growth. At the same time State's own tax revenue (row 6) growth rate gives a more or less accurate picture. It showed a decline from 10.15 per cent to 8.80 per cent in 2018-19. This could be due to the impact of demonetization and the hasty implementation of GST. The decline has been much sharp during the year 2019-20 (from 8.80 per cent to -0.063 per cent) and this could be the after effect of devastating flood. The decline continued in 2020-21 (-5.29 per cent), an impact of the spread of Corona virus. Devolution from the Center unlike what the state claims, is on a higher range from 2020-21, as the table 1 depicts.

Table 1: Revenue Indicators and its Rate of Growth: Kerala (Selected Years in Rs. Crores)

| | Year Item | 2011-12 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2021-22 | 2022-23 |
|----|------------------------------------|---------|---------|---------|----------|----------|----------|-----------|-----------|-----------|
| | | | | | | | | BE | RE | BE |
| 1 | Revenue Receipts | 38010 | 75612 | 83020 | 92854 | 90224 | 97616.8 | 130981 | 117888 | 134097.8 |
| 2 | Revenue Receipts as % of GSDP | 10.44 | 12.27 | 11.83 | 11.88 | 10.56 | 12.2 | 14.95 | 13.7 | 13.41 |
| 3 | Rate of Growth of Revenue Receipts | 22.65 | 9.53 | 9.79 | 11.85 | -2.8 | 8.19 | 34.17 | 9.99 | 13.75 |
| 4 | States' Tax Revenue | 25719 | 42176 | 46459 | 11783 | 50323 | 47660.84 | 71833.28 | 58867.89 | 74097.8 |
| 5 | STR as % of GSDP | 7.06 | 6.84 | 6.76 | 6.4 | 6.1 | 5.96 | 8.19 | 6.52 | 7.41 |
| 6 | STR Growth Rate | 18.4 | 8.16 | 10.15 | -74.64 | 327.08 | -5.29 | 50.7 | -0.18 | 25.87 |
| 7 | States' Non-Tax Revenue | 2592 | 9700 | 11199 | 11783 | 12265 | 7327 | 14335.79 | 10038 | 11769.6 |
| 8 | STNR as % of GSDP | 0.71 | 1.57 | 1.63 | 1.5 | 1.48 | 0.92 | 1.64 | 1.11 | 1.17 |
| 9 | Rate of growth of STNR | 34.3 | 15.13 | 15.45 | 5.2 | 4.09 | -40.3 | 95.65 | -29.9 | 17.25 |
| 10 | Central Transfers | 9700 | 23735 | 25360 | 30427 | 27636.31 | 42628.68 | 44819.99 | 48982.22 | 48230.45 |
| 11 | C.T as %of GSDP | 3.37 | 4.34 | 3.69 | 3.89 | 3.35 | 5.33 | 5.11 | 5.43 | 4.82 |
| 12 | Rate of Growth of C.T | 46.25 | 9.82 | 6.84 | 19.98 | -9.17 | 54.24 | 5.14 | 9.28 | -1.53 |
| 13 | Revenue Expenditure | 46045 | 91096 | 99948 | 110316.4 | 104719.9 | 123446.3 | 147891.18 | 149803.21 | 157065.89 |
| 14 | Revenue Expenditure as % of GSDP | 14.95 | 14.8 | 14.55 | 14.11 | 12.7 | 15.43 | 16.88 | 16.6 | 15.71 |
| 15 | Revenue Deficit as %of GSDP | -2.61 | -2.51 | -2.46 | -2.21 | -1.76 | -2.51 | -1.93 | -2.57 | -2.3 |
| 16 | Gross State Domestic Product | 307906 | 616357 | 686764 | 790302 | 824374 | 799571 | 876283 | 901997 | 999642 |
| 17 | Rate of Growth in % | 11.1 | 4.76 | 11.42 | 15.1 | 4.31 | -3.0 | 9.6 | 2.93 | 10.82 |

Source: Budget in Brief (Various Years)

When we examine revenue receipts and revenue expenditure as percentage of the GSDP, the basic reason for the endemic fiscal crisis of the State is well exposed. The wide gap between revenue receipts and revenue expenditure elucidates the fact that the States' recurring or committed expenditures, instead of pruning, are patronized and are on the rise. This is against the Fiscal Responsibility and Budget Management Act of 2002. FRBM mandates the Centre and the States to annihilate the revenue deficit and to peg fiscal deficit at 3 percent of GSDP. The FRBM Act demands, to maintain revenue surplus, as far as possible, in addition to maintain revenue balance. However as shown in table 1, revenue deficit (Row-15) as percentage of GSDP has always been high. The State has failed to mobilize tax revenue and non- tax revenue according to the potential.

Steps to improve revenue mobilization

Even after the implementation of E-way bill, tax evasion is rampant under GST. In 2021, the Central Finance Ministry identified fake ITC cases amounting to Rs. 58,000 crore. In 2021-22 Central budget it was mandated that Aadhar number should be submitted compulsorily

with ITC filings. In the last year of the previous LDF government, the State Finance Ministry was able to detect ITC fraud worth Rs. 35 crore in Kerala (eg: Perumbavoor based fake plastic industry registration). Fake Aadhar numbers were used to commit this ITC fraud. In March 2022, newspapers reported that Fas Tag of trucks are used in cars to make ITC claims. Just from these findings it can be said that GST evasion is rampant and that a great degree of surveillance is needed to achieve the revenue target. One then wonders what the Kerala chapter of National Anti- Profiteering Authority of India is doing.

Shome puts forward a few measures to improve tax collection under GST. They are;

"First, remove uncertainty for tax payers. Ensure there are no retrospective amendments. Second, make tax administration accountable for its actions and decisions and ensure timeliness. Third, accountability must be linked to minimizing infructuous demands and tracking recovery. Fourth, tax evasion should be appropriately identified and followed, rather than basing your premise on tax payers as tax evaders. Fifth, and perhaps the most important, move away from a static revenue target principle of revenue collection and sixth adopt a balanced approach to tax administration. (Parthasarathy Shome, 2017)³. Shome also comments that "If Petroleum is out, it is not GST". This comment has various connotations for a Finance Minister. Among the States, Kerala ranks first as a consumer state while it ranks 7th in indirect tax collection (Jose Sebastian). Possibilities are many and varied, if the State government is ready to tap it through efficient revenue administration.

Untapped tax zones

It is high time that Kerala evolves an appropriate instrument for *carbon taxation* (eg: Petrol and Diesel) and *environment taxation* (eg: quarries). Tax experts like Raja Chelliah, Amaresh Bagchi, Vijay Kelkar and many others have already pointed out the need for the introduction of environment taxes. Based on their recommendations E. Ahmed and N. Stern have developed a model to implement environmental taxes (See Public Economics: Theory and Policy- Essays in Honor of Amaresh Bagchi; 2011)⁴.

According to Ahmed and Stern (2011), designing a carbon taxation model involves designing the appropriate instruments for "carbon taxation" in terms of the carbon content in different goods and activities. It is also possible to evaluate the effects on people in different circumstances, and show possibilities for compensating the "losers". Carbon taxation as well

as environmental taxation are considered as effective instruments for influencing both the behavior of consumers and producers. Hence, it means two birds in one shot- revenue and environmental protection. (See Public Economics: Theory and Policy- Essays in Honor of Amaresh Bagchi, 2011).

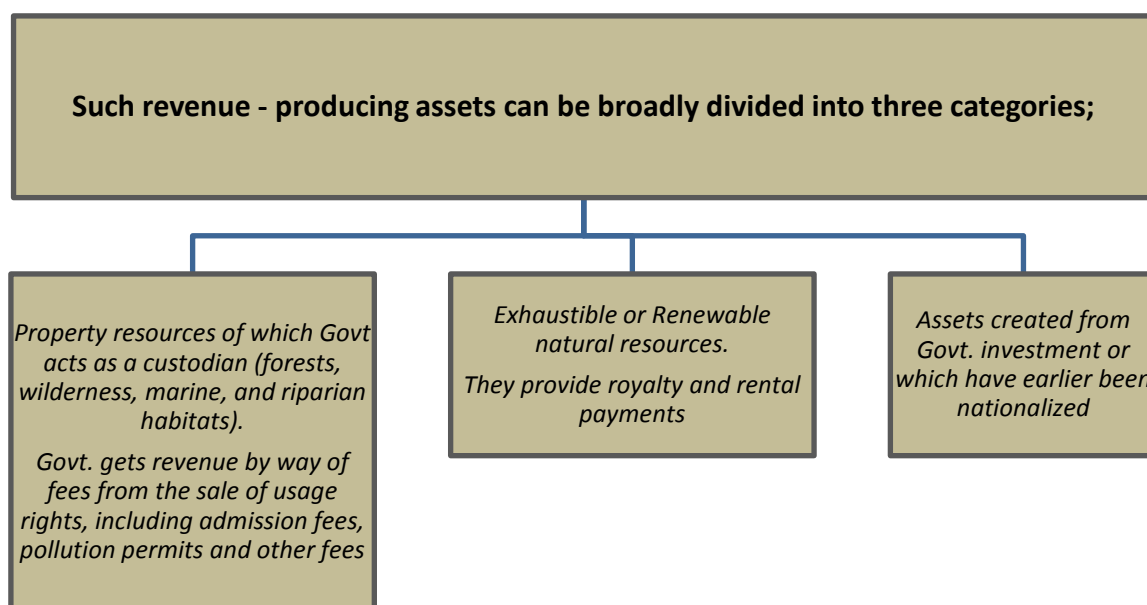
Abhijit Banerjee et al (2019) emphasized the need for sustainable growth and argued for a new and technically beefed up environmental regulator, setting fees based on careful analysis of trade-offs and enforcing them (Abhijit Banerjee & et al, 2019) ⁵.

Non-tax sources of revenue

Gupta (2011) observes that "non- tax revenue include all receipts other than taxes and seigniorage, and capital receipts from debt issues or asset sales" (M. Govinda Rao and Mihir Rakshit (ed), 2011) ⁶. World Bank (2003) reported that roughly 39 percent of revenues of 166 countries covered in its survey were non-tax revenues. (World Bank, 2003) ⁷.

Jose Sebastian (2020) found that non-tax revenue of Kerala had been 32.09 percent between the years 1957-58 to 1960-67 as percentage of States Own Revenue (SOR). However it has declined to 13.96 percent in the period 2007-08 to 2016-17. (Jose Sebastian, 2020)⁸. This finding throws light into the non-tax revenue potential of the State. "Non-Tax revenues are payments made to the government for which there is a quid pro quo. Important Non-tax sources are all voluntary and required. In these cases, revenue is a by- product of goods, services or resources that the government provides. They include revenue from assets, revenue from the sale of licenses and permits for regulated activities" (Public Expenditure Review Committee,2013)⁹. International Monetary Fund's Government Statistics Manual (2001) includes intergovernmental organizational grants and social contributions from employers or employees in Non-Tax revenue.

There are around 100 items from which the government derive such revenues. These revenue producing assets can be broadly divided into three categories. The following chart will give a bird's eye view of that.

Chart 1: Non-Tax Resources

Non-tax revenues are often incidental by-products of government activity. In such cases, their revenue generation is not of primary importance. However, prudent policy making and efficient administration would result in accrual of larger revenue, deficiency of which drags down non-tax revenue at the Central and at the State level in India. Mobilizing resources through reforms in non-tax sources of revenue of the State can serve the twin purposes of having a rational non-tax revenue structure and generating more resources for faster economic growth and better service delivery. There are over 100 departmental sources of non-tax revenue for each state. Nevertheless from a revenue and administrative angle, the most significant of them are put under three heads. That is a). General services, b). Social services, and c). Economic services. In addition to these interest receipts and dividends and profits are also to be included in the list. Therefore the list thus envelops 36 of the most vital items generating non-tax revenue.

The Third Public Expenditure Review Committee in its Second Report, attempted a comparative analysis of the Kerala state's own non-tax revenue with that of the Non-Tax revenue of All States of India. The study found that between 2007 and 2011-12 all State's average non-tax revenue excluding Kerala was higher (12.61% to 9.41%), than that including Kerala (12.37% to 9.32%). Kerala has higher non-tax revenue potential due to reasons like; 1). Highly developed health and education services, 2). High remittances and hence extravagant investment in the construction sector, especially housing, 3). Large forest cover and forest resources, 4). Government owned land that are rented out at paltry sums to public

sector enterprises need a drastic hike. Decades back, several lakhs of hectares of lands were rented out to plantations, at paltry rents. (People like Nivedita Hairharan tried to mend this situation. However the labor militancy thwarted her attempts and she was removed from that power belt). Revision of land rents is an urgent need of the hour. It is opportune time since agricultural income tax is withdrawn in 2022. Governments, from time to time, have neglected timely revision of land rents and arrear collection which have drained the exchequer to a great extent. Similarly about user charges, Chelliah (1996) observed that, " the cost of providing many services, provision of higher education, issue of licenses, registration, maintenance of parks etc. have risen, while user charges have remained fairly stagnant. User charges must be raised for most of such services. Attempts should also be made to reduce the cost of performing services through increased efficiency and reduction of surplus staff". (Chelliah, 1996).

In conclusion, it may be stated that a new and efficient revenue mobilization path has to be carved out for Kerala. The present revenue structure of the State places disproportionately high burden on the poor and the marginalized and the proceeds are used irrationally to feed the government, aided sector staff , corrupt power mongers around the politicians etc. Tax buoyancy in Kerala has always been low due to the defective tax structure, tax avoidance, evasion, poor compliance, corrupt tax administration etc. Jose Sebastian (2020) found that among the states of India, Kerala ranks first as a consumer state where as it ranks seventh in indirect tax collection. This shows the magnitude of tax inefficiency. If it is not bridled at the earliest Kerala will soon be pushed into a debt- trap.

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