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Kerala's GST revenue conundrum: A preliminary exploration within the fiscal federal context

Opening the IGST blackbox for higher tax revenue of consuming states including Kerala

Destination based GST: Impact on state revenue due to ambiguities in legislation

Kerala's GST revenue performance in a comparative perspective

Goods and service tax in India: Present rates, expected changes and its implications

Has GST increased debt burden of Indian states?

Did inflation rise after GST?

Revival of the COVID riven economy of Kerala

Vanishing murmurings of handloom shuttles: Perspectives on the development of handloom industry with reference to Kannur district

Regulating dubious direct selling businesses under the consumer protection act, 2019

A case for provincialising calorie norms in India 86 with special reference to Kerala

Credit withdrawal during the pandemic: The emerging trends in Kerala's credit-deposit ratio

Highlights of 46th GST council meeting

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KERALA ECONOMY

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GIFT GULATI INSTITUTE OF FINANCE AND TAXATION

Editorial
Research on GST by GIFT faculty

As you may recall, the original mandate of *Kerala Economy* has been to keep you updated on changes in the key parameters of the Kerala's economy, like prices, employment, tax collection and production, among others, without making you wait for the annual publication of *Economic Review* by the Kerala State Planning Board. We have been trying our level best to honor this mandate as much as possible, although we have made deviations, at times, by publishing certain special issues on the topics of current relevance.

As the readers of *Kerala Economy*, you would appreciate that, any publication, as it goes along, has to transform itself. In this regard, *Kerala Economy* cannot be an exception. Accordingly, we are now firmly and definitely on a trajectory towards transforming *Kerala Economy* to a refereed professional journal. First of all, the frequency of the journal has to be reduced. Our current plan is to make *Kerala Economy* a quarterly publication. I must emphasize that while doing so, we will not compromise on our basic mandate that you have appreciated and we always consider important.

As an in-house journal of Gulati Institute of Finance and Taxation (GIFT), most of the publications in *Kerala Economy* have been at the instance of the faculty of GIFT. We are happy to inform you that we are slowly moving, as part of the process of our transformation, towards a journal that publishes the contributions of external scholars after a peer review. In this issue you will find two articles authored by external scholars - K V Joseph and ACK Nambiar.

The core content of the current issue is the major findings of the research by the GIFT faculty on GST related issues. It is a matter of pride to report that the focus of research of all the faculty members of the GIFT during the last year has been on issues pertaining to GST under the overall guidance of our honorary faculty especially, Prof T M Thomas Isaac, Distinguished Honorary Fellow, GIFT and the former Finance Minister and Prof M Govinda Rao, Former Director, NIPFP. This is in addition to a number of studies already submitted to the Government of Kerala on issues related to the state of state finances and the recent major study on socio-economic impact of COVID 19 pandemic on Kerala in a comparative perspective with other Indian states and the global experience at large.

Research on GST by the faculty at GIFT has resulted in a number of research papers, which are being brought out as discussion papers of GIFT and also as a special issue of a professional journal. It must be noted that we had already communicated the preliminary findings of our research in an international seminar on 'India's experience with Goods and Services Tax', organized by GIFT during 12-13 November 2021. The seminar inaugurated by our Hon'ble Finance Minister Shri K N Balagopal had the participation of scholars of eminence from India and experts from Australia, New Zealand, Malaysia, South Africa, Brazil, Mexico, Canada and European Commission.

As you are aware, it was with great expectations that a consumer state like Kerala embraced GST - a destination-based tax - even though it involved substantial surrender of our taxing power. It was expected that the one nation-one tax envisaged under the GST would lead to increased tax revenue, reduced prices, increased international competitiveness and a host of other benefits especially for a state like Kerala. Our actual experience has, however, belied our expectations. The research by GIFT faculty has been mainly oriented towards understanding the factors underlying the observed slip between the cup and the lip, while, at the same time, exploring the implications of the new tax regime on equity, price and other issues of concern for us.

We felt the imperative of sharing the findings of our research first to our esteemed readers of *Kerala Economy*. Hence, you will find an opening special section, which contains seven articles relating to GST. We have tried our level best to make the articles as easily readable and accessible as possible to the public at large by way of excluding from the presentation all the theoretical discussion and econometric modelling, undertaken in the studies. Those who are interested to learn more are encouraged to refer to our discussion papers being finalized. You will also find in this issue of the journal an added item - the GST update, which I hope will be found useful by all our readers. The section on general articles has five items, all of them dealing with issues of much current relavance. The young scholars' forum at GIFT, as earlier, has updated you on new studies on Kerala. Finally we communicate to you, what is new(s) at GIFT.

It is my hope that you will find the contents of this issue useful and I count on your continuing support.

K J Joseph

Special section on GST

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GIFT GULATI INSTITUTE OF FINANCE AND TAXATION

Kerala's GST revenue conundrum: A preliminary exploration within the fiscal federal context

K J Joseph and Anitha Kumary L

The Problem

Recent empirical evidence from Indian states suggests that tax GSDP ratio, a common measure of tax effort, tends to move southwardly as the state's per capita GSDP crosses certain threshold level (Mohan and Shyjan 2021). Hence states with relatively higher level of per capita income like Kerala and also its neighboring state, Tamil Nadu, are confronted with the issue of low own tax revenue to GSDP, which in turn adversely affects the fiscal health of the state concerned. Goods and Services Tax (GST), made possible thanks to the sacrifice of fiscal autonomy by the states (Joseph and Ramalingam 2020) and implemented with great expectations, seems to have not made any major change. In fact, for Kerala there was a significant slip between the cup and the lip. The point needs further elaboration as the focus of this article Centres on this issue.

Here a comparative analysis of growth in revenue during the VAT period and the subsequent period is in order (see Table 1). The Table provides data on VAT/GST collection by the state of Kerala; the first six years pertains to the VAT period and the last four years wherein GST was in operation. The average growth rate recorded during the VAT period (2011-12 to 2016-17) was as high as 13% - only marginally lower than the threshold for getting entitled to GST compensation. However, as we move to the post GST period the observed growth rate was significantly lower compared to that of the VAT period. While we hasten to recognize the abnormal years during the post GST period, the growth rate (12.3%) even during the normal year (2018-19) was lower than that recorded during the VAT period. No wonder, Kerala turned out to be one of the states wherein the fiscal health is crucially dependent on GST compensation. In a context wherein, the compensation sky still remains cloudy, the fiscal uncertainty confronted

The average tax revenue growth from the goods subsumed in GST during the VAT period was as high as 13% that declined to a little over 3% during the post GST period

Table 1. Trend in VAT and GST collection in Kerala

Year	VAT / GST collection (in crore)	Growth rate (%)
2011-12	9803	
2012-13	12171	24.16
2013-14	13513	11.03
2014-15	14605	8.08
2015-16	16131	10.45
2016-17	18474	14.52
2017-18*	19020	3.0
2018-19	21366	12.3
2019-20	20316	-4.9
2020-21	20255	-0.3

Source: Commercial Taxes Dept/ SGST Dept, Govt of Kerala,
Compensation amount is not included in GST collection.
*In 207-18 data includes VAT and GST collection

by the state gets further heightened. In this context wherein the central concern of this paper is to undertake a preliminary exploration of the factors underlying Kerala's poor tax performance under GST within the fiscal federal context, given the inexorable link between Kerala's fiscal health and the fiscal decisions of the Centre.

It is well-known that GST was a half-baked cake hastily dished out to Indians and that considerable changes have taken place in GST through over 650 notifications. Frequent changes in GST law and procedures naturally created difficulties in the smooth functioning of the system. Technological glitches turned the situation from bad to worse. While many of these problems are told to be getting resolved, the fiscal federal relations show no indications of any significant improvement. Hence our focus on fiscal federal relations: but this is not to side-line the importance of other issues in understanding GST revenue collection.

Analytical background

It is a challenging task to design and implement Goods and Services Tax (GST) reforms in countries with federal constitutional structures (Due, 1990; Tait, 1988). The problems get compounded in developing country federations (Bird and Gendron, 2007; Gillis et al., 1990) and the case of India being no exception. Hence the introduction of the Goods and Services Tax (GST) in India has often been considered as a landmark reform in India's tax system since independence. There are many expected returns from GST even in a developing country (Rao R K, Mukherjee, S & Bagchi, A 2019). Yet, GST legislation in India had to wait for nearly 17 years of deliberations on account of a host of factors and the fear of loss of autonomy of the states wherein states account for

While the share of states in total GST increased only by 4.5% during the post GST period (from 38.7% to 43.2%) that of the Centre increased by 6.5% (30.7% to 37.2%) indicating an unequal sharing of GST revenue between the Centre and the states.

around 60% of the combined government expenditure and collect only around 40% of the combined revenue (Isaac et al. 2019) being a prominent one. Govinda Rao stated "There is no unique GST and there are different models covering a variety of activities in different countries depending on what is politically acceptable" (Rao 2011).

Hence the new dual GST paradigm brought out through various institutional innovations, by harnessing the inbuilt scope for flexibility under GST (Bird and Gendron 2007) that led to the "Indianized" dual GST in July 2017 was destined to be cognizant of the imperative of addressing various complexities including the concerns of the states. Viewed thus, the fiscal health of the states is bound to be conditioned by the GST paradigm adopted by the country. GST is designed on the principle of destination- based consumption taxation, with seamless provision for input tax credit after subsuming VAT, Central Excise and various other indirect taxes of the Centre and states while ensuring revenue neutrality.

The revenue neutrality, ensuring equality between ex ante and ex post tax revenue, is a sine qu non for the acceptability of any tax reform. The estimated Revenue Neutral Rate (RNR) was 13.3 per cent for Centre (in two rate regimes with a lower rate of 6 per cent) and 14.8 per cent for states. (NIPFP, 2014). However, the report on RNR by Subramanian recommended an RNR of 15 to 15.5%. The Committee also observed that there should not be large shifts in the tax base in moving to the GST, implying that overall compensation may not be large. The Rate Fitment Committee appointed by GST Council recommended the rates under GST after taking into account the pre - GST period tax incidence (on account of Central Excise, Services tax and VAT (including cascading on account of these taxes) as well as the embedded taxes and the incidence of GST, Octroi, Entry tax etc. (Minutes of 14th GST Council, 18 -19 May 2017). Hence, in order to protect revenue neutrality, the Fitment Committee considered pre - GST tax incidence. In what follows we shall focus on two issues that are primarily in the domain of Centre state fiscal relations; tax sharing between Centre and States under GST and loss of revenue neutrality.

India's tax sharing in GST

GST in India is a tax on "supply" of goods or services as against the concept of tax on manufacture of goods or on sale of goods or on provision of services. GST is based on the principle of destination-based consumption taxation. It is a dual GST with the Centre and the States simultaneously levying it on a common

base. By design GST revenue has got three components. The GST levied by the Centre is called as Central Good Services Tax (CGST) and that levied by the Stat is called State Goods and Services Tax (SGST). Union territories without legislature levy Union territory Goods and Services Tax (UTGST). An Integrated Goods Services Tax (IGST) is levied on inter-State supply (including stock transfers) of goods or services. Import of goods is treated as inter-State supplies and is subject to IGST in addition to the applicable customs duties. Import of services is also treated as inter-State supplies and is subject to IGST. The rates on each of these component is mutually agreed upon by the Centre and the States under the aegis of the GST Council. GST is applicable to all goods and services except alcohol for human consumption and petroleum products.

GST replaced the following taxes which were levied and collected by the Centre: a) Central Excise Duty, b) Duties of Excise (Medicinal and Toilet Preparations), c) Additional Duties of Excise (Goods of Special Importance), d) Additional Duties of Excise (Textiles and Textile Products), e) Additional Duties of Customs (commonly known as CVD), f) Special Additional Duty of Customs (SAD), g) Service Tax and h) Cesses and surcharges insofar as they relate to supply of goods or services.

State taxes which were subsumed in the GST are: a) State VAT, b) Central Sales Tax, c) Purchase Tax, d) Luxury Tax, e) Entry Tax of all forms; f) Entertainment Tax (except those levied by the local bodies), g) Taxes on advertisements, h) Taxes on lotteries, betting and gambling and i) State cesses and surcharges insofar

Table2. GST collection in India during 2017-18 to 2020-21: A disaggregated picture (Rs Crore)

Category	2017-18	2018-19	2019-20	2020-21
CGST	118900.7	202418.2	227444.5	209659.4
	(18.1)	(18.7)	(20.2)	(20.0)
SGST	171850.2	278788	309233.1	272513.4
	(26.1)	(25.8)	(27.5)	(26.0)
IGST including imports	366450.3	598746.4	586698.8	565514.8
	(55.8)	(55.4)	(52.2)	(54.0)
Total GST	**657201.2**	**1079953**	**1123376**	**1047688**
States' share in GST (Rs. Crore)	254453.2	418897.6	501742.7	452397.5
Centre's share GST (Rs. Crore)	201503.6	342527.8	419954.1	389543.5
Share of States in GST (%)	38.72	38.79	44.66	43.18
Share of Centre in GST (%)	30.66	31.72	37.38	37.18
Percentage of Balance in IGST account (%)	30.62	29.49	17.95	19.64

Note: states share of GST is the sum of SGST and states share in IGST settlement.
Source: Author's calculation based on GSTN data

Major share of GST collection (55%) is accounted for by IGST, of which 50% is from imports from other countries; it remains as a black box with no clarity in the sharing of IGST

as they relate to supply of goods.

Table 2 presents data on total GST collection in India and its three major components - CGST, SGST and IGST - since the introduction of GST in July 2017. Out of the four years for which data is presented, data for 2017-18 is only for eight months and that for the terminal year refers to the period of once in a century pandemic that caused unprecedented disruptions in the economy. Thus, there are only two years that could be considered a normal period. During this period, the total GST collection increased from Rs. 10.8 lakh crores in 2018-19 to Rs. 11.2 lakh crores in 2019-20 recording a growth rate of 3.7%. During the subsequent year, the total collection declined to Rs. 10. 5 lakh crore, with the recorded growth rate being -6.3 percent with GDP growth being -7.4 percent. However, the state's share in total GST (SGST and IGST share) increased by 19.8% during 2019-20 and that of the Centre recorded a much higher growth of 22.5%. As a result, as is evident from Table 2, while the share of the states in total GST increased only by 4.5% during the period under consideration (from 38.7% to 43.2%) that of the Centre increased by 6.5% (30.7% to 37.2%) indicating an unequal sharing of GST revenue between the Centre and the states.

In the GST collection, major share is accounted for by IGST, constituting around 55 per cent of collection except in 2019-20 (52 per cent) (see Table 2). An important point to note here is that half of the IGST collection comes from imports from other countries. When it comes to sharing of IGST, it remains as a black box and there is no clarity in the sharing of IGST from imports with states. The available data on imports on IGST gives only a consolidated picture. A clear understanding of the distribution of IGST on imports is yet to materialize with more data analytics.

The major issue, however, is with the sharing of IGST which is to be shared between the Centre and the states through the clearing house mechanism to be facilitated by the GSTN. The table indicates that notwithstanding a decline in the share of unshared IGST revenue from over 30% in 2017-18 to 19.6% in 2020-21 a substantial part of the IGST remains not shared. Here it is important to note that during the introduction of GST, it was envisaged that whatever amount available in the IGST account will be distributed as SGST and CGST. However, the available evidence tends to indicate that the actual experience belied our expectations costing dearly to the fund - starved states.

Reduction of GST rates and loss of revenue neutrality

Revenue Neutral Rate (RNR) under GST means the rates that protect the desired

Table 3. Comparison of VAT and GST rates and tax collection changes for selected commodities in Kerala (in crore)

Sl.No	Item	VAT collection 2016-17	Rate of Tax under VAT (in per cent)	SGST Rate of Tax (in per cent) as on 01/ 07/2017	SGST Rate of Tax (in per cent) from 15/11/2017	Decline in tax collection as on 0/ 07/2017 (crore)	Decline in tax collection as on 15/ 11/2017 (crore)
1	Motor vehicle	2638.33	14.5	14	14	91	91
2	Cement	1057.03	14.5	14	14	36	36
3	Tobacco products	879.13	14.5	14	14	30	30
4	Medicine	635.3	5	2.5	2.5	318	318
5	Gold*	629.65	5	1.5	1.5	101	101
6	White Goods	456.56	14.5	14	9	16	173
7	Iron & Steel	387.6	5	2.5	2.5	194	194
8	Electrical Goods	386.29	14.5	14	9	13	147
9	Paint	378.64	14.5	14	9	13	144
10	Tiles	337.43	14.5	14	9	12	128
11	Readymade garments	301.91	5	2.5/6	2.5/6	100	100
12	Electronic Goods	259.75	14.5	14	9	9	99
13	Rubber	202.02	5	2.5	2.5	101	101
14	Marble & Granites	159.62	14.5	14	9	6	61
15	Chicken	128.71	14.5	0	0	129	129
16	Hill Produce	124.78	5	2.5	2.5	62	62
17	Plywood	123.66	14.5	14	9	4	47
18	Timber	123.27	14.5	14	9	4	47
19	Glass	73.28	14.5	14	9	3	28
		9282.96				1242	2034

*compounding. Revenue loss for 40 per cent of turnover
Author's calculation based on the data of Commercial Taxes Dept/ SGST Dept, Govt of Kerala

Any inquiry into the less than expected performance of the GST revenue for the states leads to the door steps of loss of revenue neutrality which made the state of Kerala where the fiscal health crucially depends GST compensation.

revenue after subsuming the existing taxes. The Rate Fitment Committee appointed by GST Council recommended the rates under GST after taking into account the pre GST period tax incidence (on account of Central Excise, Services tax and VAT (including cascading on account of these taxes) as well as the embedded taxes and the incidence of GST, Octroi, Entry tax etc.(Minutes of 14th GST Council, 18and 19, May, 2017).

GST rates were fixed based on the revenue neutrality principle. There are four tax rates namely 5%, 12%, 18% and 28% under GST. The tax rates for different goods and services are notified. Besides, some goods and services are under the list of exempted items (e.g. fresh vegetables, fresh fish, fresh meat, live animals, fresh milk, curd, lassi, butter milk etc). Rate for precious metals is an exception to four-tax slab-rule and the same has been fixed at 3%. In addition, unworked diamonds, precious stones, etc. attract a rate of 0.25%. A cess over the peak rate of 28% on certain specified luxury and demerit goods, like tobacco and tobacco products, pan masala, aerated waters, motor vehicles, is imposed to compensate States for a period of five years for any revenue loss on account of implementation of GST.

In response to the request from business community barely four months after the introduction of GST, the Central Government, based on the recommendation of GST Council, reduced the tax rates of around 200 items of goods from 28% to 18% (as per notification No.41/2017). This in turn reduced the tax collection of many states and turned out to be against the revenue neutrality concept that was adhered to the initial rate fixation by considering the revenue protection from subsumed revenue of states. As a result, at present only 32 commodities have 28% tax rate as compared to 229 commodities when GST was initiated.

Since Kerala is a consumer state with around 70 per cent of the goods being taxed at 14.5 per cent during the VAT period, a decline of tax rate to 9 per cent (SGST) has affected the revenue collection under GST. This decline in tax rate has affected the overall GST collection of States. Table 3 presents our estimates on the impact of rate changes on GST collection compared to the VAT period. Before GST, the majority of commodities attracted a tax rate of 12 per cent Excise duty and 14.5 per cent Value Added Tax including cascading of taxes. Under GST, for many of the commodities, the rates were fixed at 28 per cent by considering revenue neutrality. An analysis of rate reduction under GST compared to VAT period observed that there has been 40 per cent reduction in rate of tax and the corresponding reduction in tax revenue

Despite the reduction tax rate (from 28% to 18% or 12%) there was no corresponding reduction in the price of those commodities. While the states, the Centre and the consumers have lost, the gainers were only the business aiming at profiteering.

when compared to VAT even without considering the plausible increase of sales in Kerala.

It is evident from Table 3 that out of 19 commodities, 13 of them had 14.5 per cent tax during the pre-GST period, i.e., in 2015-16. During the pre-GST period, rate of majority of the commodities was under 14.5 per cent category of VAT. It was pointed in the GST Council meeting by the then Finance Minister of Kerala that 70 per cent of the VAT revenue emanated from goods that attracted the VAT rate of 14.5 per cent and that the same weight of the goods should have been there for 28 per cent tax slab under GST but this weight was only 20 per cent (Minutes of 14th GST Council, 18 and 19, May, 2017). It is clear that though revenue neutrality is considered during the finalization of GST rates, the concern of Government of Kerala was not addressed as only 21 per cent of the commodities came under the 28 per cent category. From Table 3 it is evident that the tax collection from 19 commodities during the pre-GST period amounted to Rs 9282.86 crore in Kerala. With the introduction of GST there has been a reduction of Rs 1242 Crore in the tax revenue and with further reduction in GST rates from 28% to 18% and 12% total loss from 19 commodities under consideration further increased to Rs 2034 Crore (Table 3). This decline has been beyond the control of the state of Kerala as the rate changes were based on the decision of the GST Council. This is a clear indication of the loss of revenue neutrality due to high-pitched rate reduction. Hence any inquiry into the reasons for the less than expected performance of the GST revenue for the state will lead to the door steps of loss of revenue neutrality, a basic precondition for the acceptability of any tax reform. No wonder the state of Kerala turned out to be one of the states where in fiscal health is contingent on the GST compensation.

It must be noted that the tax rate was reduced to 18 per cent or 12 per cent from 28 per cent, there has been no corresponding reduction in the price of those commodities. The intention of rate reduction was in anticipation of a corresponding reduction in the price of those commodities and thereby benefiting the consumers. But it has been found that while the prices are flexible upwards with increase in taxes, it is rigid downwards with reduction in taxes. Thus while the states, the Centre and the consumers have at large lost, the gain has been limited to those business aiming at profiteering. Hence a case could be made for reinstating the rates of those commodities which were under 28 per cent at the initial period of GST implementation. This will improve the revenue collection of states and ensure

revenue neutrality leading to a reduction in the demand for GST compensation by the states.

Conclusion

The focus of this article has been to undertake a preliminary exploration on how to account for the sluggish performance of Kerala with respect to GST revenue since the introduction of GST as compared to the pre-GST period. The focus of enquiry has been with respect to the fiscal federal relations between the Centre and the states. It is observed that there is substantial share of GST collection remaining in the IGST account. During the introduction of GST, although it was envisaged that whatever amount available in the IGST account would be distributed as SGST and CGST. However, the practical experience has gone against the initial promises and huge amount is pending with IGST account wherein it is beneficial neither to the states nor to the Centre. This could be one of the reasons for the coincidence of higher GST collection and lower GST revenue realisation by the state governments. This is a clear indication of GSTN implementation flaws of GST especially in the IT-enabled platform.

From the analysis, it is observed that the revenue position of Kerala has not improved much during the GST period as compared to VAT period. The state has been, therefore, forced to survive with GST compensation from the Centre. This is against the initial objective of protecting revenue neutrality or more revenue generation to central and state governments. Revenue neutrality was ensured while fixing the rate of tax during the initial period of introduction of GST. But subsequent reduction in tax rate has led to the loss of revenue neutrality and substantial revenue loss for states like Kerala. Since the benefit of reduction in the tax rate has not been passed to the consumers by way of reduced prices, the only beneficiary of the rate reduction turned out to be the business by heightened pursuit of profiteering. Hence one of the major reasons for the decline in GST revenue in Kerala could the loss of revenue neutrality which in turn leading to increase in compensation requirement of state. Hence it is suggested to reinstate the rates of those commodities which were under 28 per cent at the initial period of GST implementation. This will improve the revenue collection of states and consequently the compensation requirement will reduce. Hence, until revenue neutrality is ensured, any attempt to do away with GST compensation cannot be justified.

■

(Prof K J Joseph is the Director and Anitha Kumary L is Associate Professor, GIFT)

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Opening the IGST blackbox for higher tax revenue of consuming states including Kerala

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Goods and Services Tax revenue accumulates towards consumption more than production due to the 'destination principle' followed in most of the 'place of supply' provisions of GST Law. 'Place of supply' determines the accrual of taxes on goods and services to the States in the inter-state supply inwards. But the amount of actual revenue collection of four years of GST experience portrays the other way round to the consumption inclined states specially Kerala.

Why Kerala is not collecting comfortable revenue from GST despite ranked first in per-capita consumption of goods and services among all States as depicted by NSSO data?

Why, even after four years, the concepts and the spirit of the GST law is not satisfactorily working in Kerala in terms of revenue expansion even as more than 80% of the goods and services consumed in Kerala are originally brought from other states as 'inter-state supply inwards'?

All states/union territories in India are consuming but only few states are producing either equally or more than that of their domestic consumption of goods and services. The word 'consumer state' means a State where the quantum of consumption within the state is more than that they produce domestically and majority of their final consumed goods and services are coming from other states as inter-state supply inwards and from other countries as imports.

This paper attempts to explore the revenue from inter-state supply inwards of goods/services by exploring Integrated Goods and Service Tax (IGST) revenue settlement provisions treasured in the sections 17 and 18 of IGST Act 2017.

1. Components of states' revenue from GST

State revenue from GST comprises the following three components

(a) State Goods and Services Tax (SGST) - SGST (State GST) output tax on all the intra-state supply outward (goods/services or both) paid by the registered person after utilising the eligible input tax credits of SGST on intra-state inward supply (Section 49 of Kerala GST Act 2017) (if any) and the balance (if any) paid in Cash.

(b) (i)Integrated Goods and Services Tax (IGST) through the settlement from Central Government on B2B (registered person to registered person) inter-state supply inwards : SGST (State GST) output tax on all the intra-state supply outward (goods/services or both) paid by the registered person after utilising the eligible input tax credits of IGST on inter-state inward supply or from IGST of imports made by him/her. (Section 18 of the IGST Act 2017). The IGST input tax credits so utilised will be transferred to State Government from Government of India

(ii) Integrated Goods and Services Tax (IGST) through the settlement from Central Government on other than B2B intra-state supply inwards :- Share (50%) of the IGST on all Inter-state supply inward of goods/ services or both in eight different situations mentioned in section 17 of the IGST Act 2017 (initially settled by ad hoc basis and subsequently settled based on apportionment procedure as per the section).

(c) Compensation Cess - If the revenue from (a) +(b) mentioned above of a State does not achieve the yearly protected growth rate of 14 per cent, then the revenue gap will be compensated from Government of India as per the Goods and Services Tax (Compensation to States) Act 2017 for five years i.e., till June 2022. This amount is transferred to states under the head Grants-in-aid from Government of India.

2. The flow of revenue under inter-state supply (IGST)

How GST system is working in inter-state supply system is narrated with the example of Tamil Nadu and Kerala in the three tables **(Table 1, 2 & 3)**

The three tables **(Table 1, 2 &3)** reveal that the entire GST revenue for the sale of raw materials, goods manufactured at Tamil Nadu and subsequently sold to Kerala will finally accrue to Kerala. It means the Tamil Nadu Government should remit to the IGST Account the entire collected SGST of the goods/ services or both supplied to Kerala for the settlement of IGST amount to Kerala.

3. Inter-state taxing system: Pre-GST vis-à-vis GST system

During pre-GST period the Central Sales Tax (CST) is levied and collected by the selling state (Tamil Nadu) from the registered person of the purchasing state (Kerala) at the concessional rate of 2% as per the provisions of Central Sales Tax Act 1956. The purchasing state's (Kerala) landing cost is the purchase value including all transport charges plus CST which is not recoverable like GST. In the example **(Table 4)** the goods brought through inter-state purchase after adding the profit margin will be sold within the state and State VAT is levied on the selling price and the entire amount is remitted to Kerala

Considering the same figures for the GST period the recipient of the purchasing state will have to pay the full IGST (here no concessional rate is applicable as in

Table 1. Tamil Nadu

1.Raw material supplier (first registered person	
Particulars	**Rs.**
Raw materials	500
Expenses & Profits / losses	300
Total	800
Central GST (2.5 %)*(Output Tax)*	20
State GST (2.5 %) *(Output Tax)*	20
Sale Value	840
Remittance to Central Govt. –CGST (cash)	20
Remittance to TN Govt. SGST (Cash)	20

Table 2. Tamil Nadu

2. Manufacturer (Second Registered Person)	
Particulars	**Rs.**
Purchases (Basic Price)	800
Central GST (2.5%) *(Input Tax)*	20
State GST (2.5 %) *(Input Tax)*	20
Purchase Value *(without tax)*	800
Expenses & Profits / losses	500
Total	1300
IGST 18 % *(output tax)*	234
Sale Value to Kerala	1534
Remittance to IGST A/C (cash)	194
Remittance to IGST A/c (Credit) (from CGST A/c and TNGST A/c)	20 + 20

Table 3. Kerala

3. Registered Person	
Particulars	**Rs.**
Purchases (Basic Price)	1300
IGST 18 % (Input Tax)	234
Purchase value	1300
Expenses & Profits / losses	200
Total	1500
Central GST (9 %)(Output Tax)	135
State GST (9%) (Output Tax)	135
Sale Value [6+7+ 8]	1770
Remittance to Central GST A/c (Credit) from IGST A/C	135
Remittance to Central GST A/c (cash)	0
Remittance to State GST A/c (Credit)from IGST A/C	99
Remittance to Kerala GST A/c (cash)	36

Table 4. Pre-GST period up to 30 June 2017		
Inter-state purchase from Tamil Nadu		
Purchase from TN		1,00,000
CST Paid to TN RP	**2%**	2,000
Total Purchase Value		1,02,000
Sale in Kerala		
Purchase Value (incl. CST)		1,02,000
Profit Margin		28,000
Sale Value in Kerala		1,30,000
Kerala VAT	**14.5%**	18,850
Total Sale Value in Kerala		1,48,850
Tax remitted to Government of Kerala		
KVAT	**14.5%**	18850

Table 5. GST Period - From 1-7-2017		
Inter- State purchase from Tamil Nadu		
Purchase from TN		1,00,000
IGST paid to TN RP	18%	18,000
Total Purchase Value		1,18,000
Sale in Kerala		
Purchase Value (excl. GST)		1,00,000
Profit Margin		25,000
Sale Value in Kerala		1,25,000
Central GST	9%	11,250
State GST	9%	11,250
Total Sale Price		1,47,500
Tax remitted to Govt. of India & Kerala		
Method 1		
CGST Rs.11250 paid fully as credit by utilising IGST input tax (i.e. from Rs.18000)		
SGST Rs.11250 paid partially by credit Rs 6750 by utilising the balance amount available in IGST input tax credit (Rs. 18000 - Rs.11250 used as credit for CGST) and partially by Cash Rs. 4500		
Method 2		
CGST Rs.11250 paid partially by credit Rs 9000 by utilising the 50% amount of IGST input tax credit (ie., 50% of Rs. 18000) and partially by Cash Rs. 2250		
CGST Rs.11250 paid partially by credit Rs 9000 by utilising the 50% amount of IGST input tax credit (ie., 50% of Rs. 18000) and partially by Cash Rs. 2250		

the case of Pre-GST period) to the Supplier of the selling state. The recipient of Kerala will subsequently utilise the credit of IGST after selling the goods/ service within Kerala and the net amount of CGST/ SGST are remitted. The IGST input tax availed for paying SGST amount will be transferred to the appropriate state from the IGST account maintained by the central Government as per the credit utilisation provisions of the GST law. The IGST utilisation can be availed in two different ways. Under the method 1, the registered person in Kerala fully utilises the IGST credit for remitting the CGST and the balance for remitting SGST. In the second method the IGST credit is utilised equally for remitting the CGST and SGST amount **(Table 5)**

4. Ratio of tax revenue of Kerala - State GST vis-à-vis Integrated GST

Unlike other States in India, Kerala is distinctively characterised by the following:

a) Top consumption of goods and services among the states in India (as per NSSO sample survey data)

b) Not less than 80% of the domestic consumption of goods/services are brought from other States (Inter-State Supply inwards) or imports

c) Not more than 25% of the value addition of those goods and services brought through Inter-state supply inward/import are subsequently accrues as SGST within Kerala. It means the 75% of the final value of goods/service brought through inter-state supply inwards are loaded with the value of inter-state supply inwards and carrying IGST when it arrives Kerala. Through input credit mechanism and settlement provisions state's share of those IGST amounts are transferred to appropriate State from Government of India.

Recognising this uniqueness of Kerala, a very conservative ratio of SGST vis-à-vis IGST revenue is estimated in the context of minimum occurrence of evasion. The ratio of SGST: IGST is calculated as 2:3 **(Table 6)**

5. The IGST revenue gap of Kerala

The total revenue from GST - both SGST and IGST for the four years period of Kerala is depicted in **Table 7**. The total SGST collection and IGST settlement for the four years period ending 31-3-2021 are Rs. 31459.3 crore and Rs.38903.8 crore respectively. By applying the ratio of SGST: ISGT = 2:3 on the SGST actual collection the expected IGST settlement amount is estimated as Rs. 47189 crore which draws a gap of Rs. 8285 crore in IGST Revenue (Rs.47189 crore -Rs. 38903.8) **(Table 8)**

6. Digging the IGST revenue settlement component and the way forward

The IGST revenue settlement consist of 12 components as per the section 17 and section 18 of the IGST Act 2017. They are listed in the tabulated format in **Table 9**.

The reason for the sluggish growth of IGST revenue are many. Some of them are

Table 6. State/central revenue vis-a-vis IGST revenues for Kerala						
Particulars	%	Value (Rs.) (for example	CGST (9%) (Rs)	SGST (9%) (Rs)	IGST share to Central Govt (9%) (Rs)	IGST share to State Govt (9%) (Rs)
1. Final Value of Goods & Services consumed in a State. Eg. Kerala	100	1,00,000				
1A. Out of which, the Goods & Services having exclusive Intra-State Supply	20	20,000	1,800	1,800		
1B. Out of which, the Goods & Services having Inter-State and subsequent Intra-State Supply	80	80,000				
1Ba. Out of which, value component of Inter-State inward supply	75	60,000			5,400	5,400
1Bb. Out of which, subsequent value component within Kerala on the Inter-State inward supply	25	20,000	1,800	1,800		
Tax Amount (Rs.)			3,600	3,600	5,400	5,400
Share – State/Central GST revenue: IGST revenue from Kerala= 2:3			2	**2**	3	**3**

Table 7. Kerala - GST collections for four years (Rupees in Crore) (period 1-7-2017 to 31-3-2021)							
Year	SGST	IGST	Adhoc settlement	IGST settlement Total	Total SGST plus IGST Settlement	Compensa-tion	Total
2017-18	5399.1	6065.0	736	6801.0	12200.11	2102	14302.1
2018-19	8269.6	10115.0	2734.37	12849.3	21118.91	3532	24650.9
2019-20	9453.2	9926.2	-15.83	9910.4	19363.57	8111	27474.6
2020-21	8337.4	9343.1		9343.1	17680.42	914.63	18595.1
Total	31459.3	35449.2	3454.54	38903.8	70363.01	14659.63	85022.6

Source: Compiled from the date of keralataxes.gov.in

Table 8. IGST revenue gap		
Details	SGST collection	IGST settlement
Revenue (Actual)	31459	38904
Ratio - SGST:IGST	2	3
If SGST is 2 what is IGST?	31459	47189
IGST Gap		8285

Source: Table 7

Table 9. Different categories of inter-state supply inwards of goods and services to states for IGST revenue transfer to appropriate states as apportionment, transfer and settlement

No.	Category	Type of Apportionment, Transferand Settlement to States
1	IGST Input Tax (eligible only) utilised to pay the SGST Output Tax due on intra State supply outwards	by the Registered Person for the IGST paid on Inter-State Supplyinward *[Section 18(c) of IGST Act 2017]*
2		by the Registered Person for the IGST paid on Import *[Section 18(c) of IGST Act 2017]*
3	Inter- State Supply Inwards of Goods and Services to Kerala made	by the Unregistered Person [Section 17 (1)(a) of IGST Act 2017]
4		by the Registered Person under Section 10 of CGST/ SGST Act 2017(Composition Scheme) *[Section 17 (1)(a) of IGST Act 2017]*
5		by the Registered Person not eligible for Input Tax Credit*[Section 17(1)(b) of IGST Act 2017]*
6		by the Registered Person who does not avail the eligible Input Tax Credit within a Specified Period and expires after the prescribedtime limit *[Section 17(1)(c) of IGST Act 2017]*
7	Import of Goods or Services or both made	by the Unregistered Person *[Section 17(1)(d) of IGST Act 2017]*
8		by the Registered Person under Section 10 of CGST/ SGST Act 2017(Composition Scheme) *[Section 17(1)(d) of IGST Act 2017]*
9		by the Registered Person not eligible for Input Tax Credit*[Section 17(1)(e) of IGST Act 2017]*
10		by the Registered Person who does not avail the eligible Input TaxCredit within a Specified Period and expires after the prescribed time limit *[Section 17(1)(f) of IGST Act 2017]*
11	Supplier (Taxable person) (Origin State) are identifiable but Place of Supply (Destination state) are not identifiable	State's IGST portion transferred to appropriate State/ Union Territory based on proportion of the supply made by the supplier of the origin state to the appropriate destination state (s) in a financial year*[First Proviso of Section 17(2) of IGST Act 2017]*
12	Supplier (Taxable person) (Origin State) are are not identifiable	State's IGST portion transferred to all based on proportion taxes collected by the States as SGST during the immediately preceeding financial year*[Second Proviso of Section 17(2) of IGST Act 2017]*

1. Unaccounted purchase/underbilling of inter-state supply inwards of goods and subsequent parallel supply within the state due the hasty withdrawal of all check post after GST regime. 'Check post system' was our inherent strength of revenue protector during the sales tax/value added tax regime
2. Large amount of B2C/Composition scheme based on inter-state supply inwards are partially or totally under reported.
3. Bulk purchase of goods/directly to the final consumers from other states are done without tax invoice or fake invoices.

The disaggregated data for the above 12 components are not available in the public domain.

It is learned that the component wise IGST data are not even available to the States for analytics and investigation of inward supply. Further it is learned that the MIS data can easily be salvaged from the returns and e.way bill data.

In this context it is suggested that the GSTIN with the due approval of the GST council and Government of India may publish in the public domain both the inter-state supply inward of the 12 components **(Table 9)** of IGST with Harmonised System of Nomenclature (HSN)/Service Account Code (SAC) wise goods and services classifications. An in-depth state-of-the-art analysis of the detailed data by each of the State GST Department in larger way can identify and fix the sluggish growth and pin point the real source of inter-state evasions especially in the context of dismantling all the broader check posts in the eve of GST implementation.

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GIFT GULATI INSTITUTE OF FINANCE AND TAXATION

Destination based GST : Impact on state revenue due to ambiguities in legislation

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1. Introduction

Goods & Services Tax (GST) is a destination based tax and the purpose of GST law is enshrined in such a way so as to enabling the destination state to receive the tax on supply of goods or services or both. But there are certain ambiguities in the provisions of The Integrated Goods and Services Tax Act, 2017 (IGST Act) and The Central Goods and Services Tax, Rules 2017/ State Goods and Services Tax, Rules 2017 (CGST/SGST Rules), which go in contrary to this objective. Hence in order to curb such ambiguities certain amendments are proposed in section 10 of the IGST, Act. 2017.

Constitution of India provides for the power to levy various taxes by the Central and State governments. Article 265 of the Indian Constitution states that, "No tax shall be levied or collected except by authority of law". This article contains the most important principle about levy and collection of tax. The term 'law' in this article means a statute law which means an enactment of the competent legislature. Accordingly no levy can be imposed either by executive action or by a resolution of the House. A tax could only be imposed by a law, which is valid by conformity to the criteria laid down by different articles of the Constitution.

A tax law shall be valid only if it satisfies the following conditions

i. The law should be one within the legislative competence of the legislature being covered by the legislative entries in Schedule VII, Article 246A and 269A of the Constitution.

ii. The law should not be one prohibited by any particular provision of the Constitution.

iii. The law or the relevant portion thereof should not be inconsistent with the fundamental rights guaranteed by the Constitution.

From the Article it is clear that not only levy but matters pertaining to collection of tax also should be under the authority of law. It provides that no tax shall be levied or collected except by authority of law. The words 'levy' and 'collection' are used in the Article in a comprehensive manner and they are intended to include and cover the entire process of taxation

commencing from levy of tax to the collection of tax. The article enjoins that every stage in this entire process must be authorised by law. 'Levy tax' means to impose or assess to impose or collect tax under the authority of law. It is a unilateral act of superior legislative power to declare the subjects and rates of taxation and to authorise the collector to proceed to collect tax. The levy of tax is generally a legislative function, assessment is a quasi-judicial function and collection is an executive function. The expressions 'levy', 'assessment' and 'collection' embrace in their broad sweep all the proceedings which can possibly be imagined for raising money by the exercise of the power for taxation.

Therefore, each tax levied or collected has to be backed by an accompanying law, passed by Parliament or by State Legislatures. Hence Article 265 mandates for enacting law for implementation of GST. As a result three Acts were passed, two by the Parliament and one by respective State Legislature.

Constitutional amendment for GST

A federal constitution postulates distribution of the legislative powers between the Union and the States. Different subjects on which they can make laws are identified and both have to operate from the fields allotted to them. The boundaries are well demarcated and provisions are made in the Constitution prescribing the manner by which the legislative powers granted to them are to be exercised. Articles 245 to 255 and Article 269A of the Constitution deal with the respective powers of the Union Parliament and the State legislatures and the subjects assigned to each of these legislatures with reference to legislation. The division of power is in respect of territory as well as subject matter.

The subject matter of laws made by the Parliament and the State Legislatures were dealt by Article 246 only, prior to the 101st Constitutional Amendment Act. The subjects for legislation have been enumerated in three lists in the Seventh Schedule to the Constitution. List I or the Union List, List II or the State List, List III or the Concurrent List. The Union Parliament and the State Legislatures have exclusive powers of legislation in regard to the subjects in List I and List II respectively. Both the Union and the States can make laws in respect of the subjects enumerated in List III.

The 101st Constitutional Amendment Act was enacted on 8th September 2016 with the purpose of implementing Goods and Service Tax (GST). The primary object of implementing GST was to eliminate multiplicity of taxes on goods and services, its cascading effect and increased compliance cost. The taxable event under GST is supply and GST is levied on the supply of Goods or Services or both.

GST on intra state supply of goods or services, the Centre and the appropriate State shall concurrently levy Central GST (CGST) and State GST (SGST) respectively and on inter state supply of goods or services where the Centre will levy Integrated GST (IGST).

Concurrent legislative power for centre and states - Article 246 A

Till the introduction of the 101st Constitutional Amendment Act there was strict demarcation of legislative powers, in tune with the Federal nature of our Constitution as in Articles 246 side by side the VIIth schedule of the Constitution.

The salient feature of Article 246A, introduced by 101st Constitutional Amendment Act is that in the case of GST on intrastate transactions, both Parliament and State legislatures can enact laws to levy tax concurrently.

Article 269A, introduced by 101st Constitutional Amendment Act provides for Parliament's exclusive power to enact law for levy of GST on transactions in the course of inter state trade or commerce.

Ambiguity in provisions of CGST/ SGST and IGST Acts

The CGST and IGST Acts by the Parliament and the SGST Acts by different State Legislatures are not all exhaustive and are with ambiguity in levying of taxes on various transactions, which, in turn have become a subject of judicial review and interpretation. There are loopholes in these Acts which need immediate legislative actions to clear them off. Otherwise the same would end up in such a situation that the destination based States, being deprived of receiving their share of eligible tax thus annulling the very purpose of GST. The revenue loss happens to the destination based States, in certain situation due to the ambiguity in legislative enactment.

Courts are to interpret the existing provisions and cannot don the role of the law maker. If at all there are loopholes in taxing statutes the courts are not fill it up but it is for the legislature to act upon to cure the defects.

The purpose of Goods and Services Tax Act was to enable the destination State to receive the tax on supply of goods or services or both. But there are certain ambiguities in the provisions of Integrated Goods and Services Tax Act, 2017 (IGST Act) and Central Goods and Services Tax, Rules 2017/ State Goods and Services Tax, Rules 2017 (CGST/SGST Rules), which go in contrary to this objective. One such instance is the case decided by the High Court of Kerala in KUN Motors Co. Pvt. Ltd. Vs. State of Kerala (2019) 27 KTR 301(Ker).

Case law

The first appellant KUN Motor Co. Ltd. is a dealer in Motor Vehicles in Puducherry and the second appellant, a resident of Thiruvananthapuram in Kerala who purchased a Fancy Motor Car from the Puducherry dealer. A temporary registration was taken from Motor Vehicles Department Puducherry by the second appellant along with insurance coverage. The second appellant entrusted the logistics division of the dealer for transporting the car to Kerala.

The invoice issued by the dealer to the second appellant for the purchase of the car was an IGST invoice. The dealer issued the IGST invoice to the second appellant, by following Rule 59 of the CGST/SGST Rules which stipulate that while

furnishing details of outward supplies, the dealer is to furnish invoice wise details of all inter state supplies with an invoice value of more than two and a half lakh rupees made to an unregistered person {Rule 59 (2) (a) (ii)}. The Validity of this IGST invoice was one of the matters in question in the present case decided by the Hon'ble High Court of Kerala.

The dealer also issued an invoice showing collection of IGST towards transportation charges of the Car. This was not a subject matter for consideration by the High Court, as the same was good in law as per GST Law.

Major question of law

Whether the issuance of IGST invoice by the dealer to the second appellant for purchase of the car was good in law?

Findings of the court

When a person residing in one state purchases goods from another state for his own use, the supply with respect to the transaction terminates at the time when the person takes possession of the goods so purchased at the State of purchase.

As per section 10(1) (a) of the IGST Act, "where the supply involves movement of goods, whether by the supplier or the recipient or by any other person, the place of supply of such goods shall be the location of the goods, at the time at which the movement of goods terminates for delivery to the recipient".

The court held that, in the present case, the supply of the goods - Car is an intra-state supply as the movement was terminated at Puducherry, as the second appellant - the purchaser is a person not required to take registration as per GST Law.

The court pointed out that the provisions of section 7 & section 8 of the IGST, Act (which deals with inter state supply & intra state supply) are always subject to Section 10 of the IGST Act, 2017.

Accordingly the Court held that, movement of goods, after the termination of sale and coming into effect of the delivery of goods sold, the sale is an intra-state supply, whether it be inside the state or outside the state. It also says that it is the prerogative of the purchaser who owns the goods, with whom the property in such goods vests and such movement would not be one that which is occasioned by the sale transaction or supply thereon.

The court reviewed sections 7 & 8 of the IGST Act and its readability with regard to section 10 of the IGST Act. Section 10 of the IGST Act is the one which provides for the determination of the place of supply of goods. Section 7, section 8 & section 10 of IGST Act are the corresponding provisions which would determine the nature of supply of goods whether it is inter state or intra state.

Inter state supply Vs. Intra state supply

The nature of supply of goods whether inter state or intra state transaction is determined on the basis of section 7 & section 8 of the IGST Act. Nature of supply is not a question of fact, but it is an application of law to the fact situation, to identify the right kind of tax applicable

to a transaction. Therefore it is section 7 which determines what is "inter state supply" of goods or services, which is liable to tax under the IGST Act.

Section 7 of the IGST Act deals with inter state supply. This provision is subject to the provisions of section 10 of the IGST Act (which determines place of supply of goods) because any interpretation or application of section 7 of the IGST Act cannot be in derogation of the place of supply of goods contemplated by section 10 of the IGST Act. Place of supply is important to determine the kind of tax (i.e. CGST/SGST or IGST) that is to be applied on a transaction.

When the location of supplier and place of supply are in two different states, then it will be inter state supply and the IGST Act is the one which is applicable for such transactions.

Section 8 of IGST Act provides that when the location of supplier and the place of supply are in the same state, then it will be an intra-state supply and CGST/SGST Acts are applicable to these transactions.

Place of supply is a legal term and therefore the meaning assigned to it in law under section 10 of IGST Act must be followed.

The court held in KUN Motors case that 'the nature of the transaction whether it is inter-State or intra-State supply is to be decided from the provisions in the statute and not by the intention or understanding of the parties to the transaction'.

So the legal position is that in order to determine the place of supply of goods, what is relevant is that the movement of goods should be occasioned by the transaction of supply. In such circumstances the location of supply would be the location of the goods, at the time at which the movement of goods terminates for delivery to the recipient. In short the location of the supply would be fixed as the place where the goods are delivered so as to apply section 7 or section 8 of IGST Act, 2017.

The legal position accepted by the court in KUN Motors case, is that a transaction which terminates with the supply within a State is an intra-State supply. And hence CGST and SGST shall be applicable for such supply. So the IGST invoice issued by the dealer in the present case is not good in law as such legal binding is not provided on the dealer as per GST law.

It is assumed that the dealer issued the IGST invoice in accordance with the directive in Rule 59(2) (a) (ii) (CGST/SGST Rule, 2017) with regard to filing of invoice wise details of inter state supplies worth more than Rupees Two and a half lakh made to an unregistered person (Form GSTR 1 - outward supply)

The legal ratio in the cases decided before coming into force of GST law is applicable to inter state and intrastate transactions, in the absence of specific provisions in GST law.

In T.Bapputty Vs Government of Kerala (1961) 12 STC 722 (Ker). The court held that inter state movement contemplated should be closely linked with the sale of the goods and is not intended to cover

later movements undertaken for the better enjoyment of the goods after the title has passed. If the owner moved his own goods to outside the State for better enjoyment to what has been earlier acquired, the movement would not in the commercial sense form part of the flow or course of trade and therefore would not be inter state. The same situation as in the case on hand.

If the dealer disputes the sales as the one taking place inside the state the onus of proving that it is inter state is on the revenue. (Commissioner of Sales Tax Vs. Suresh Chand Jain (1988) 70 STC 45 (SC); 1988 AIR 1197

Even if the buyer is moving the goods outside the State while such movements are under the contract of sale, the sale is inter state. (State of Bihar Vs Tata Engineering and Locomotive Co. Ltd (1971) 27 STC 127 (SC).

If the buyer is taking the goods outside the State of sale independent of the contract of sale, the sale is an intrastate one. (Commercial Tax Officer Vs Poddar Spinning Mills (1987) 67 STC 359 (Raj).

The mere fact that buyer was from outside the State and moved the goods outside the State is not sufficient to constitute it as inter state sale. (Commissioner of Sales Tax Vs. Poddar Spinning Mills (1987) 67 STC 359 (Raj).

The position may be illustrated as follows:

When a dealer or manufacturer within the State 'X' purchases goods for the purpose of further sale or manufacture within 'X' State from an outside State 'Y', the dealer transports it to his/her manufacturing unit or dealership in 'X' State then the transaction occasions the movement of goods. In such sales, the sale occurs outside 'Y' State, the place of supply of goods is in 'X' State since the transaction of sale occasions the movement of goods from 'Y' State to 'X' State and the supply is terminated in 'X' State; whether the movement is by the supplier or the recipient himself. It is an inter state supply.

But, when a person (consumer) residing in 'X' State goes to 'Y' State and purchase goods for his own use, the supply with respect to the transaction terminates on the individual taking possession of the goods in 'Y' State. The movement of the goods, after such sale is terminated and delivery is effected, whether it be inside the 'Y' State or to outside the 'Y' State, then it would be the prerogative of the purchaser, who owns the goods, in whom the property in such goods vests and such movement would not be that occasioned by the sale transaction or the supply thereon. This is a situation as in section 10(1) (c) of the IGST Act - which provides that, "where the supply does not involve movement of goods, whether by the supplier or the recipient, the place of supply shall be the location of such goods at the time of the delivery to the recipient;

The principles of interpretation of fiscal statutes are stated by various decisions of the court that, in fiscal statutes one must have regard to the letter of the law and not to the spirit of the law. While

construing taxing statutes it is not the function of the court to give to the words a strained and unnatural meaning and that the subject can be taxed only if the Government satisfies the court that the case falls strictly within the provisions of the law. The general rule is that a fiscal statute should be construed strictly, that is the words of the statute should clearly impose the tax upon the tax-prayer. If the statute contains a loop-hole it is not the function of the court to close it by a strained construction in reference to the supposed intention of the legislature. The legislature must then step in to resolve the ambiguity

The most important points in interpreting a taxing statute is that a taxing statute should be strictly construed and in a taxing statute the court should look at the letter of the law and no subject shall be taxed unless the case falls strictly within the letter of the law.

Rule 59 (2) (a) (ii) of CGST/SGST Rules 2017 is in total contradiction to section 10 of the IGST Act, 2017.

From the above rules it can be seen that there is a contradiction in the provisions of section 10 (1) (a) of the IGST Act and Rule 59 (2) (ii) of the CGST/SGST Rules 2017. Therefore even if delivery is terminated within the State of Supply and if the value of the invoice is more than rupees two and a half lakh rupees made to the unregistered persons, then the supplier is compelled to issue IGST invoice treating it as an inter state supply. As the dealer had to issue the IGST invoice in accordance with the directive in Rule 59 (2) (a) (ii) (CGST/SGST Rules, 2017) with regard to filing of invoice wise details of inter state supplies worth more than rupees two and half lakh made to an unregistered person, in Form GSTR-1 outward supply. But as per the provisions of section 8 read with section 10 (1) (a) of the IGST Act, it is an intra-state supply. Therefore, Court held in KUN Motors Co. Pvt. Ltd. Vs. State of Kerala (2019) 27KTR 301(Ker) that it's an intrastate Supply.

The above ambiguity will create litigations and will lead to revenue loss to the destination state. So in order to resolve the above ambiguity an amendment may be made in section 10 of the IGST Act by inserting a proviso in section 10 by way of a deeming provision. In the case of transactions to unregistered persons, where the address given in the invoice is a State other than the State which has effected the supply, it shall be deemed to be an inter state supply, even if the supply terminates within the State of supply.

It is pertinent to note that there is no provision whatsoever made out either in the CGST/SGST or IGST Act or corresponding Rules which stipulate the dealer to the issuance of an IGST invoice to unregistered purchaser. What provoked the dealer in the present case to issue an IGST invoice is a condition laid down in Rule 59(2) (a) (ii) of CGST/SGST Rules 2017, mandating the dealer to furnish invoice wise details of inter state supplies with invoice value more than two and a half lakh rupees made to an unregistered person.

Conclusion

This being the position, the decision of the High Court of Kerala in KUN Motors Co. Pvt. Ltd. Vs. State of Kerala (2019) 27 KTR 301(Ker) has made out a situation that there will be a flood gate of litigations between States and Union Territories in India with regard to revenue loss in GST regime as GST is a destination based tax. Hence legislators need to throw immediate attention so as to bring necessary amendment to section 10 of the IGST Act, 2017 clearing the ambiguity through a deeming provision, which provides that "if the address of the recipient, shown in the invoice given to an unregistered person is in a State other than the State which has effected the supply, then it shall deemed to be an inter state supply".

(Author is Associate Professor, GIFT.)

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Kerala's GST revenue performance in a comparative perspective

Santosh Kumar Dash and Kiran Kumar Kakarlapudi

1. Introduction

After a decade long deliberations, India adopted one of the most significant tax reforms after independence by transitioning from Value Added Tax (VAT) system to Goods and Services Taxation (GST) from July 1, 2017. The new tax system subsumed various taxes from the union and state indirect tax bases to create a simpler national tax. This one-nation-one-market-one-tax regime was considered a great success story of India's fiscal federalism and cooperative federalism. Since GST is an improvement over the erstwhile VAT, it was expected that the GST implementation would benefit the states in terms of higher revenue collection, enhanced tax compliance, enhanced export competitiveness, bringing down prices, higher interstate trade, and economic activities among others. Further, it was envisaged that by eliminating the differences in tax rates across states and improving the inter-state trade, the GST would reduce horizontal fiscal imbalance among Indian states. Scholar and public finance experts, though expressed optimism in the new tax regime, had warned the ensuing challenges before the transition. The shift from an origin-based VAT system to destination-based GST is not likely to benefit all the states uniformly. At the time of GST implementation, stark differences between the rates for the producing states and the consumption-oriented states existed. Morris et al. (2019) opined that this could de-incentivise the local incentives of new investments in producing states. Besides, the multi-tier rate structure coupled with the classification problem could deter the objective of increasing tax compliance and could increase tax evasion and corruption. Other challenges include the information technology architecture, classification of goods and services at various rates, and high cost of the GST implementation due to administrative bottlenecks could erode the expected benefits of GST (Banerjee & Prasad 2017, Kumar 2019, Rao 2019)

The empirical literature on the performance of states with respect to GST collection is limited. Comparing the revenue performance of states under VAT and GST, Anithakumary & Mathew (2019) showed that the ranking of the states under the two regimes is not

uniform. Especially notable was Kerala, which was among the top during the VAT regime, that has shown a decline in rank during the GST regime. Similarly, it was found that many states have not registered the projected growth target of SGST collection (Mukherjee 2020). The GST regime has led to revenue loss, especially for mineral-rich states like Jharkhand, Odisha, Chhattisgarh, and Madhya Pradesh. In these states, value addition from manufacturing activities is not fully appropriated within the state's boundary. In this context, this study examines two specific questions. One, trends in inter-state GST revenue collection. Two, the determinants of GST revenue collection.

2. Data and approach

This analysis considers 21 major states from 2017-18 to 2020-21. The data for the analysis was obtained from various sources. The GST revenue and filing rate data are collected from the GST portal. EPWRF India Time Series database provides information on State Domestic Product (SD), per-capita income, sectoral composition, and population. The population projections data released by the Census of India is utilised to collect rural and urban population data. The 68th round of NSS household consumption and expenditure survey unit-level data to construct share of food in total consumption expenditure. The Periodic Labor Force Surveys (PLFS) have been used to compute the share of informal sector employment as a proxy of informalization. Lastly, ease of doing business index data published by the Department of Industrial Promotion and Policy (DIPP) is used to proxy governance and other institutional factors.

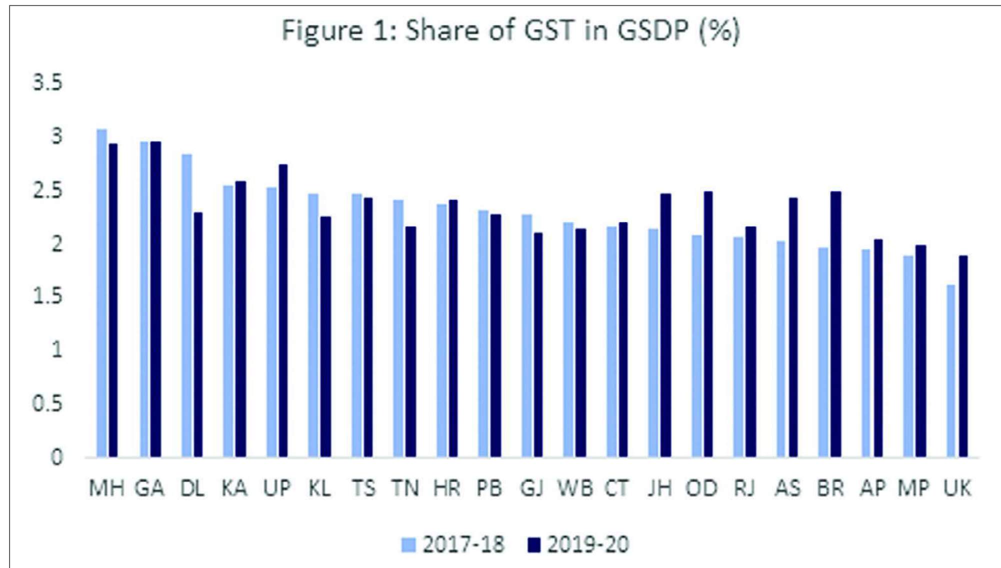
3. Trends GST revenue performance

There is considerable variation in GST revenue collection across the Indian states. The relatively developed states such as Maharastra, Goa, Delhi, Karnataka, Kerala, Tamil Nadu, Haryana, and Punjab indicate a higher share of GST in GSDP. In contrast, less developed states like Madhya Pradesh, Bihar, Odisha, and Rajasthan show a low share (Figure 1). It appears that states that did well in revenue collection in the GST regime carried forward the good legacy from the VAT era. The only exception is Uttar Pradesh, with one of the highest GST to GSDP ratios.

Interestingly, except in Karnataka, Gujarat and Uttar Pradesh, all other states with relatively higher GST-GSDP ratios show a declining trend in 2019-20 compared to 2017-18. For instance, the GST-GSDP ratio in Kerala and Tamil Nadu declined from 2.4 per cent to 2.2 per cent and 2.1 per cent, respectively. On the contrary, low-income states showed an increase in GST-GSDP ratios during this period. Especially in Jharkhand, Odisha and Bihar (Figure 1).

This is further evident from the growth of GST revenue collection during 2017-18 to 2019-20. Delhi and Kerala registered the lowest growth among all the states, followed by Tamil Nadu, Gujarat, Maharastra, and Punjab. Bihar showed the highest growth among the fastest-growing states, followed by Bihar,

The GST-GSDP ratio is relatively high in developed states like Maharastra, Delhi, Goa, Karnataka, Tamil Nadu etc., compared to less developed states.



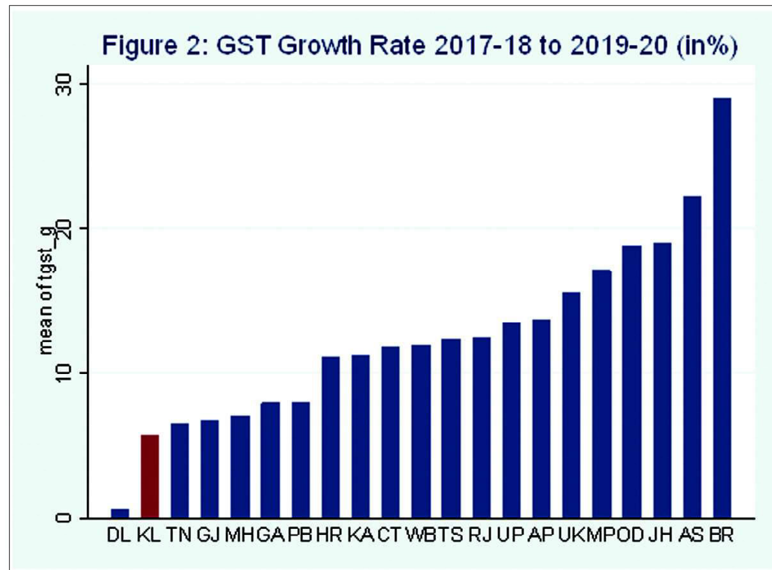
Jharkhand, Odisha and Madhya Pradesh (Figure 2). The GST revenue collection in these states is well above the revenue protection rate (14%). The slow-growing states thus depend heavily on GST compensation.

4. Determinants of GST revenue performance: Empirical analysis

Although GST is envisaged to reduce the interstate variation in revenue collection, wide inter-state differences exist, as shown in Figure 1. Drawing from the widely popular literature on determinants of revenue collection, this study, therefore, analyses the key determinants of GST revenue collection using the panel data regression models. The existing cross-country empirical studies and sub-national studies identified structural factors such as level of economic development, sectoral composition, urbanisation, informalisation, and institutional factors such as corruption administrative efficiency as key determinants of tax revenue. Considering the unique feature of GST and building on to the empirical literature, this study evolves an analytical frame based on three key pillars of the determinants of GST revenue collection. First, GST related factors are proxied by

The GST-GSDP ratio shows a declining trend in developed states while increasing in less developed states.

Kerala's GST revenue growth during 2017-2019 is the second-lowest Indian state.

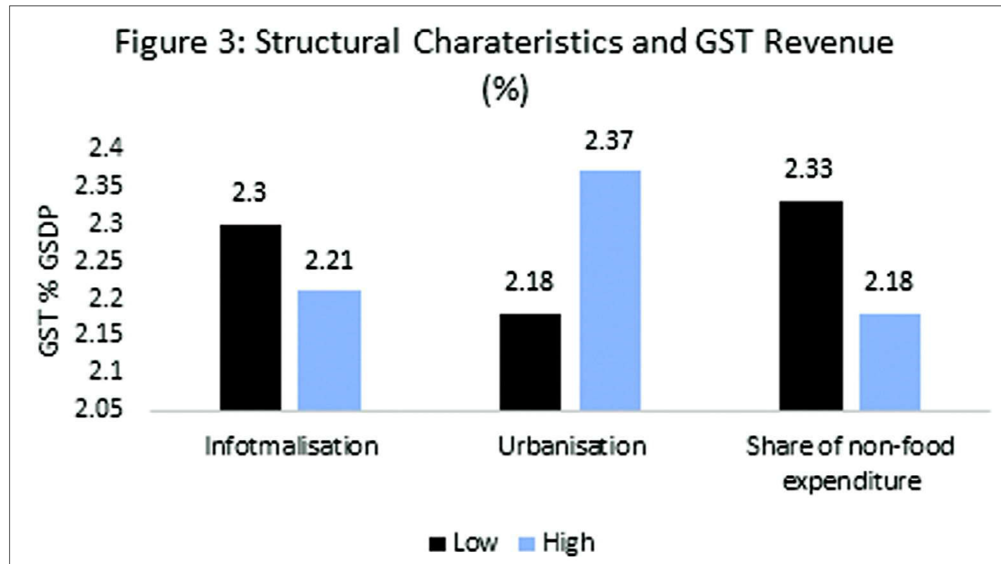


the compliance rate. This is defined as the number of dealers filing returns in time out of total registered dealers, called timely filers. The hypothesis is that a state with a higher compliance rate will likely collect more revenue than a low-compliance state.

Second, structural factors like the level of economic development of a state are measured in terms of per-capita income, sectoral composition, informalisation, and urbanisation. In addition, since food items are exempted from GST, the share of food consumption is another structural feature that could affect GST revenue. Since many scholars argued that GST would improve the tax collections of consuming states, this analysis divides states into consuming states and producing states based on the difference in IGST revenue and IGST settlement rate. The states with IGST settlements greater than IGST collection are categorised as consumer states and others as producing states. Third, institutional factors like quality of governance and infrastructure are proxied through the ease of doing business index.

Using the national average as the threshold for informalisation, urbanisation, and share of food in total consumption, states have been divided into two groups. Preliminary evidence shows that the GST as % GSDP is relatively high (2.3%) in states with low informalisation compared to states with high informalisation (2.21%). Similarly, the GST-GSDP ratio is relatively high (2.37%) for states with high urbanisation compared to low urbanised states

GST revenue collection is positively associated with compliance, service sector share, urbanisation, ease of doing business, consuming state; and negatively related to the share of the informal sector, the share of food consumption, and per capita income.



(2.18%). The composition of consumption expenditure plays a crucial role in GST revenue collection. The states with a high share of non-food in total consumption fare better in GST revenue collection.

The econometric analysis further corroborates the preliminary evidence. Compared to states with low level of informalisation, GST-GSDP ratio is significantly lower in states with high level of informalisation. This is because dealers in the informal sector may not have a GSTN number and carry out their business transactions with similar dealers (Mohanty et al., 2017). Similarly, the lack of integration of activities in the informal sector poses the problem for tax administration to trace the activities and is often associated with high monitoring costs (Mukherjee & Rao 2019).

As already shown, states with high urbanization contribute approximately 0.65 percentage points revenue compared to states with low urban concentrations. This is because higher urbanisation is associated with a higher average consumption ratio. Second, the proportion of commercial transactions carried out against the tax invoice is high (Mohanty et al., 2017). A state with a higher share of food consumption is expected to collect less revenue since most of these goods are either exempted or taxed at 5%.

Among other factors, filing (a measure of compliance) and share of the service sector positively affect the share of GST in GSDP. The interpretation is that as returns filings rises, GST revenue collection also rises. Similarly, the higher the share of the service sector in the economy, the higher is the revenue collection. This implies that the economy's composition does matter for the collection of GST revenue. However, states' per capita income is negatively associated with the GST. Higher per capita income may be less correlated with consumption in the relatively richer states and, thus, less tax revenue. Since GST is a destination-based tax, poorer states (consuming states) are likely to benefit more than richer states. The econometric analysis suggests that the GST share in GSDP of consuming states is 0.76 percentage points higher than producing states.

Finally, institution quality, such as administrative efficiency and tax collection efficiency, better governance also plays an important role in collecting more revenue. The Department of Industrial Policy and Promotion (DIPP) prepares the ease of doing business index based on the World Bank's index. This is used as a proxy for better governance. It is found that states with low ease of doing business score 1.37 percentage point less revenue than better ranking states.

5. Conclusion

To sum up, by analysing the trends in GST revenue collection, this paper shows a considerable variation across the states. Though the share of GST-GSDP revenue is relatively high in developed states, the growth of GST revenue collection is higher in less developed states. It is found that Kerala recorded the lowest growth in GST revenue collection among all other states. The econometric analysis of determinants of GST revenue shows that GST revenue collection is positively associated with compliance, service sector share, urbanisation, ease of doing business, consuming state; and negatively related to the share of the informal sector, the share of food consumption, and per capita income.

These findings have relevance for the policymakers concerned with raising the GST revenue. The determinants can be categorised into short-term and long-term (structural factors) policy variables. While the former includes return filings and ease of doing business, the structural variables include urbanisation, informal sector size, service sector share, and consumption basket composition. Our paper suggests that policymakers focus on the short-term factors to mop up the GST revenue while long-term structural factors need to be considered for the Centre-state fiscal transfers.

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GIFT GULATI INSTITUTE OF FINANCE AND TAXATION

Goods and service tax in India: Present rates, expected changes and its implications

Parma Chakravartti

Introduction

The need for rationalization of goods and service tax (GST) rate was discussed recently in the 45th GST council meeting held on 17th September 2021 with an objective of simplifying the rate structure and augment GST revenue. In this regard, a group of ministers on rate rationalization is constituted to look in to the following matters (i) review the supply of goods and services exempted under GST with an objective to expand the tax base and to eliminate the breakage of input tax credit (ITC) chain; (ii) recommend suitable rates to eliminate inverted duty structure to minimize the instances of refund due to inverted duty structure[1] and (iii) review the current slab rates and structure and recommend rationalization measures, merger of tax slabs required for a simpler rate structure and recommend changes to augment required resources.

These were also the recommendations of the fifteenth finance commission (15th FC). As per 15th FC report, the revenue neutrality of GST was compromised with multiple downward adjustments of rates from the rates as recommended by Report on the Revenue Neutral Rate (RNR) and Structure of Rates for the Goods and Services Tax, 2015 (RRNR&SRGST). Three rates structure, lower rate, standard rate and demerit rate was recommended by RRNR&SRGST. The lower/merit rates[2] were suggested to be kept at 12 per cent, standard rates varying between 17 and 18 per cent and demerit rates (luxury cars, aerated beverages, paan masala, and tobacco and tobacco products) at about 40 per cent. To restore revenue neutral rate, the fifteenth finance commission recommended (a) a three rate structure of merit, standard and demerit rate; (b) merging of 12 and 18 per cent rates and (c) minimising exemptions. It is also suggested by 15th FC that the inverted duty structure should be resolved by rationalisation of multiple rate structure of GST.

A study by Mukherjee (2021) analysed the revenue implications of GST rates restructuring in India and suggested a three rate structure of 8 per cent, 15 per cent and 30 per cent to restore the revenue neutrality of GST. 15 per cent is the tax slab suggested for the merger of the two slabs, 12 and 18 per cent. According to

Mukherjee (2021), merging of rates will result in revenue loss since 18 per cent tax rate comprises of two fifth shares (41%) in total taxable value. To recover this loss, the existing tax rates of 5 per cent and 28 per cent needs to be increased to 8 and 30 per cents respectively. The redesigning of GST structure with three rates will have a serious impact on equity if the goods and services are not assigned carefully under each slab. This paper comments on the equity implication of present GST rates and the likely effect of expected changes in GST rates.

Present GST rates and its implication on equity

The present GST structure as presented in table 1 shows that 18 per cent GST slab comprises of 43 per cent of taxable items which makes it maximum among rest of the other slabs.

5 per cent slab consists of 25 per cent of taxable items, 12 per cent slab has 15 per cent of total taxable items, 28 per cent has 2 per cent of taxable goods and services and 15 per cent taxable items come under 0 per cent slab as per the data provided by the GST council. 18 per cent slab which has maximum taxable items contains major proportion of goods which are essential in nature, like soap, hair oil, shampoo, shaving kit, spectacles, electric bulb, tube light, gas stove burner, discs, sound recording apparatus (which would include educational CD as well), stainless utensils, electric fan, pressure cooker (Table 1). Also this slab contains internet expenses, mobile handset on the one hand and computer, laptop on the other hand. The GST rate for internet expenses and mobile handset does not indicate a rational system particularly since the pandemic 2020 when children are heavily dependent on online classes. This must have taken a heavy toll on the lower income strata with higher burden on the families having more than one child who were compelled to buy mobile handset for continuation of their children's education. Also an analysis of household consumption expenditure from NSSO 68th round shows that the share of expenditure of the bottom quintile of consumption expenditure class in its total expenditure for the items under 18 per cent slab are higher than that for the top quintile indicating a regressive tax rate (Chakravartti and Siddiqui, 2022).

Expected GST rate changes and its implication on equity

With reference to the objectives of 45th GST council meeting, the tax base is likely to increase by reducing the extent of exemptions and the three tax rate-structure is also expected to be implemented soon. Merging of 12 per cent and 18 per cent means the GST structure will have three slab rates like 5 per cent,

18 per cent GST slab comprises of 43 per cent of total taxable goods and services which contains essential items, like soap, hair oil, shampoo, shaving kit, spectacles, electric bulb, tube light, gas stove burner, discs, sound recording apparatus

Table1. Present GST structure in India

GST rate slab	No. of items	Percentage share of items under each slab	Major list of items
0	183	15	Agriculture produce
5	308	25	Packaged food items(cooked meals, cooked snacks, baby food),**cooking oil**, **tea, coffee**, **medicine and its salt, diagnostic test kits, kerosene(PDS), LPG, match box, clothing, foot wear**[1], cooking spices, airfare, railway fare on AC and first class
12	178	15	Food items (like noodles, butter, ghee, sauce, jam and processed food items) furniture's, **drugs and medicines for personal use, hearing aids, contact lenses, essential items (tooth paste, tooth brush, bucket, umbrella)**
18	517	43	**Essential items soap, hair oil, shampoo, shaving kit, spectacles, electric bulb, tubelight, gas stove burner**, Discs, tapes, Sound recording or reproducing apparatus, **internet expenses**, stainless utensils, electric fan, pressure cooker, **mobile handset**, telephone instrument, computer, cable tv, Sugar confectionary, corn flakes, sports goods, toys
28	28	2	Cars, motor cycle, scooter, camera and photographic equipment, air conditioner, club fees, cement

Source: GST council website, https://gstcouncil.gov.in/

Note: 3% slab consists of gold ornaments, silver, pearls and other semi-precious stones. 0.25% consists of diamond.

[1] There will be change in rate on footwear as per the 45th GST council meeting.

Three rates structure of GST is likely to be implemented soon which implies merging of two GST rates, 12 per cent and 18 per cent

45th GST council meeting indicates its focus on revenue augmentation with no emphasis on equity issue of GST

merged rate and 28 per cent or any other rates in a three slab structure. Whether the new rates are expected to be higher than the existing rates would depend on revenue generation after the construction of merged rate. If the merged rate suggests loss in revenue, then the rates are expected to rise. If the 5 per cent slab rises above its existing rate this would result in taxing the essential items like cooking oil, tea, coffee, medicine and its salt, diagnostic test kits, kerosene (PDS), LPG, match box, clothing, foot wear at a higher rate. The existing 5 per cent slab already indicates a regressive tax rate as per the study by Chakravartti and Siddiqui (2022). Merging rates of 12 per cent and 18 per cent might indicate a rate anywhere between the range from 12 to 18 per cent. If the rate is above 12 per cent and below 18 per cent then it would be a relief for consumers for the items which were taxed at 18 per cent. Lowering the 18 per cent slab shall reflect a reduction in the degree of regressivity in that slab as it is already discussed above. However, increasing the rate above 12 per cent would imply an increase in the standard rates (as per RRNR&SRGST) which consist of essential items like tooth paste, tooth brush, bucket, umbrella, drugs and medicines for personal use, hearing aids, contact lenses.

Undoubtedly, the restructuring will fulfill the objective of revenue enhancing but it will come at the cost of regressive tax rate structure unless effective subsidy programmes and effective targeting comes in place. Increasing the rates from present rates will proportionately increase the burden of GST on every income class without any difference in degree of regressivity between the present tax and the expected tax structure. To reduce the existing degree of regressivity the essential items need to be taken out of GST or is recommended to assign a lower rate. If the exempted items decrease, this will lead to a problem of equity if subsidies are not effectively targeted. Alternatively, implicit subsidy can also be computed to keep the items exempted from GST which will be equivalent to giving a subsidy to poorer income class.

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[1] Inverted duty structure occurs when input tax rates are higher than rate of taxes on output supplies. The GST Law permits refund of unutilised ITC under two scenarios, if ITC accumulation is on account of zero rated supplies or on account of inverted duty structure.

[2] Rates on goods having larger share of expenditure of poorer households are known as merit rates. The rates on such goods will either be exempted or be kept at lower rate category according to the Report on the Revenue Neutral Rate (RNR) and Structure of Rates for the Goods and Services Tax (2015). In the report, standard rate is to be applied to all goods and services (majority of the base) whose taxation is not explicitly specified.

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GULATI INSTITUTE OF FINANCE AND TAXATION

Has GST increased debt burden of Indian states?

P S Renjith

Introduction

India's sub-national debt position was significantly improved during the initial phase of fiscal consolidation (i.e., 2003-04 to 2010-11), when state governments stipulated fiscal responsibility legislation and initiated various fiscal austerity measures as per the recommendations of successive Finance Commissions and other government channels. But most states failed to maintain the target after the fiscal consolidation period as the debt-deficit indicators often crossed the prescribed limits. While revenue mobilization has become a key concern in sub-national governments' debt accumulation process, a set of tax and non-tax reforms gained momentum in the recent past. Of these, the introduction of the Goods and Service Tax (GST) has played a lead role. [1]

Under the GST regime, state governments' revenue is expected to increase and be inversely proportional to the debt to GSDP (Gross State Domestic Product) ratio, ensuring debt sustainability. If GST revenue is sufficient to service the state's outstanding liabilities, the other receipts (including debt receipts) can be utilized for primary expenditure commitments. However, if it is not adequate, the state needs to borrow further to service its existing debt (i.e., Ponzi Scheme). This also implies that adequate revenue generation from its primary sources like state GST helps the state governments avoid Ponzi conditions and ensure smooth functioning of the fiscal chain (Renjith and Shanmugam, 2018).

Notably, the aggregate debt of all the states combined rose from Rs. 42924.95 billion in 2017-18 to Rs. 53430.22 billion in 2019-20. At the aggregate level, the debt to GSDP ratio reached about 27 percent in 2019-20, while the ratio varied from 17.84 % (Maharashtra) to 41.32 % (Punjab) at the disaggregate level during the period (RBI 2021). Moreover the primary balance[2] of most state governments stayed negative (primary deficit) during the period. Adding fuel to the fire, the growth of GST revenue across states has been lower than expected due to its design, compliance, and administrational issues. Such a shortfall has the potential, directly or indirectly, to create revenue shocks that may lead to fiscal shocks to state finances

by narrowing fiscal spaces and mounting debt burden. This has raised two critical questions in the literature: (ii) Do states hold a sustainable debt position under the GST regime? and (iii)Does GST remain a dismal factor in debt sustainability?

The present study used secondary data pertaining to 22 major states in India from 2017-18 to 2019-20 to analyze the sustainable debt position of Indian states under the GST regime. Using indicator approach, the study examines whether GST regime undermines States' sustainable debt position. The variables used in this study are mainly drawn from two published sources: (i) Reserve Bank of India (RBI) for major fiscal variables and (ii) GST Network for state-wise GST collection and IGST settlement for the period.

Do states hold a sustainable debt position during GST regime?

Conceptually, the public debt is 'sustainable' as long as the debt levels do not accumulate at a rate considerably exceeding the government's capacity to service it in the absence of policy adjustment, negotiation or defaulting (IMF 2011). Unsustainable debt levels can lead to major disruptions in economic activity and reorientation of priorities in an economy. As indicated, under the GST regime, state governments' revenue is expected to grow and be inversely proportional to the debt, ensuring debt sustainability. If the growth rate of GST revenue is inadequate, it will disrupt the fiscal chain indicating signs of fiscal risk. Such a situation entails higher borrowings, adding to the debt burden and questioning debt sustainability. To avoid such a situation, growth rate of GST revenue should be higher than the growth rate of Debt. In other words, the momentum in growth rate of state GST revenue must improve fiscal conditions and thereby improve states' fiscal space.

Further, state governments should have the ability to service its interest payments and repay its debt as and when they become due through current and regular sources of revenue. In other words, they should be solvent enough to avoid a ponzi condition. As a major component of states' revenue, GST collection largely explains states' solvency condition. If the growth rate of GST revenue is faster than the growth rate of interest payments, the debt servicing would be smoothened ensuring sustainability in future. [3]

Most importantly, according to Fiscal Policy Response Function, the primary balance-GSDP ratio is positive and, at least, a linearly rising function of the debt-GSDP ratio. If so, the initial stock of debt equals the sum of the present discounted values of the primary surpluses. Thus, the Intertemporal Budget Constraint (IBC)[4] is satisfied (Bohn, 1998), warranting debt sustainability.[5] Therefore, the primary balance should grow positively. Once again, GST is a crucial factor in this process. If the change in primary balance is positive over time, it grows towards primary surplus in the future. If it is negative, it will direct the state towards a huge primary deficit questioning sustainability in the long run.

8 out of 22 states GST revenue growth is higher than debt accumulation growth

Therefore, in order to ensure a sustainable debt position three conditions should be satisfied: (1) the rate of growth of debt (d) should be lower than the rate of growth of state GST (r), (2) the Interest burden defined by interest payments (i) should grow lower than rate of growth of GST (r) and (3) Primary balance (p) should improve over time. In other words, a higher growth in state GST collection, a lower growth in interest payment and a positive primary balance over time are the sufficient conditions for sustainable debt position. If a state satisfies all three conditions, then it's debt is strongly sustainable. If it satisfies at least one condition, then it's debt is weakly sustainable. The weakly sustainable condition will shift towards an unsustainable debt position if the primary balance grows negatively (i.e., towards primary deficit). In fact, primary balance is the root cause of all types of deficits and reflects in the total debt requirements. As long as a country generates the debt stabilizing primary balance [6] to cover its debt in future, then the country's current debt level is sustainable. Hence, positive growth in the primary balance over time is necessary for sustainability.

The study compares various indicators during the GST period for each state, as illustrated in Table 1. The debt policy is strongly sustainable in the case of Assam, Bihar, Himachal Pradesh, Jharkhand and Uttarakhand (Group A) as it satisfies all three sustainability conditions. They are solvent enough to avoid the Ponzi condition. On the other hand, in the case of Andhra Pradesh, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Tripura, Uttar Pradesh, and West Bengal, at least one condition is met. Therefore, these states are only weakly sustainable. Since Kerala, Maharashtra and Uttar Pradesh satisfy the necessary condition (i.e., positive growth in primary balance) of sustainability, their long-run implications are not very alarming

Strongly sustainable:(i) $\Delta\tau - \Delta d > 0;\ \Delta\tau - \Delta i > 0;\ \Delta p = +ve$

Weakly Sustainable: *(i)* $\Delta\tau - \Delta d < 0;\ \Delta\tau - \Delta i > 0;\ \Delta p = +ve$

(ii) $\Delta\tau - \Delta d > 0; \Delta\tau - \Delta i < 0; \Delta p = +ve$

(iii) $\Delta\tau - \Delta d < 0; \Delta\tau - \Delta i < 0; \Delta p = +ve$

(iv) $\Delta\tau - \Delta d < 0; \Delta\tau - \Delta i > 0; \Delta p = -ve$

(v) $\Delta\tau - \Delta d > 0; \Delta\tau - \Delta i < 0;\ \Delta p = -ve$

(vi) $\Delta\tau - \Delta d > 0; \Delta\tau - \Delta i > 0; \Delta p = -ve$

Not Sustainable: (i) $\Delta\tau - \Delta d < 0; \Delta\tau - \Delta i < 0; \Delta p = -ve$

Five states are strongly sustainable as they satisfy all three conditions of sustainability and six states are not sustainable as they failed to meet at least one criterion.

(Group B). Notably, Kerala is the only state where primary balance has improved over time despite undesirable other conditions. The growing tendency of primary balance will minimize the debt burden, and eventually IBC will get satisfied. This also implies that debt per se is not bad for a state if its primary balance improves over time.

In contrast, the states with negative growth in primary balance (i.e., Andhra Pradesh, Karnataka, Madhya Pradesh, Odisha, Punjab, Rajasthan, Tripura, and West Bengal) may end up with an unsustainable situation in the long run (Group C). Hence the fiscal path of these 8 states is a matter of concern. Notably, states like Chhattisgarh, Goa, Gujarat, Haryana, Tamil Nadu, Telangana do not meet any sustainability conditions (Group D). Therefore, the debt policy is not sustainable in these 6 states. The major concern is these 13 states (Group C and Group D), which failed to satisfy the necessary debt sustainability condition. Their SGST collection is inadequate and deserves policy attention.

Has GST aggravated states' debt position?

In order to check whether GST aggravated States' debt position or not, the study compared the findings of previous studies (Kaur et al. 2017; Renjith and Shanmugam 2018), which analyzed the debt position of major Indian states during the pre-GST period. Using the Indicator approach, Kaur et al. (2017) observed the sustainable debt position of Indian states over five phases from 1981-82 to 2015-16. According to the analysis of the last phase (2012-13 to 2015-16), the study observed that states like Andhra Pradesh, Bihar, Gujarat, Madhya Pradesh, Maharashtra, Odisha, Tamil Nadu, and West Bengal are sustainable. However, in the present study, except Bihar and Maharashtra, all other sustainable states are either unsustainable or weakly sustainable without satisfying the necessary condition, during the GST period. This implies that the debt position of many Indian states got aggravated during the GST period.

Kerala, Maharashtra, and Uttar Pradesh are weakly sustainable, but their positive primary balance indicates that their debt position is likely to improve. In contrast, the other group of weakly sustainable states registering negative growth in primary balance is a cause of concern as it could lead to an unsustainable debt position.

Table 1. Select sustainability indicators

State	$\triangle r - \triangle d > 0$	$\triangle r - \triangle i > 0$	Δp (+/-)	**Sustainability?**
		Group (A)		
Assam	4.46	4.54	+	Strongly Sustainable
Bihar	20.22	18.85	+	Strongly Sustainable
Himachal Pradesh	10.32	12.14	+	Strongly Sustainable
Jharkhand	8.35	12.29	+	Strongly Sustainable
Uttarakhand	3.87	9.14	+	Strongly Sustainable
		Group (B)		
Kerala	-5.50	-7.02	+	Weakly Sustainable
Maharashtra	-0.94	6.26	+	Weakly Sustainable
Uttar Pradesh	-0.01	4.20	+	Weakly Sustainable
		Group (C)		
Andhra Pradesh	-2.61	0.81	-	Weakly Sustainable
Karnataka	-2.67	0.03	-	Weakly Sustainable
Madhya Pradesh	0.30	3.67	-	Weakly Sustainable
Odisha	1.56	8.44	-	Weakly Sustainable
Punjab	-0.42	1.02	-	Weakly Sustainable
Rajasthan	0.47	2.98	-	Weakly Sustainable
Tripura	4.54	9.55	-	Weakly Sustainable
West Bengal	2.36	6.06	-	Weakly Sustainable
		Group (D)		
Chhattisgarh	-10.90	-15.10	-	Not Sustainable
Goa	-1.92	-0.56	-	Not Sustainable
Gujarat	-4.18	-2.11	-	Not Sustainable
Haryana	-3.51	-3.03	-	Not Sustainable
Tamil Nadu	-4.88	-4.38	-	Not Sustainable
Telangana	-5.95	-2.85	-	Not Sustainable

Using an empirical approach, Renjith and Shanmugam (2018) observed the debt sustainability of 20 Indian states during the pre-GST period. According to them, in 12 out of 20 states, namely, Assam, Bihar, Chhattisgarh, Haryana, Himachal Pradesh, Jammu and Kashmir, Jharkhand, Kerala, Odisha, Punjab, Tamil Nadu, and Uttarakhand, public debt is sustainable. However, as per the present study except Assam, Bihar, Himachal Pradesh and Jharkhand, the remaining eight states are not strongly sustainable. Again, it supports the fact that the GST aggravated the debt position of many Indian States. Therefore, they need to take corrective action to tackle their debt situation.

Conclusion

This paper analysed the sustainable debt policies of Indian states during the GST Period. The results indicate that debt policy is sustainable during the GST regime only in 8 out of 23 states. Of these, only 5 are sustainable as well as solvent. This also implies that the observed sustainable path is not because of the sound fiscal policies of most states and GST remains an undermining factor for debt sustainability in these states during the period. Notably, the C and D category states (neither sustainable nor solvent) require urgent policy attention. This study recommends that the composition of borrowed money should be customized with correction packages for individual states instead of a one-size-fits-all approach. Therefore, the states should adopt respective revenue augmentation measures realizing their revenue potential. The state GST department should adopt effective strategies to minimize compliance and administrational issues to improve GST revenue collection and thereby debt sustainability. Furthermore, debt servicing should be strictly based on the GST dominated own revenues and not using the borrowed money. Although it is too early to commend whether GST is a successful model for debt sustainability, this study clearly indicates that many states are way off the mark. They need to take corrective actions in the future by increasing their GST collection, own revenue and the primary surplus. Despite these limitations, the empirical analyses of this study have provided meaningful and insightful results into the fiscal situations of the states under consideration.

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[1] i.e., 2003-04 to 2010-11

[2] See Mukharjee (2020) for details of GST framework

[3] The primary balance is the root cause of all types of deficits. It is basically the amount of borrowings that are required to meet expenses other than the interest payments (primary deficit) or the pressure of the government on the interest commitments on previous borrowings (primary surplus).

[4] See Grainer and Fincke (2015) for details.

[5] The outstanding debt today must be equal to the present value of future primary surpluses of a government.

6 Since this test maps the response of the primary balance to change in public debt, conditional on the control

variables this is often referred as the fiscal reaction function or the fiscal policy response function in most of the literature D

'Erasmo et al. (2016).

[7] See Rangarajan and Srivastava (2005) for details

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Did inflation rise after GST?

Anoop S Kumar and Santosh Kumar Dash

1. Introduction

Before GST, India had a taxation system where both the Union and State governments levy taxes under different tax laws. Its predecessor VAT had multiple taxes and cascading of taxes and was prone to misuse the input tax credit (ITC) without a complete supply chain from producer to consumer. The objective of the implementation of GST was to lessen some of those problems. We look at how prices have changed post the adoption of GST in India.

GST by design excludes half of the commodities in the CPI basket. Further, many goods are taxed at 5% since they are considered essential in our daily lives. If goods taxed at a lower bracket in the VAT era are taxed higher in the GST regime, then prices will increase. Similarly, if a commodity in the GST regime is taxed lower than VAT, its prices should reduce. Thus, it could increase the prices of some goods while decreasing the price of some other goods. Analytically, how these will play out at the aggregate level depends on 1) how GST rates differ from VAT rates, 2) whether the GST is revenue neutral, 3) number of commodities outside the CPI basket, 4) market power of the companies, and 5) the price behaviour of products excluded from GST, among many other factors.

During GST implementation, it was expected that GST would bring down price levels as it harmonises various indirect tax rates and removes the cascading effect. However, this is a widely contested claim. The Australian Competition and Consumer Commission (2003) study shows that GST has an initial positive impact on inflation. However, there is contrasting evidence as well (Valadkhani, 2005). For India, the sole study by Das (2019) using the difference-in-difference (DID) method shows that there is no significant effect on GST on general price levels at the state level.

However, this finding needs to be re-examined due to the following facts. First, DID is a static regression model since only two-time points exist. However, we need to consider the dynamic effect of the intervention, especially its onset and decay structure. Second, Das (2019) studied the general price levels. While food and fuel items occupy a significant

share in the consumption bracket, fuel and the majority of the food items are excluded from GST. Hence, employing the general price levels may not yield correct results. Third, the analysis stops at 2018, showing a lack of data in the post-intervention period. Finally, the model does not have other covariates that could influence price levels, and the inclusion of other controlling factors is relevant in quantifying the impact of any intervention.

Even though GST has completed more than four years, there is hardly any systematic study investigating the impact of GST on prices. Therefore, it is required to understand whether GST would have had any significant impact on prices. Thus, this paper addressed this research gap and examined the impact of GST on prices.

2. Data and methodology

3.1. Empirical strategy

Quantifying the impact of GST on prices is a tricky task. We utilise the recently developed casual interference analysis by Brodersen et al. (2015) to estimate the size of the price effect of GST empirically. The Causal Impact method employs Bayesian structural time-series models to explain the temporal evolution of an observed outcome. Here, we model the counterfactual to see how the response variable would have evolved if the intervention did not take place. Then the causal estimate would be the difference between the actual and the counterfactual trends. This methodology is very similar to the synthetic control method (Abadie & Gardeazabal, 2003) to capture the true impact of an intervention. Both the methods employ the control variables to construct a counterfactual of the treated variable to give us an idea of the trend if the treatment had not happened. We estimate the impact of GST on price levels (proxied by CPI) while controlling for the exchange rate, energy prices, and interest rate.

The difference between Synthetic Control and Causal Impact is that Synthetic Control uses variables only in the pre-treatment period for matching. In contrast, Causal Impact uses the entire pre-and post-treatment time series of predictor variables for matching. In the case of CausalImpact, we assume a set control time series that were themselves not affected by the intervention but nevertheless acted as a predictor of the treatment variable. Suppose these control variables were affected by the intervention. In that case, we might falsely under- or overestimate the actual effect or falsely conclude that there was an effect even though, in reality, there was not. Further, the model also assumes that the relationship between covariates and treated time series remains stable throughout the pre and post-period intervention.

Using the causal impact model, we estimate nine models, where the corresponding dependent variables are: CPI(Headline), CPI(Core), CPI(Food), CPI(Food & Beverages), CPI(Pan, Tobacco, Intoxicants), CPI(Clothing & Footwear), CPI(Housing), CPI (Miscellaneous) and CPI(Non-Exempted

Food & Beverages), and the covariates are exchange rate, repo rate and energy prices. CPI-Headline inflation is the percentage change in the CPI aggregate index. On the other hand, CPI-Core inflation is the percentage change in the CPI index after removing volatile components from the CPI basket, such as food and fuel. Monetary policy conducted by central banks around the world relies on this index and inflation as it is more stable and displays underlying inflationary pressures of the economy. Other measures of CPI index captures particular sector of the CPI basket such as Food, Food & Beverages, Pan, Tobacco, Intoxicants, Clothing & Footwear, and Housing. The CPI Non-Exempted Food & Beverages price index is constructed using items listed under the food and beverages group. They are Pulses and products, Spices, Non-alcoholic beverages, and Prepared meals, snacks, sweets, etc.

3.2 Data sources

We select the monthly CPI growth rate as the treatment variable for modelling purposes. As for the covariates, we select monthly INR/USD bilateral exchange rate, energy price index and the repo rates. These three variables are found to influence inflation, and we assume that the implementation of the GST in no way influences them. The data spans from January 2011 to December 2020. This is our primary price variable of interest since the Central bank has adopted a price target following the adoption of Flexible Inflation Targeting (FIT). The price/inflation is measured using the New CPI data. Importantly, to measure the impact of GST on prices, CPI is the most appropriate since it includes taxes that final consumers pay.

The Central Statistical Office (CSO), Ministry of Statistics and Programme Implementation (MoSPI), has introduced the All-India Consumer Price Index (CPI) since January 2011 on Base 2012=100. It releases data on CPI for Rural (R), Urban (U), and Combined (C). The CSO has revised the Base Year of the CPI from 2010=100 to 2012=100 with effect from January 2015. This study used monthly CPI inflation data. This is computed as

$$g= \frac{Y_t-Y_{(t-12)}}{Y_{(t-12)}} *100.$$

This study has considered the CPI (Combined) (henceforth CPI-C) measure of price indices.

The CPI indices are spliced with the base period 2012=100. The CPI data is available from January 2011 to December 2020. The CausalImpact method requires a more extended time period to train the model (pre-intervention period). However, the new CPI series data do not permit us since data is available from January 2011.

3. Results and discussion

The results provide us with an interesting picture of the impact of GST on price levels. First, we look into the overall price index (CPI). Here, the actual CPI growth in the GST period is 4.61%, whereas the counterfactual is 3.24%. Without the implementation of GST, the CPI growth would have been 3.24%, indicating that,

with the implementation of GST, CPI grew by 1.37%. Similarly, we see a statistically significant increase of 1.04% in the CPI- Core growth post GST period (actual = 4.57%, counterfactual = 3.53%). Similarly, GST is found to have a significant positive impact in Pan, Tobacco and Intoxicants, Clothing and Footwear, Housing and Miscellaneous sectors. In the case of Non-exempted food and beverages, implementation of GST is found to have a negative impact of 4.42% on price levels (actual = 2.84%, counterfactual = 7.25%).

To summarise our results from the analysis of various CPI-based commodity price indices, the implementation of GST has resulted in a decrease in price levels of food items. In contrast, it significantly impacts commodity groups such as headline CPI, Pan, Tobacco and Intoxicants, Clothing and Footwear, Housing, Miscellaneous, and Non-exempted F&B. On the other hand, commodity groups such as Food, Food & Beverage (F&B), and Non-exempted CPI did not experience any significant effect of GST in the post-intervention period

4. Concluding remarks

This paper analysed the impact of GST on price levels (CPI) for India using a causal inference model while controlling for factors such as exchange rate, interest rate, and energy prices. We found that GST implementation has resulted in a decrease in price levels of food items while having a significant positive impact on headline CPI, Pan, Tobacco and Intoxicants, Clothing and Footwear, Housing, Miscellaneous, and Non-exempted F&B. However, commodity groups such as Food, Food & Beverage (F&B), and Non-exempted CPI did not experience any significant effect of GST in the post-GST period.

To conclude, our study found evidence that GST positively impacted the price levels of the non-food sector. In the case of Food, GST reduces the price levels, which is desirable. However, the pertinent question is whether this effect is permanent or transitory. If GST is going to have a permanent impact on price levels, it might be a matter of concern. As the GST was implemented only in the recent past, there is not enough data to analyse the long-run impact of GST on the price levels.

■

(The Authors are Assistant Professors, GIFT)

Note: This article is a non-technical abridged version of our forthcoming GIFT Discussion Paper titled "Impact of GST on Inflation: Evidence from Causal Analysis."

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General articles

GIFT GULATI INSTITUTE OF FINANCE AND TAXATION

Revival of the COVID riven economy of Kerala

Joseph K V

Revival of Covid riven economy of Kerala would not be a smooth affair, as the inflow of remittances, which has transformed Kerala as a consumer state akin to the "age of high mass consumption" of Rostow, may not revive so long as Covid persists.[1] The attempts at the revival of the economy by providing incentives may not be effective either, in the context of the unique nature of the economy of Kerala. Ipso facto, what is needed is to strive for self-reliance by augmenting the productive sectors of the economy.

Devastating effects pandemic

COVID-19, a new pandemic which infected the whole world reached Kerala in Jan 2020, perhaps before reaching anywhere else in India. Luckily, the initial wave was not so severe and the state could effectively contain it .However, it reappeared with much more ferocity in March 2021 .The daily tally of infection rose up to 43529 by mid-May 2021. The death toll has come up to 59115 as on Feb 7th 2022, more than 10 per cent of the all India total. Furthermore, the threat of Omicron, a new variant of Covid looms large in the air.

Apparently, the impact of the pandemic would be more damaging in the case of Kerala, than in many other parts of the world for more than one reason. However, nobody is sure as to the exact magnitude of setback caused by the pandemic. According to an estimate made by the Planning Board the fall in income would have been around Rs 80000crore in 2020-21. [2] The loss would be more than that in 2021-22. A quick estimate made by the Department of Economics and Statistics, tentatively calculates a negative growth rate of 11.2 percent in 2020-21.[3] A far more serious setback would be a loss of employment to a considerable number of people. The number of auto drivers, taxi drivers, beauticians, shop assistants, petty traders construction workers and such other people thrown out of employment would be hundreds of thousands in the state. In addition, as many as 14 lakh expatriates have come back to Kerala. [4] Most of them subsist on the kitts and free ration provided by the sirkar. Luckily we seem to contain the epidemic, though the threat from the third phase remains uncertain.

Constraints to the revival of the economy

How to revive the economy poses as major problem confronting the state .In Kerala which has emerged as a consumer state the problem becomes a baffling one. The transformation of the economy with conspicuous consumption as the hallmark characterised by posh buildings all over the state ,streams of motor vehicles flooding the roads and narrow lanes, and sophisticated consumer durables of all categories has the semblance of "the age of high mass consumption" of Rostow. An economy attains the age of high mass consumption after passing through different stages. Kerala on the other hand, has attained such a stage from a primitive agricultural and a stagnant industrial base without passing through different stages. How a jump from a backward economy could be accomplished all on sudden? Kerala has been the recipient of fairly large amount of money from foreign lands being the earnings of her sons and daughters working there. The inflow of such remittances which account for about 20 per cent of the GSDP seems to be operating behind such transformation. The remittances in liquid cash are being utilised invariably for meeting the needs of conspicuous consumption.

The strategy of giving incentives to the consumers for boosting an economy facing recession and thereby to stimulate productive activities may not naturally be effective in the case of Kerala. The high mass consumption needs met from the remittances cannot be covered by small doses of incentives provided by the state. The state is not in a position to provide so much of incentives as to match the fall in the remittances . At the same time practically the entire volume of consumer goods used by Keralites come from other states. Approximately about 80 per cent of the food requirements are met by importing rice and wheat from states like Andhra Pradesh West Bengal, Punjab and so on. Furthermore trade and transport normally regarded as productive services by aiding production function as consumer services as such. They facilitate the supply of consumer goods to the door steps of the consumers. Even the bulk of the materials including labour services needed for construction which has surfaced as a major productive activity come from other states Any amount of incentives would naturally stimulate productive activities in other states. There may not be any multiplier effect as the bulk of the amounts spent for maintaining high levels of consumption goes to other states.

Prima facie the revival of the economy crippled by the pandemic will certainly be a time consuming process. Improvement in the inflow of remittances which have declined considerably with the pandemic forms the basic requirement for the revival of the economy to the pinnacle of prosperity of the pre-pandemic days. Recovery of the economies of countries from where remittances are received becomes crucial in this regard.

Self- reliance for the long term sustenance of the economy

Instead of relying on such external factors

for ever, certain steps should be taken on a priority basis for the long term sustenance of the economy .Actually the havoc caused by the pandemic should be an eye opener in such a situation .India as a whole could successfully withstand the disaster from the pandemic because of the self-sufficiency attained in food production. Similarly Kerala should adopt measures designed to achieve self-reliance

The crucial step for this purpose would be the augmentation of the productive sectors of the economy, instead of erecting malls and show rooms which stimulate consumerism. Among the productive sectors agriculture, calls for serious consideration for various reasons.. Till the closing decades of last century agriculture had a commanding position in Kerala. Deceleration set in with the large scale inflow of remittances which provided the means for an affluent life. Since then, an era of fall in the prices of crops and high cost of production set in .In this connection what the government should do is to ensure a fair price to the farmers by creating institutional marketing facilities on the model of MILMA (Kerala Co-operative Milk Marketing Federation). Hitherto, Government's policy has been to pamper the consumers, very often ignoring the interests of the cultivators. Government should squarely meet the demands of the cultivators by providing incentives and subsidies. Credit should go to the state government for taking various promotive measures which could bear fruits in the wake of Covid outbreak by stimulating agricultural production.

There are limits to agriculture to restore the pristine glory of the economy. Promotion of industries constitutes the most important step to be adopted in the matter. Industrial sector of Kerala remains stagnant with vey meagre share in the GDP of the state, .The state could make very little progress in the field of industries though Kerala is endowed with large volume of bank deposits, huge volume of remittances and the presence of skilled labour force. Instead of taking advantage of the favourable conditions, entrepreneurs seem to be lukewarm to invest in industrial ventures in Kerala apparently for want of an investment friendly environment. Actually, entrepreneurs of Kerala origin have made considerable success in other parts of India and even in foreign lands. Militancy of labour has been attributed as the main cause for the emergence of the unfriendly environment for investment here.[5] It is true that the workers were displaying a militant posture soon after independence. Though the militancy has subsided subsequently, the evil legacy hangs on like "the evil that men do lives after them". Of late the state government has been striving vigorously to create a favourable climate for investment in industrial enterprises. If the political parties potentially capable of moulding the behavioural pattern of the people at large also take a positive stance in the matter much can be done.

The industrial enterprises of Kerala which have grown here comprise coir making, cashew processing, handloom

industry etc., are outmoded with low productivity. Instead new industries like the IT, potentially capable of transforming the industrial structure of Kerala should emerge .A large number of IT professionals of Kerala have made a name in many parts of the world .Work at home adopted by industrial establishments to tide over the difficulties created by the pandemic has the semblance of a god-sent opportunity for implanting IT industries in Kerala. Will Kerala be able to take advantage of the opportunity and emerge as an IT hub? Timely action on the part of the state is crucial in the matter. Similarly, tourism regarded as a smokeless industry, also deserves promotion.

The need of the hour is the revival of the economy shattered by Covid-19.Simultaneously the state has to think in terms of self-reliance. Dependence on foreign countries, be it for employment or income is not good for the long term interest of the country. Covid has brought to light the imperative need for self-reliance.

■

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GULATI INSTITUTE OF FINANCE AND TAXATION

Vanishing murmurings of handloom shuttles: Perspectives on the development of handloom industry with reference to Kannur district

A C K Nambiar

Abstract

Handloom industry was one of the ancient and the most important industries in terms of employment in India. The protective and developmental measures adopted after independence and the inherent strength enabled the industry to survive several crisis and play a meaningful role for several decades. However, the contemporary development is that the industry is on the decline. At the same time, a major boost to production and export is being contemplated by the central government. In this context, this paper attempts a reality check on what is happening to the industry at micro level with reference to the handloom industry of Kannur district, which was an important centre for production and export of handloom cloths in the country. The panel data of sample based study of handloom units of the district in 1977-78 and 1990, an in-depth study of Edakkad village of Kannur district in 2017 where handloom industry provided sustenance to a majority of workers and secondary data formed the basis for the study.

It is noted that the district's industry dominated by the private sector underwent organizational changes and the shift was from factory-based production organization to more disorganized production organization. By 1970 there were three tiers of units undertaking work on sub-contract below the former factory units. Still, the industry was at its zenith of glory in the 1970s as Kannur crepe was a hit in the western markets. However, later the industry weakened and is now on the decline. While the problems of the industry are well documented an examination of the specific reasons for the steep decline of the industry of the district reveals that low wage and acute labour scarcity, the unviability of operation of sub-contracting units, unforeseen financial loss due to natural calamity and loss of segmented markets as some of the problems of the region. The industry's decline is not a regional issue but is state and nationwide phenomenon. In this scenario, it is open to doubt whether the handloom industry can be geared to make a quantum jump in the production of cloths as currently envisaged by the central government.

Handloom industry is one of the ancient and most important industry in India in terms of employment. In the nineteen seventies Kerala emerged as an important centre as hardly with 2 percent of the total handlooms of the country the state contributed nearly 10 per cent of the total production and one third total export of handloom products. Bulk of them originated from Kannur district. However, evidences indicate that in the later decades the industry weakened and is languishing. This is not only a regional problem but also a nation\ wide phenomenon.

Introduction

The handloom industry of Kannur is centuries old. It was also the most important industry of the district as it provided livelihood to the vast majority of the population in many villages in the past. The impeccable quality, elegant designs, characteristic weaving and policy support of the government enabled the industry not only to survive and develop even when faced with several adversities. The 1970 - 80 decade is distinct in the history of Kannur handlooms being at the pinnacle of glory. However, later evidence indicates that the industry weakened and started declining in the following decades. In fact, in a village of the district where handloom weaving was the mainstay of the majority of workers in the 1960's the industry is now almost extinct. Paradoxically the central government has recently constituted a Working Group to submit a blueprint for doubling the production of handloom products from the level of Rs. 60000 crores to Rs. 120000 crores and raise the export of handloom products from Rs. 2500 crore to Rs. 10000 crores in three years (Malayala Manorama 2021). In this context, a reality check on the industry's current status assumes significance. This paper is an attempt in this direction as on examining briefly the important development phases of the industry in the district, portrays the course of development of the industry in a village stretching for about six decades from 1960 and briefly comment on the prospects of the industry in the country.

The data

The study is with reference to primary and secondary data. For an in-depth study the Edakkad village of Kannur district was selected. There were a few reasons for the selection of the village. In the economic and employment structure, the handloom industry dominated and provided sustenance to majority of workers in the village in the 1960's. Further, a detailed description of the handloom industry, the socio-economic conditions of handloom households, and the village's overall social and economic structure in the early 1960's was available in the village monograph published by the Census organisation. The report provided materials for depicting the status of the industry in the 1960's. A study covering various aspects of the

industry of the district was conducted in 1977-78.[1] For the study, five panchayats, including Edakkad panchayat[2] with the highest handloom concentration, were selected. A sample of 182 units of the selected panchayats were selected by stratified random sampling method to cover various size classes of units in terms of looms and categories such as private and cooperative sectors. By periodic personal visits, the operational details of the sample units for one year were collected in a questionnaire. The same units were revisited in 1990 to assess the changes.[3] In 2017, we conducted a study on the socio-economic conditions of the population and economic structure of Edakkad village for which 281 sample households were systematically selected and interviewed on personal visits with a questionnaire.[4] An enumeration of all household and non-household enterprises of the village was also conducted. Being a native of the village, the author witnessed the developments in the village stretching for about six decades from the 1960's and better placed to collect reasonably accurate data. The relevant findings of these studies are cited to portray the course of development of the handloom industry. Thus primary surveys, the village monograph, and visual observations were supplemented by secondary data and detailed field-level discussions.

Origin and development of handloom industry

In the region, weavers were traditionally Chaliyas. Though there are several versions as to the origin of the Chaliya community, the people in the region claim that they are the descendants of Salya, the Sage (Superintendent of Census Operations 1966). The childless Sage prayed to God Siva for children, and God appeared with two children in his two hands. The one on the left hand was the forefather of Edangai (leftist faction) and the one on the right side Valangai (rightist faction). These two factions, which are found in many parts of east coast communities, exist only among the Chaliyas of the west coast. Evidence indicates that the Indian cotton export flourished in ancient India (Buch 1979:11). On the importance of the industry in the region and its distinct features Renaudot, an ancient writer, commented, "in Calicut (Calicut and Kannur previously belonged to the Malabar region) garments are made extraordinarily that nowhere else are the like to be seen. They are most part mound woven with degrees of fineness that it may be drawn through the ring of a middling size" (Krishnamoorthy O S 1971:72). Marco Polo, who travelled extensively through Asia in 1290 AD, stated that many households in this part used to prepare cloth with the help of family members using rudimentary tools. This home-based activity changed by the middle of the nineteenth century with the entry of Basel Mission in the region. The Mission in 1844 brought frame looms from Germany and established a few handloom factories in the region in 1852. The social reform movements initiated by Sree Narayana Guru and the activities of Vakbadananda led to the gradual adoption of industrial activities by other

communities, predominantly the Thiyyas (Other Backward Community) as workers and owners of units (http// :dsource.in/resource/land-looms-and-lore-Kannur/introduction). Thus, the owners of units consisted of the Chaliya community followed by the Thiyya community and they started establishing factory-type units in the district. There were units with more than 300 looms in the district in the past. Implicitly the small household units co-functioned with large factory-type units. A setback to the factory-based production occurred with the passing of the Factories Act in 1948. The fixation of minimum wage in the nineteen fifties further weakened the factory-type organization and paved the way for disorganization of production. By the late 1960's the process was more or less complete as statutory regulations were enforced strictly in the case of traditional industries. Accordingly, over the year's factory-based production declined, and in its place, many small and tiny units emerged for production of handloom cloth. Apart from labour unemployment, this opened avenues for exploitation of the labour. The Kerala State Handloom Development Corporation was established in 1968 to bring under its fold the unemployed weavers and arrest the exploitation of labour. Notwithstanding this, the private sector factory units dismantled the main production activities. As observed in the 1977-78 study, three tier decentralized units executed the main activities of winding, warping, and weaving handloom cloth in the private sector. At the top are former factory units, some of them exporting units. The units gather production orders directly from abroad or canvass orders through exporting houses based in major Indian cities or commission agents. The main production activities in-house are maintained peripheral, some of them in developing sample cloths to explore markets. The bulk of the orders are passed on to scattered units with a sample cloth or as semi-processed raw materials, mainly dyed yarn. Under them work many units, some units with facilities from dyeing of yarn to cloth weaving, some units with only warping, winding and weaving facilities and others with only small pirn winding and weaving. The last category is very tiny units, mostly home-based, gathering work from the second category. In suitable form, work orders are made available. Many second category units also organized production on their own by canvassing orders through commission agents. Most of the last two categories were former factory workers induced by the factory owners to set up their own units by offering looms and accessories free or at nominal cost. They gave up the factory job under the illusion of becoming owners of handloom units. Thus over the years, a four-tier decentralized production organization came into existence.

Even in this fluid state, the industry witnessed a major boom by the late 1960's with the introduction of a product called Kannur crepe (the fabric with a crimp appearance). It was a hot cake in the western countries and brought about unprecedented prosperity. In the history

of development, the industry was at the zenith of glory. The de-centralised production units further expanded the production base. Some new units emerged to meet the export demand leading to the acute shortage of labour and pronounced wage rise. Several workers shifted from other traditional industries to handloom weaving. The margin enjoyed by the units was also high, and all industry stakeholders shared the prosperity. This also led to the expansion of hotels and restaurants, transport, construction, demand for consumer items etc. This developmental effect was felt in several other handloom areas including the neighbouring state of Tamil Nadu, as work orders were passed on to them by establishing links. This was also a strategy adopted by the main units to arrest wage rise. Thus, the Kannur handloom industry, dominated by the private sector[5] in the 1970 decade came to occupy a much more pivotal role in producing and exporting handloom products. It is estimated that accounting for hardly 2 percent of total handlooms of the country (Estimate's Committee 1977-78:211), Kerala rolled out nearly one tenth of the total handloom output of the country (Indian Institute of Foreign Trade 1975:195). The estimated export was nearly third of the total handloom exports of the country (Nair 1977). Kannur accounted for a large share as the district accounted for 44.60 per cent of total looms in the state in 1976 (Directorate of Handlooms 1976:85-86) and is estimated to have contributed 98 percent of total handloom exports of Kerala (http//:filmingindi.com/blog-post/Kannur-the-handloom-city-of-Kerala-India/). The district's estimated daily output of handlooms was placed at 5 lakh meters daily then (District Planning Office 1980:44). Kannur taluk has the largest concentration of looms and units within the district. The Taluk accounted for 46. 29 percent of handloom units and 56.67 percent of total looms of the district (Directorate of Handlooms 1976:85-86).[6] Implicitly most of the production and export of Kerala originated from Kannur taluk. The major products of the area are exported to UK, USA, Germany, Italy, and France. The Kannur handloom product even figured in the bedspread collection of the US President (Times of India 2014). The town figured as one among the four export centres of India besides Karur, Panipat, and Varanasi in the country. The Kannur town also once came to enjoy Town of Export Excellence of Government of India (filmingindi.com/blog-post/Kannur-the-handloom-city-of- Kerala-India/).

To some extent, the institutional infrastructure facilities set up in the area enabled the industry to emerge into prominence. As early as the 1960's a Polytechnic with a textile technology course and a cooperative spinning mill were set up. In 1968 the Kerala State Handloom Development Corporation came into existence with headquarters in Kannur. Many weavers were brought under cooperative fold by promoting several primary cooperatives societies with an apex body known as Hantex. Setting up two industrial-type cooperative units with all in-house

production facilities in Kannur Taluk was a unique venture. The Institute of Handloom Technology and a Weaver's Service Centre were other notable institutions functioning in the Taluk. However, the tempo of growth the industry could not sustain as in the later decades, the industry started declining.

The decline of the industry

To depict the declining trend, first we consider the result of our panel data of 1977-78 and 1990. The data revealed, out of 182 functioning sample units in the 1977-78 study, 44 private sector units (24.18 percent) in 1990 were reported as closed permanently, and the marketable assets were disposed of or the woods were used for other purposes. Three fourths of units were closed in the post-1980 decade. All closed units belonged to the dependent category. In the working units also there was a decline in the number of looms. Among the working units, the decline in loom was 23.64 percent. Though all categories of private units reported a decline in looms, the largest decline in looms was among the second and third tier categories undertaking piece works. In the cooperative sector, the decline in looms was very marginal, 0.86 percent. Among the factory units, on average, 15.6 looms per unit declined. The declining trend is further evidenced by our village-specific study.

In the economic structure and employment of Edakkad village, the handloom industry dominated in the nineteen sixties. The Kuttikkakom desom of the village was mainly a Chaliya theruvu (street) as there was a large concentration of handloom units and weaver households. It was one of the important handloom centres of the district historically, as many units within and outside the village were provided with work orders by a few large units of the area. On all Saturdays afternoon, the accounts were settled, and heavy crowding took place in the area giving the impression of a festival. A temporary market also functioned on the day. In addition, there were units dispersed throughout the village, mainly owned by Ezhava community. Thus the murmurings of the shuttles were audible everywhere in the village in the daytime. Most of them were private individual units. The size of the units in terms of employment ranged from more than 100 workers to only two or three persons. As per the 1961 census, out of 52 handloom units in the village, 22 provided regular employment to 10 or more persons, 24 between 5-9 workers and others less than 5. A few households controlled the industry. The large units sub-contracted works in a suitable form to small units. Units employing 1 or 2 looms operated within the premises of the houses were hardly better than wage earners. Most of them were fly shuttle looms, and very few pit looms were reported. The chief products of the village were coloured lungis, shirting, very fine varieties of bedspreads, and furnishing cloths. The products were able to withstand the competition of mill products and found markets even outside the state and country. Some of the products enjoyed

great demand among the plantation labourers of Bengal and Assam. In marketing, the commission agents acted as intermediaries. In the industrial sector, nearly three fourth of the income of the village was generated by the handloom industry. In different capacities, the handloom also employed about 50 per cent of the total workers of the village (Superintendent of Census Operations 1966:127). By the middle of the nineteen fifties, two handloom cooperative societies were set up, and one was the industrial type cooperative unit with 127 looms. Also, the Institute of Handloom Technology and the Polytechnic was established in the village.

The industrial profile of the village in the district in 1961 attests to the dominance of the handloom industry (Table 1). Observably, the handloom industry accounted for 55.32 per cent of total units, followed by tobacco products 21.28 per cent and cotton spinning 9.57 per cent. Altogether the textile related and tobacco industries (mainly beedi industry) dominated, accounting for 86.17 per cent of total units.

In this background, if we look at the later developments of the industry, the evidence indicates that the decline of industry in the village was accelerated. Even in 1977-78 it was observed that only one factory unit functioned in the village and all exporting units were located elsewhere. By 1996 beedi rolling emerged as dominant in employment, accounting for nearly three-fifth of total employment, followed by power loom units and a steel mill (Table 2). The handloom industry turned out to be of peripheral importance employing 4.29 percent of total workers. The plight of handloom cooperatives too ran parallel as while one weaver's cooperative society winded up the activity, the other industrial-type cooperative unit considerably downsized the handloom production. In our 2017 Edakkad village study, we did an extensive search for handloom units. It was found that the handloom activities have become almost extinct as we could identify only two units, one each in the private and cooperative sector. The private sector unit operated five looms, and the same was working for the Khadi Board. In the

Table 1. Industrial profile of Edakkad village in 1961

Type of industry	No	%
Food processing	2	2.13
Edible fats and oils	3	3.19
Tobacco products	20	21.28
Cotton spinning	9	9.57
Handloom	52	55.32
Textile garment	3	3.19
Hardware, engg. products	1	1.06
Jewellery	4	4.26
Total	94	100.00

Source: Superintendent of Census Operations (1966:136)

Table 2: Distribution of units and workers by nature of industry in 1996

Type of industry	No of units	%	No. of workers	%
Flower mills	14	5.02	14	0.90
Powerlooms	93	33.33	161	10.31
Handlooms (private)	1	0.36	5	0.32
Handloom cooperatives	1	0.36	62	3.97
Hosiery	9	3.22	20	1.28
Welding	9	3.22	30	1.92
Workshops	7	2.51	98	6.27
Leather	2	0.72	40	2.56
Steel company	1	0.36	85	5.44
Beedi rolling centres	119	42.65	925	59.22
Others	23	8.24	122	7.81
Total	279	100.00	1562	100.00

Source: Edakkad Panchayat (1996:21)

surviving industrial type handloom cooperative unit, only five looms were working, and thus in effect, in the entire village, only 5 handlooms were producing cloth. Further from the listing of establishments of the village, it was found that there were 81 industrial units, out of which two were handloom units. None among the workers of our sample households belonged to the handloom industry. Manifestly handloom industry that provided sustenance to most village workers in the nineteen sixties is almost extinct now.

The problems of the industry in the area

While the industry's problems, in general, are well documented, we outline some of the regional-specific problems of the industry.

One of the primary reasons for the decline of the handloom industry in Kannur is the developments in the labour market. There was an acute shortage of labour for traditional occupations, especially for industries like handloom. One of the reasons is the wide disparity in the wage rate. Over the years the disparity was on the rise and we found that in 2017 for a casual male agricultural labour the ruling wage rate was Rs. 850 and female Rs. 500 with two times reasonable food provision. In construction for male labour the daily wage is above Rs. 1000. For all other casual occupations, the daily earning was not less than agricultural labour. On an average, a handloom weaver in the sub-contracting category executing most of the production activities in handloom industry is able to earn in the region of Rs. 150 in 2017 for 8 hours of work. Even in the cooperative and factory sectors where statutory wage is paid the labour earning is far less and not comparable to other sectors (except beedi rolling work). Given the low wage, it is doubtful any male labour was attracted to the industry in the past few decades. Traditionally

weaving was exclusively done by male labour, and for a brief period, female labour filled the gap. This also soon evaporated. Thus we have found that most current male workers are in the old age group of 65 plus and females in the upper middle age group. Further, there was sustained aversion to manual work among the new entrants in the job market, especially males, and this also led to a shortage of labour for traditional industries. The Gulf migration can also be cited as one of the indirect reasons for this labour market development. Migration no doubt generated beneficial effects. Nevertheless, it has got its adverse impacts. A profound influence among the youngsters and the parents is generated, and their aspiration boils down to Gulf migration. This has been considered as a fast safety net for realising economic betterment. Thus even educational advancement often got side lined besides labour supply to manual works. Further, given the shortage of labour, the remittance induced spending for construction activity led to a steep rise in the wage rate for construction labour. In the scenario, on the one hand, the capable male labour of traditional industries shifted to construction jobs and, on the other hand, created wide wage disparity. Some activities like agriculture and local construction have no mobility and were forced to absorb the shock. Our finding is that though for a few years, the paddy farmers absorbed the shock for a brief period later, they abandoned paddy cultivation. Due to labour scarcity and high wages in garden land development, works are currently being compromised. However, the traditional industries like handlooms' pronounced wage hikes cannot be absorbed as they have to compete with the products of other places. In this predicament, the only option was first to downsize the activity in tune with the availability of labour and then quit gradually. This was the course of development of the handloom industry. This trajectory of change is not confined to the village. It is witnessed throughout Kerala in various degrees.

Another reason is the emergence of a situation in which the operation of the subcontracting units became unviable. Over the years the margin enjoyed by the units was getting squeezed due to competition for work, mainly from Tamil Nadu. Thus the rate for subcontract got aligned with the rate at which the work orders can be executed from Tamil Nadu where the wage rate was very low. In this predicament wage too gets compromised. We found that in 1990 the cooperative and factory units following statutory obligations paid on an average Rs. 32 for weavers. Whereas as the average earning of a weaver in the sub-contracting category was Rs. 15. Thus on the one hand labour became scarce and on the other hand the operation of the units turned out to be unviable forcing the owners to quit the industry. As mentioned above, the panel data revealed that all the closed units belonged to the sub-contracting category. The plight of a unit may be cited. Elimban Textiles of Muzhappilangad panchayat was started as a partnership firm in 1971 with nine looms and other allied facilities, including dyeing managed

by one of the partners, Dasan aged 29, at the time of our study in 1977-78. For main works, hired labour was employed. The female family members did the ancillary work of pirn winding. Dasan also actively participated in all the main works. In the 1990 study, we noted that the unit's operation came to a permanent halt in 1985. All the looms were damaged and used as wood. Dasan took up the job of the driver in a private bus. The female members of the household then undertook winding works available in the vicinity to augment the household income. The reason cited for closure was the un-remunerative price on the sub-contract works.

A natural calamity associated financial loss of units also affected the industry. To many factory units, an important order source was from exporting houses based in Mumbai. Around nineteen-eighties, most of the clothes sent by several units were damaged in flooding leading to substantial financial losses. While some units unable to withstand the crisis closed permanently, some slipped into the category of dependent units. The experience of a firm is testimony to this development. In the 1990 study, we noted that till 1980 Vinayaka Textiles of Kanhirodu Panchayat (one of our sample units) functioned independently by canvassing orders through commission agents of Mumbai-based exporting firms. The cloth sent to Mumbai worth Rs. 3.5 lakhs got damaged before taking delivery by the exporting firm. As the exporting firm refused to take delivery of the consignment, the firm was compelled to recall the goods. Due to ignorance, the consignment on return was opened without informing the insurance firm. Citing this, the insurance claim was denied. The firm was forced to sell the goods in the local market at throw-away prices. As the bank credit availed for the consignment could not be repaid, the issue went to Court. The Court finally ordered for the attachment of the firm's property, and after that a compromise was struck with the bank by which the firm agreed to remit monthly Rs. 2000 to the bank. Unable to withstand the loss, the firm's status slipped to the sub-contracting category of units.

During the boom period, profit greed led to widespread compromise on the quality of products. One strategy was to produce on power looms and market as handloom products. Also, several units shifted their production activity to Tamil Nadu where labour cost was too low and compromised on quality. During the field work we noted that independent units experienced cancellation of orders very frequently citing quality problems. Such risks were also forced to be shared by the sub-contracting units.

For Kannur handlooms, there was a segmented market given the product quality. With the introduction of a crepe variety of cloths, the private units, in particular, more or less fully engaged in production of crepe variety of cloths bypassing the traditional market. Over the years, the traditional markets were lost, and the crepe variety associated boom also vanished. Here it is pertinent to note that the scope for skill

development and technology transfer became easy with the establishment of institutional infrastructures like Institutes of Handloom Technology, Weavers Service Centres, and Common Facility Centres in various handloom centres in the country. This also led to the loss of the segmented market.

Prospects of the industry

Given the proposed target set for handloom production, a brief comment may be made on its prospects. Some facts attest that the scenario depicted above is not a region-specific issue but a state and nationwide phenomenon. The difference is only in the magnitude of the decline, the decline being sharp in Kerala. While in 1984, the total number of handlooms in the state was placed at 95000 (Director of Handlooms 1976:4) by 2019 the number of looms in the state is reported as 10728, 88.71 per cent decline (Development Commissioner for handlooms 2019:143). As per the 2019 Handloom Census, the share of Kerala in total looms of the country and workers turned out to be minuscule, 0.39 per cent and 0.62 per cent, respectively. The state no longer figure as a significant handlooms cloth producing state.[7] Coming to the all India level, it is estimated that in the early nineteen nineties, there were 39 lakhs handlooms employing 84 lakh persons (Hindu 1993). Against this, the latest all India handloom census reports the total looms as 27.01 lakhs and workers as 35.22 lakhs). Over the years, the decline in handlooms was 30.74 per cent and workers 58.07 per cent. The census also reports the average household income of the majority of handloom households (67.1 per cent) from all sources as Rs. 5000 with an average employment of 206 days in a year and 1.12 handloom workers per household (Development Commissioner for Handlooms 2019::17,18). This works out roughly Rs. 170 as the daily earnings of a handloom worker. In this predicament It is doubtful any new labour will be attracted to the industry. The scope of raising the person-days of existing labour is marginal given the current average annual employment days. Besides, there is the question of additional capital requirement, and here private investment is hardly attractive. Given the scenario, it is doubtful whether the industry can be geared for a major quantum jump in production.

Conclusions

The handloom industry is one of the most ancient and important industry in terms of employment in India. After independence, several protective and developmental measures were adopted, and the industry continued to play a meaningful role for several decades. However, the contemporary development is that the industry is on the decline. This paper depicts this development course of the industry with reference to Kannur district where there was highest concentration of handloom in the state. The results of a panel data of handloom industry of the district in 1977-78 and 1990, an in-depth study of Edakkad village of Kannur district in 2017, and secondary data formed the basis for the study. Even in the ancient era the district

was known for production and export of handloom cloth. The Basal Mission pioneered in introducing technical and organisational change in the industry in the mid eighteen fifties by importing frame looms and setting up of factory units. Thus over the year's frame looms became more popular and many factory units also emerged. However, the industry got more disorganised in the post independent period as a result of the enforcement of Factories Act and minimum wage legislation. Thus in the private sector which is dominant in the district under the factory units a three tier set up emerged for executing main production activities. Still the industry of the district came to play a vital role in the production and export of handloom products of the country in the nineteen seventies as it is estimated that nearly a third of export of handloom products originated from the district. However, the industry weakened later and over the years was on the decline. The available evidences also indicated that this declining phenomenon is not only region-specific but state and nationwide. In fact, the decline is more accelerated in the state as the state now even does not figure as a significant producer of handloom cloth in the country. While, the industry's problems in general are well documented, an examination of the specific reasons for the industry's steep decline in the region reveals acute labour scarcity, low wages, unviability of operation of units, unforeseen financial loss and loss of segmented markets as some of the region's problems. In this scenario, it is open to doubt whether the handloom industry can be geared to make a quantum jump in the production of cloths as currently envisaged by the central government.

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Notes

[1] The study was carried out in connection with the doctoral research work of the author.

[2] The Panchayat area corresponds with the village area.

[3] The study was sponsored by the Indian Council of Social Science Research, New Delhi to assess the growth of handloom industry with reference to the panel data.

[4] The study was conducted with the Senior Fellowship of the Indian Council of Social Science Research, New Delhi which was affiliated with the Institute for Social and Economic Change, Bengaluru.

[5] In the total looms of the state under cooperative fold in 1984 the share of Kannur district where concentration of looms was highest was only 9.18 per cent (See Director of Handloom 1986:8).

[6] This includes the looms of present Kasargod and part of Wayanad districts which were carved out of the Kannur district later.
[7] In the list of significant handloom production states in 2019 Handloom Census Report Kerala state is not included.

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GIFT GULATI INSTITUTE OF FINANCE AND TAXATION

Regulating dubious direct selling businesses under the consumer protection act, 2019

Aisha Ibrahim Mohammed and Thomas Joseph Thoomkuzhy

1. Introduction

The twenty-eighth of December, 2021 was a much celebrated day amongst various stakeholders of the direct selling industry across the nation when consumer protection (direct selling) rules, 2021 was notified to govern the provisions of consumer protection act, 2019. Being the sole legislation in the regulation and monitoring of direct selling businesses, the Consumer Protection Act, 2019 serves as the necessary impetus paving the way for rules specific to direct selling and e-commerce. The long-term sustainability of any business firm lies in the maintaining long-lasting relationships with its consumers such that the interest of the consumers is protected. Legislation plays a vital role in instilling consumer confidence and trust. The transformation of direct selling legislation from caveat emptor (let the buyer beware) to caveat venditor (let the seller beware) was through a series of legislations with respect to direct selling. This article strives to draw the reader's attention to the previous regulatory framework for governing direct selling activities in the state of Kerala, to find out how the new rule demarcates itself from the previous legislation and the possible impact of the new legislation in the business of direct selling.

Direct selling has received much resentment from the general public, not only in the domestic market but also in the foreign markets. Direct selling, is a form of selling the product or the services directly to the potential consumer away from a fixed retail location (Peterson and Wotruba, 1996) which was in common prevalence prior to the industrial revolution. That coupled with a higher degree of specialization led to the growth of the wholesaler and retailers. Over time the producer and potential consumers felt the need to interact directly bypassing the middlemen, in order to reap the benefits of product cost and profit benefits for both the end parties of the exchange. This had led to the concept of a directly selling to the consumer.

The distinction that is visible in today's direct selling is in the way of the organization (Chu and Segre 2010). Direct selling, practiced by the direct selling organization unlike the itinerant traders is an organized form of trade, is defined through a strict organizational hierarchy

and authority. Direct selling functions as single-level marketing as well as multi-level marketing or network marketing. The literature provided by various direct selling entities claims it as not only selling a product or service to the consumers but also providing an income-generating opportunity. It is this aspect of "income-generating opportunity" that often raises questions regarding its legitimacy and ethicality.

Pyramid scheme, Ponzi scheme, money circulation scheme etc., are often used in tandem when referring to multi-level marketing. The major difference lies in the way the commission is earned by the direct sellers. Multi-level marketing enterprises provides commission on the sale of the product or services directly to the consumers, namely the retail profit, and also a percentage of profit based on the sale of their downline to their consumers. However, some dubious schemes earn commission on the basis of adding new members to the network, without providing any basis for the existence of a sound product or a service. The existence of a product or a service to sell, having no or minimal entry charges, no overloading of distributors with inventory, and provision for the buyback of unsold inventory are the key factors differentiating illegal scheme to genuine direct selling firms (Albaum and Peterson 2011).

Direct selling has gained relevance as providing an income-earning opportunity with no capital investment or stock requirement that ensures greater flexibility and a source of supplementary income. The built-in training and motivational orientation equip the direct sellers to help in developing a skilled workforce. Mukherjee et al.(2010) state that financial independence, higher earnings, development of personal and business skills, flexible timings, and improved ability to take care of families were some of the benefits of direct selling. They also state direct sellers benefitted to build their self-esteem, confidence, and better sales skills thereby the number of direct sellers' have increased with a substantial increase in their incomes and the direct sellers were happy with the quality of their employment. Moreover, the study also states that women were empowered by being financially independent and have substantially increased their ability to save.

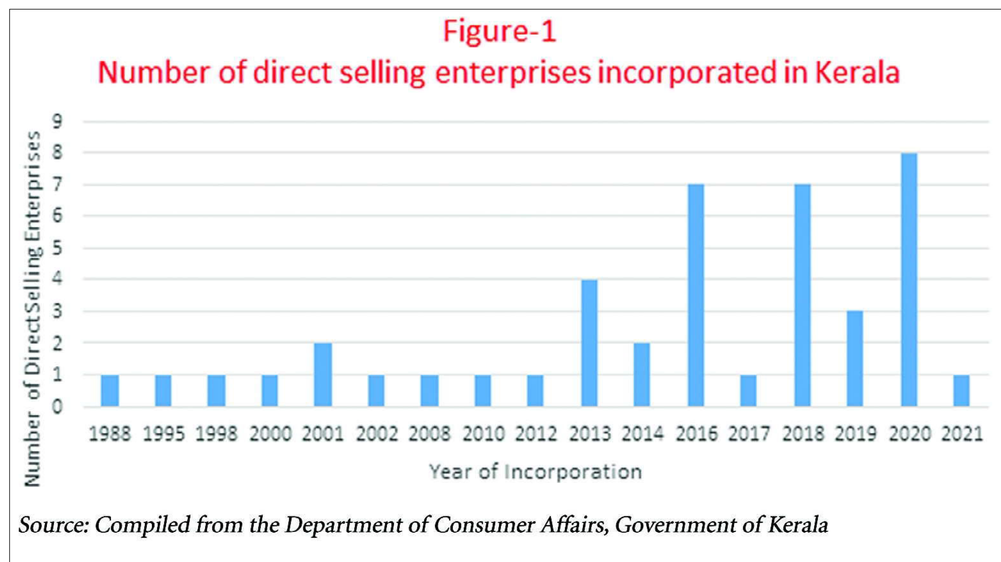
This paper is divided into the following sections such as direct selling prior to consumer protection act, 2019, thirdly, the new 'consumer protection (direct selling) rules, 2021', fourthly, the distinction of the new legislation to the previous legislation, fifthly, implication of the new consumer protection (direct selling) rules,2021 on the business of direct selling, followed by conclusions.

2. Direct selling prior to consumer protection act, 2019

Genuine direct selling enterprises often faced difficulties in operating in a hostile environment wherein multi-level marketing entities were considered identical to their illegal counterparts. Prior to the enactment of the consumer protection act, 2019, direct selling was mainly governed by prize chits money circulation scheme (PCMCS) (banning) act 1978, Kerala VAT act, 2003 in Kerala, and the direct selling guidelines 2016 at the central level (hereinafter referred to as central guidelines). PCMCS (banning) act, 1978, had considered all direct selling enterprises as a money circulation scheme, with no clear-cut distinction between the legitimate direct selling and the illegal counterparts. The absence of strong legislation led to widespread arrest, penalties, imbibing a negative image even for genuine enterprises. Kerala VAT act, 2003, was the first legislation in the country wherein separate provision had been enacted for the registration of direct selling enterprises as a separate legal entity to facilitate their businesses, which eventually paved the way for the formulation of guidelines at the central level. Subsequently, the central guideline, 2016 was another major step undertaken by the government giving the necessary impetus to foster the growth of genuine direct selling enterprises in the country. The 2016 guideline was in advisory nature to the state government that specifies the obligation of direct sellers and direct selling entities. As per clause 9 of the central guidelines, every state government had to formulate a monitoring mechanism and in compliance with this direction, Kerala government was the first state by notifying a State level monitoring mechanism as per GO (P) No. 8/2018/

Figure-1

Number of direct selling enterprises incorporated in Kerala



Source: Compiled from the Department of Consumer Affairs, Government of Kerala

The Kerala VAT Act, 2003, was the first legislation in the country which had been enacted for the registration of direct selling enterprises, which eventually paved the way for the formulation of guidelines at the central level.

CAD dated 4th June 2018. Subsequent to this, more than fifteen states had formulated their State level mechanism in line with the Kerala's guidelines as their state-level monitoring mechanism. However, the recent legislation provided the much-needed legal cushion for the direct selling enterprises in the country and, the central guidelines, 2016 had been withdrawn by the Consumer Affairs Department, Government of India vide Notification No GSR 37(E) dated 21st January 2022.

The above figure illustrates that the number of direct selling enterprises incorporated in a year had been rampant subsequent to the Kerala finance act, 2015[1] and central guidelines, 2016. The onset of the pandemic further facilitated the growth of direct selling ventures, through the virtual world as is illustrated by the highest spike for the year 2020. This clearly illustrates that as the regulatory framework strengthens in the state, business confidence improves setting the foundation for genuine direct selling venture in the state.

3. The new consumer protection (direct selling) rules, 2021

The consumer protection act was enacted in 1986 which was subsequently amended in 2019 with more focus on consumer protection. As part of this amendment, new provisions were incorporated to regulate direct-selling, multi-level marketing, telemarketing, e-commerce. The ministry of consumer affairs, food, and public distribution notified the consumer protection (direct selling) rules, 2021 in accordance with Clause (zg) of Sub-Section (2) of Section 101 read with Section 94 of the consumer protection act, 2019. The rules state that the entities shall comply with the provision of the rules within ninety days from the date of the publication of these rules in the official gazette.

The rules provide clear-cut definition of the terms used in common direct selling terminology namely, cooling-off period, direct seller, direct selling entity, money circulation scheme, mis-selling, prospect, pyramid scheme, saleable, sensitive personal data, state. The rule doesn't make a distinction between the various formats of direct selling, and uses only a comprehensive term, encompassing "all models of direct selling" under 2(b). However, the consumer protection act provides for the definition of direct selling under sec.2(13) as, "marketing, distribution, and sale of goods or provision of services through a network of sellers, other than through a permanent retail location". The rule explicitly mentions a pyramid scheme, as a venture devoted to enrolling members to the team such that it involves a hierarchical structure.

The products are often heavily priced and no mechanism has been brought in to regulate the prices such that it benefits the consumers

Direct selling entities are required to make full disclosure of memorandum, articles of association, permanent account number, tax deduction, and collection account number, goods and services tax registration, returns, audit report, trademark certificate balance sheet, register of direct sellers, license certificate and such other certificates, that are required by the government from time to time.

Though the earlier guidelines have mentioned the income-generating opportunity of direct selling enterprises as a remuneration plan, the new enactment does not explicitly mention the remuneration or compensation but it mentions that any amount of commission, bonuses, or any other incentives should be of the products or services of which the company owns a distinct trademark, service mark, or any other identification mark. Such a categorization is distinct from the earlier enactments, as it provides a vital basis for classification for the genuine direct selling enterprises from the fake enterprises. Section 5(e) of the consumer protection (direct selling) rules, 2021, signifies the relevance of a valid product or service based on which sale can be initiated, and demolishes the ambiguity surrounding the operation of direct selling entities.

The rule also lays down the terms of its relation with direct sellers. The basis of every relation between a direct selling entity and a direct seller is through a written contract that authorizes the direct selling entity to sell or offer to sell on behalf of the direct selling company. This also makes the direct selling entities accountable to handle the complaints, grievances arising out of the goods and services sold through direct sellers.

The entities are required to maintain a well-updated website furnishing with all relevant information with respect to the name of the entity, addresses, branches, contact information, ticket number for lodging of complaints, information on the return, exchange, necessary warranty and guarantee details, delivery mechanism, modes of payment and grievance redressal mechanism. The entities are also required to maintain a list of those direct sellers who have been delisted from company records and publish them on the website, for the information of the general public.

The rule mandates the acknowledgment of the complaint should be done within 48 hours of lodging of the complaint, and the company should redress the issue within two months.

Apart from the obligation on the part of the direct selling entity, direct sellers are also obliged as per written contract, to disclose identity at the time of sale, disclose all relevant information at the

Direct selling entities are prohibited in engaging in pyramid, Ponzi, money circulation scheme

order form, obtain relevant documents with regard to GST, PAN, and they should not request the consumers to purchase literature, and they are entitled not to use direct selling as a form of market research.

4. Demarcation of the consumer protection act, 2019 to the previous legislations

A series of deliberate attempts had taken place in order to fulfil the motive of regulating direct selling businesses. As compared to the direct selling guideline, 2016, the new consumer protection (direct selling) rules 2021 is legally enforceable. The proposal in draft consumer protection rules, 2021 had necessitated the registration of direct selling entities and direct sellers at the department of promotion of industries and internal trade, whereas the new consumer protection (direct selling) rules, 2021, haven't provided for the registration before the department of consumer affairs nor the department of promotion of industries and internal trade. The state has been given the autonomy to regulate and monitor the activities of the direct selling enterprise. All direct sellers and direct selling entities are required to obtain a GST registration whereas the guideline had only provided for registration, after it crosses a threshold limit. Table 1 illustrate the differentiation of central guideline, 2016, and new consumer protection (direct selling) rules, 2021.

5. Implication of the new consumer protection (direct selling) rules,2021 on the business of direct selling

The enactment provides a strong impetus for the growth of the business of direct selling. The repealing of the guideline makes it clear that the ambiguity surrounding direct selling ventures is being removed.

The direct selling rules under the consumer protection act, 2019 have mentioned that any bonuses, incentives and commission to be received from the sale of the products should carry the necessary identification mark by the company to do so. This may provide the base to differentiate genuine direct selling companies from fake ones. However, the intricate remuneration plan like the binary plan, uni-level plan, hybrid plan could have been regularised such that an ideal remuneration plan has lesser negative implications on the direct sellers and its consumers.

The rules have explicitly mentioned that transparency should be maintained in communicating prices to the final consumers including the break-up of all the prices. However, direct selling is essentially selling the products directly to consumers by bypassing the middlemen, wholesalers, and retailers, such that the end parties are benefitted. But in usual practise, the products are often heavily priced and no mechanism has been brought in to regulate the prices

Table 1. Demarcation of the consumer protection act, 2019 to the previous legislations

Points of difference	Direct Selling guidelines 2016	Consumer protection (direct selling) rules 2021
Legal Enforceability & Reliefs	Advisory in nature - Civil remedy only for breach of contract	Legally enforceable through consumer courts for reliefs including product compensation.
Registration of direct selling entities	Mandatory to Register in the online portal maintained by the Consumer Affairs Department(CAD)	No registration before the CAD or the DPIIT. Only self-declaration by the entity and certification by a qualified cost accountant
Remuneration plan and income / commission distribution	Explains the modalities of payment of remunerations	Remuneration is limited to goods and services sold or supplied with distinct identification mark.
Involvement of department other than CAD	Functioning under the CAD with separate monitoring mechanism	Involvement of department of legal metrology and Food safety dept. are incorporated in the rules
Direct selling & Ecommerce	No provision for e-commerce	Separate legislation for direct selling (DS rules,2021) and E-COMMERCE (e-Commerce Rules, 2020) were notified
GST registration	Provision for registration is stipulated only if the turnover crosses the threshold limit	All direct sellers and direct selling entities are required to obtain a GST registration, irrespective of threshold limit.

Points of difference	Direct Selling guidelines 2016	Consumer protection (direct selling) rules 2021
Dispute settlement	Provision for Redressal mechanism is mandated	Apart from consumer redressal & nodal officers, specific provisions for product liability and penalty are also incorporated in the rules for the protection of consumers
Regulator	State government to set up monitoring and regulatory authority to regulate activities of direct selling	The rules provide for the setting up of a monitoring and regulatory authority at the state level. The Act also provides for a central & regional consumer protection authority to regulate this sector.
Provision for approaching consumer courts	No provision to consumers to approach Consumer Courts	Since direct selling & network of direct sellers are included in the CP Act, the consumers under direct selling & MLM are entitled to approach consumer courts
Provision for mediation for the settlement	No provision for mediation. Guideline provide for the execution of the contract with direct sellers.	Consumer Court can refer the cases for settlement through mediation process

Source: Prepared by the Authors based on Direct Selling guidelines 2016 and Consumer protection (direct selling) rules 2021

State government is entitled to the task of regulating and monitoring the operations of direct selling

such that it benefits the consumers.

6. Conclusion

The retail sector is an ever-evolving phenomenon, wherein newer formats of trade take place with the changes in consumer behaviour, information technology, changes in the foreign investment policy, and legal environment. The era of information technology has facilitated greater transparency, thereby rendering increased accountability and ensuring consumer protection as a key to every business enterprise. The enactment has therefore ensured that India has transformed itself from caveat emptor to caveat venditor in the business of direct selling through a series of legislation.

The enactment of the consumer protection act, of 2019 and the rules framed under (i) consumer protection (direct selling) rules 2021 and (ii) the consumer protection (e-commerce) rules 2020 had widened the scope of trade encompassing newer formats namely, e-commerce and direct selling of all formats. This served much clarity in the subsequent regulation and ensured greater protection of the consumers doing trade through these platforms by ensuring product quality, product warranty, product refund, product liability.

The enunciation of regularization of direct selling operation by the government of India has in one way catered to the demand of the direct selling community at large by ensuring a separate legal status. The convergence of physical and digital space has transcended traditional boundaries of exchanges, paving way for newer formats to evolve. the dynamic nature of trade requisites timely and efficient monitoring of the direct selling operation in the state of Kerala. Hence, the requirement for setting up of a compliance mechanism can help in fostering the growth of genuine direct selling ventures and inhibit the illegal counterparts.

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[1] Sec 8 (i) was inserted through Kerala Finance Act 2015 w.e.f. 1.4.2015

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A case for provincialising calorie norms in India with special reference to Kerala

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Discourse on poverty, once at the epicentre of debate in Indian academia, is now pushed to margins despite India's distinction of the having largest number of poor in the world (Katayama & Wadhwa 2019). One of the key reasons for this is the lack of availability of data for such a debate. NSSO's National representative consumption survey, the main input for poverty debate India, conducted during 2017-18 has not yet been made public. Our interest in this subject also rose from the fact that latest committee on measurement of poverty has calculated rural Kerala's poverty to be mere 7.3 per cent in 2011-12 which seems quite low compared to what everyday experience of living in Kerala would reveal.

Most committee's or working groups so far have unsuccessfully tried to anchor poverty line in minimum nutritional requirement of Indian population. Invariably nutritional requirement or minimum calorie norm has been defined at national level. This article raises a fundamental criticism to the entire class of poverty measures that has been proposed so far in Indian context. Our criticism emanates from the fact that calorie requirements itself may be different for different states as has been revealed by burgeoning literature on calorie puzzle debate in India kick started by Deaton and Dreze (2009).

This aspect of regional diversity in calorie needs, to our knowledge, has never been given due attention by official committees or working groups appointed for measuring poverty. If nutritional requirement indeed is the fundamental building block of poverty line, then this aspect needs a closer attention. The available literature supported by empirical evidence indicate a puzzling feature in calorie consumption pattern of the Indian states, i.e., state with better nutritional outcome tend to have lower calorie intake. Epidemiological factors, mechanisation of economy and state health infrastructure play crucial role in determining calorie needs at population level in additional to individual factors such as physical height, gender and activity status. Duh and Spears (2017) in their investigation of calorie intake in India suggested that calorie intake requirements may be lower in regions having less infectious environments as it affects intestinal health of the population.

Since energy absorption from food consumed can take place at greater efficiency on account of better intestinal health it is plausible that population living in less infectious environment may consume lower calories to achieve same amount of effective calorie intake. Eli & Li (2021) found increasing levels of mechanisation of the economy to be a significant factor explaining decline in average calorie intake of India. Obviously, level of mechanisation not only varies temporally but also across regions for a given period of time.

Therefore, it is not surprising to see those states performing well in nutritional indicators tend to have a lower per capita calorie intake suggesting that population in these states may actually have lower minimum calorie intake requirement. In other words, lower average calorie consumption in states like Kerala and Tamil Nadu is less not due to lack of purchasing power but more on account of better intestinal health of the population. However, when judged from a national minimum calorie intake requirement norm these states will invariably have a higher proportion of their population classified as undernourished. Therefore, based on calorie deficiency measured from national standards these states are likely to have higher incidence of poverty.

By keeping calorie requirement of a continental sized country with all kinds of diversity fixed at national level implies an inherent assumption that all regions at all times have identical calorie requirement which in turn is based on the assumption that all states have similar epidemiological environment and mechanisation of the economy and comparable levels of health infrastructure. This is a strong assumption that has been proposed in the Indian context so far. The purpose of this commentary is to expose the adverse implications of national calorie norm for arriving at poverty estimates at state level. Going forward we will see inconsistency and contradiction that entire class of poverty measure faces due to this strong assumption. We also demonstrate that such inconsistency and contradiction disappear the moment we use state base calorie norm.

In this article, in an effort to revisit the measurement debates on poverty, we critically examine the methodology adopted for the measurement of poverty by various committees and Rangarajan Committee in particular (Planning Commission 2014). The Rangarajan Committee proposed one formula for the measurement of poverty at national level but used price index to convert national poverty line into state poverty line as was done by Tendulkar Committee report.

Rangarajan Committee's National level formula, when implemented at the state level, throws inconsistent ranking and levels of poverty among Indian states. This is depicted by drawing a comparison between the higher and the lower income states, like Kerala and Tamil Nadu as against Bihar and Uttar Pradesh, respectively. The implications of the Rangarajan Committee's method of calculating the poverty line by putting

forth a national money metric poverty line and then arriving at the state level poverty line by using price index has not been immune to criticisms. However, these criticisms mainly hinge upon three distinct components and aggregation issue for arriving at money metric poverty line and logical inconsistency of using them (Ray & Sinha 2014, Arora & Singh 2022, Mishra 2014).

Such an assumption is untenable particularly during post reform era. Many studies have highlighted divergent pattern of economic growth and development of regional economies within India (Ahluwalia 2000; Baddeley et al 2006; Sanga and Shaban 2017). As the state economies diverged, they plausibly also diverged in terms of epidemiological conditions, health infrastructure and mechanisation levels which affects the minimum calorie requirement of the population.

Rangarajan Committee took cognisance of the fact that calorie requirements may be different over time but it continued with the assumption that calorie intake requirements are invariant across regions for a given period of time.

Guided by the 2010 calorie norms prescription of the ICMR (Indian Council for Medical Research), the Rangarajan Committee has attempted to be inclusive of the interstate price differential. They have made use of the consumption expenditure data collected using Modified Mixed Recall Period (MMRP) (NSS 68th round) and have not strayed too far from the methodology pursued by the Tendulkar Committee for arriving at the state specific poverty line. As per the data gathered by the survey, implicit prices for several commodities and commodity groups have been calculated using the reported quantity and value of consumption. The inter-state price differential was accounted for through the application of the Fisher index, separately for rural and urban areas, thereby disaggregating the national poverty line into state-specific poverty lines. Use of price index to arrive at state level money metric poverty line implies an additional unrealistic assumption of invariance in composition of consumption expenditure with respect to time and space. For instance, Lakdawala Committee by allowing for price adjustment of 1973-74 money metric poverty line to arrive at poverty line for years after that, not only assumed invariance in calorie intake requirement either on regional or temporal basis but also assumed composition of expenditure between food and non-food items to remain intact at national average of 1973-74 level. It is well known that share of non-food expenditure has been on rise since then.

Rangarajan Committee computed the average requirements of calories to be 2155 kcal per person per day in rural areas and 2090 kcal in urban areas with stipulations for fat and protein intake within total calorie intake (Planning Commission, 2014. pp.57- 58). The national money metric poverty line was essentially derived as sum of three components. Component 1 is normative component and is computed as the mean

of per capita food expenditure of the fractile [1] class that satisfies the calorie norm, component 2 is also a normative component which is computed as mean expenditure on essential non-food items such as clothing, rent, education and conveyance by the median fractile class. The third component is behaviourally determined because it is computed as mean of expenditure on remaining non-food items from the fractile class that satisfies the calorie norm. Finally, these three components are summed to arrive at money metric poverty line. Following these, new poverty line at national level was worked out to be at MPCE of Rs.972 in rural areas and Rs.1407 in urban areas in 2011-12. Prevalence of poverty is simply calculated as head count of those households that have their MPCE below the poverty line irrespective of their level of calorie consumption or non-food consumption.

In essence, this formula assumes perfect substitutability or full compensation between different components of the poverty line (Arora & Singh 2022). For instance, such money metric poverty line would not be able to differentiate between an average household and a household that is compelled to have very high non-food consumption due to its unusual circumstances and compromises on food expenditure.

Thus, despite Rangarajan Committee's effort to anchor the poverty estimation back to the calorie norms, the methodology continues to have flaws. Estimation of state level poverty lines using the national formula as explained above with national calorie norm portrays the inherent inconsistency of the methodology. This is illustrated in Table 1: Column 4-5. While poverty line of rural Kerala as per the Rangarajan Committee's original calculation is at Rs 1054 yielding poverty incidence of 7.3 per cent, however when we implement the national Rangarajan formula for calculating poverty line on rural Kerala using calorie norm of 2155 per capita per day calorie, we get a much higher poverty line of Rs 2087 translating to poverty incidence of 53 per cent. However, poverty line for Bihar calculated in this manner yield a lower poverty line of Rs 949 (37% poverty incidence). Similar contrast can be drawn for Tamil Nadu and Uttar Pradesh where Uttar Pradesh yields lower poverty incidence than Tamil Nadu.

Therefore, applying a pre-determined and constant calorie norm without adjusting for the regional differences in calorie intake requirements across states is bound to give such fallacious numbers.

To face the problem head on, attention must be given to the calorie consumption patterns and requirements that vary across different regions of the country due to reasons that could be attributed to the level of mechanisation of the economies, epidemiological conditions of states and status of development of health infrastructure across the states. A methodology that is able to incorporate differences in calorie intake across regions based on these factors will come near to providing a truer estimation of poverty at regional level.

A common calorie norm at national level would tend to under (or over) estimate poverty when applied to a state with higher (or lower) average calorie intake prevailing in that state than the national average. Indian states exhibit wide diversity from each other including in economic growth, human development, public health and disease environment. Lower calorie consumption of the states like Kerala and Tamil Nadu despite being economically richer can largely be explained on account of better public health system, disease-free environment and greater mechanisation of these economies. For example, Siddiqui et al. found that 10 per cent of the total variation in calorie intake in rural Indian can be attributed to state level differences in disease or epidemiological environment alone. Using Siddiqui et. al. (2019) we have computed state-adjusted calorie norms for rural areas based on additional (fewer) calories from national norms that may be warranted for particular states provided that the state has worse (better) epidemiological environment than the national average. We have used these state-calorie norms to recompute the respective poverty lines and associated incidence rates as presented in Table 1: Column 3, 6.

When applying Lakdawala formula for 1973-74 with uniform calorie norm of 2155 kcal poverty line for Kerala is Rs 2223 and corresponding incidence rate of poverty is 57 per cent. Astonishingly, Bihar tends to have lower poverty incidence. Similar is the case when we compare Tamil Nadu and Uttar Pradesh. Obviously, such an empirical observation is inconsistent and counterintuitive with our everyday perception of lived realities in these states. The sole reason behind such an inconsistent outcome is because average calorie intake in Bihar and Uttar Pradesh is way higher than average calorie intake in Kerala and Tamil Nadu, which is owing to worse epidemiological conditions in former set of states. Once we adjust additional (fewer) calories needed on account of such differences, rural Kerala and Tamil Nadu need 461 and 274 fewer calories than mandated by national average requirement i.e., 2155 calories, conversely Bihar and Uttar Pradesh need 190 and 175 additional calories respectively.(Table 1)

Upon adjusting for calorie needs at state level, poverty line for rural Kerala as per 1973-74 formula reduces from Rs 2223 to Rs 1278 leading to reducing the incidence of poverty by 40 percentage points i.e., 17 per cent. In contrast, Bihar's poverty line increase from Rs 948 to Rs 1142 leading a rise in poverty incidence by 26 percentage points i.e., 63 per cent (Table 1: Column 2-3). Similar reversals in poverty estimates due to adjustment of calorie needs at state level can be made for Tamil Nadu and Uttar Pradesh. These numbers seem to be consistent with lived realities of these states. We can also observe similar comparative empirical results from Column 5-6 of Table 1 with regards Rangarajan's national formula. For instance, poverty incidence in case of rural Kerala reduces from whopping 53 per cent to 17 per cent while in contrast Bihar's poverty level rises from 37 per cent to 63 per cent.

Table 1. Poverty line and corresponding incidence rates based different formulas for 2011-12

STATE	Poverty line as per Lakdawala formula		Poverty line as per Rangarajan formula		
	National Calorie Norm	State Adjusted calorie norm	Reported as per State Formula	National Formula with National Calorie	National Formula with State Adjusted
1	2	3	4	5	6
Kerala	2223.29 (57%)	1278.78 (17%)	1054.03 (7.3%)	2086.97 (53%)	1269.94 (17%)
Tamil Nadu	1567.37 (57%)	1281.78 (37%)	1081.94 (24.3%)	1477.89 (53%)	1269.94 (37%)
Bihar	949.01 (37%)	1142.50 (63%)	971.28 (40.1%)	949.01 (37%)	1142.50 (63%)
Uttar Pradesh	929.82 (43%)	1195.87 (67%)	889.82 (38.1%)	929.82 (43%)	1138.59 (63%)

Source: Computed from NSS CES, 2011-12; Planning Commission, 2014

Note: incidence of poverty is given within parenthesis (in %)

From these observations it is clear that until calorie needs are defined at regional level arriving at logically consistent poverty line or estimate would always be challenging task and there will always be an inherent assumption that will be untenable with reality. Adjusting for price differences at regional level or on temporal basis, as has been done so far, to arrive at poverty lines for specific population groups at regional level has been marred with controversies and logical inconsistencies that are difficult to defend.

Conclusion

The diversity among the Indian states has resulted in the development at varying levels leading few states like Kerala, Tamil Nadu to perform better in public health and human development indicators. Over the period the occupation structure of the population has transformed and the intensity of the labour efforts have changed for the whole population but very differently for different regions. Along with this, improvement in public health and an infectious free environment has contributed to the difference in calorie intake of the population. It was found that unlike Bihar and Uttar Pradesh, states of Kerala and Tamil Nadu require lower calorie consumption. This is not because of the lack of affordability

but partly due to an infectious free environment. These differences have to be taken into account while estimating the poverty at state level.

As mentioned before, Rangarajan Committee has calculated the minimum nutritional requirement based on the dietary allowance recommended by ICMR at national level and even though the committee have adjusted for the state level price differentials to calculate the poverty lines, they failed to account for the difference in calorie intake level across the states.

There is also a need to reconsider using the expenditure of the median fractile for essential non-food items. In states like Bihar and Uttar Pradesh the median class itself comes under the poverty line and estimating the poverty rate using the same class, results in underestimation of poverty and inaccurate numbers.

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1 Fractile refers to 20 divisions of equal proportion in the data based on MPCE ranking, therefore each class will have 5% of the total observation in the data. Fractile one is seen as the lowest economic class while fractile 20 is seen as the richest economic class.

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Kerala Economy
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GIFT GULATI INSTITUTE OF FINANCE AND TAXATION

Credit withdrawal during the pandemic: The emerging trends in Kerala's credit-deposit ratio

Lekshmi Prasad and Kiran Kumar Kakarlapudi

1. Introduction

The world has witnessed once in a century crisis with the outbreak of coronavirus in 2019. The adverse impact of a health emergency from a contagious disease on an economy has resulted in an extra burden on the health. The rampant spread of the pandemic necessitated social distancing to bring it under the command. Social distancing was brought into practice through the declaration of a series of country wide lockdowns corresponding to different waves. The health crisis is one of the situations which demands proactive governmental interventions. Evidence shows that countries with active government intervention have been able to recover faster from the covid crisis as market sef correct itself from the humanitarian crisis such as covid. Government intervention in the economy is facilitated through its two handles, fiscal policy and monetary policy.

The data published by the IMF shows that the nature and the extent of state intervention varied across countries. The advanced countries spent more on fiscal measures instead of monetary measures. The developed countries like the US (25%), the UK (19.3%), Japan (16.7%), Australia (18.4%), Canada (15.9%), Germany (15.3%) invested substantially in fiscal measures. The corresponding investment by the emerging market economies has been at a lower level. When it comes to low-income developing countries, fiscal spending has been rather abysmal. Especially notable is the case of India, among the emerging market economies, with only 4.2% fiscal spending. Instead India relied more on monetary policy measures with 6.2% of GDP. Since March 2020, the Reserve Bank of India (RBI) reduced the repo and reverse repo rates to 4.0 and 3.35 percent, respectively, and announced liquidity measures across three measures comprising Long Term Repo Operations (LTROs), a cash reserve ratio (CRR) cut of 100 bps, and an increase in marginal standing facility (MSF) to 3 percent of the Statutory Liquidity Ratio (SLR) and open market operations resulting in cumulative liquidity injections of 5.9 percent of GDP through September. Further, there were moratoriums to individuals and small businesses during the first wave and its extension during the second wave. In

Deposits show a positive growth in FY 2020-21 and negative growth in 2021-22 in all the South Indian states except Karnataka. Kerala records one of the lowest deposit growth among other states in Q1 2020-21.

addition, it has implemented working capital support for small businesses. All these measures are aimed at ensuring smooth cash flow in the economy.

Since India relied more on monetary policy measures, commercial banks play a crucial role in the economic revival. Necessary credit infusion in the economy could help firms to smooth the production process while the households will be able to meet their demand requirements. In this context, this study analyses credit allocation by the commercial banks during the Pandemic in Kerala in comparison with other south Indian states. The monthly data on credit and deposits of commercial banks published by the RBI is used for the analysis.

2. Deposits and credit during the pandemic

Since millions lost employment and livelihood opportunities during the pandemic, the loss of income could manifest in deposits. To analyze the impact of the pandemic on deposits and credit, growth rates for six quarters (2020 Q1 to 2021 Q2) is presented. The trend of the growth of deposits (Table:1) indicates a positive growth rate across all quarters of 2020-21 and the only exception for the

Table 1. Quarterly bank deposit (Credit) growth rate (%) from the previous year, 2019-20 to 2021-22

STATES	2020-21				2021-22	
	Q1	Q2	Q3	Q4	Q1	Q2
Andhra Pradesh	9.34 (-4.59)	8.77 (-1.64)	5.10 -2.91	2.75 -5.36	-7.92 -3.07	-10.88 -0.62
Karnataka	-1.46 (-3.31)	1.63 (-1.06)	-1.95 -0.43	-2.03 (-0.37)	0.17 -2.52	-1.90 -1.5
Kerala	2.93 (-8.58)	2.69 (-7.58)	3.97 (-6.24)	1.01 (-1.46)	-3.16 -0.64	-4.05 -0.54
Tamil Nadu	3.62 (-4.18)	2.42 (-4.20)	0.75 (-3.12)	0.63 (-2.92)	-6.77 (-1.68)	-3.82 (-1.81)
Telangana	6.38 (-1.81)	3.98 -0.78	6.79 -3.64	15.54 -3.96	-2.07 -2.18	-1.93 -4.46
All India	**1.35** **(-5.34)**	**0.98** **(-3.1)**	**1.06** **(-1.14**	**2.8** **(-0.82)**	**-1.49** **(-0.4)**	**-0.95** **-1.2**

Source: Own calculation based on Basic Statistical Returns of Scheduled Commercial Banks in India
Note: The figures in the brackets are Quarterly Bank Credit Growth Rate (%) from the previous year 2019-20 to 2020-21

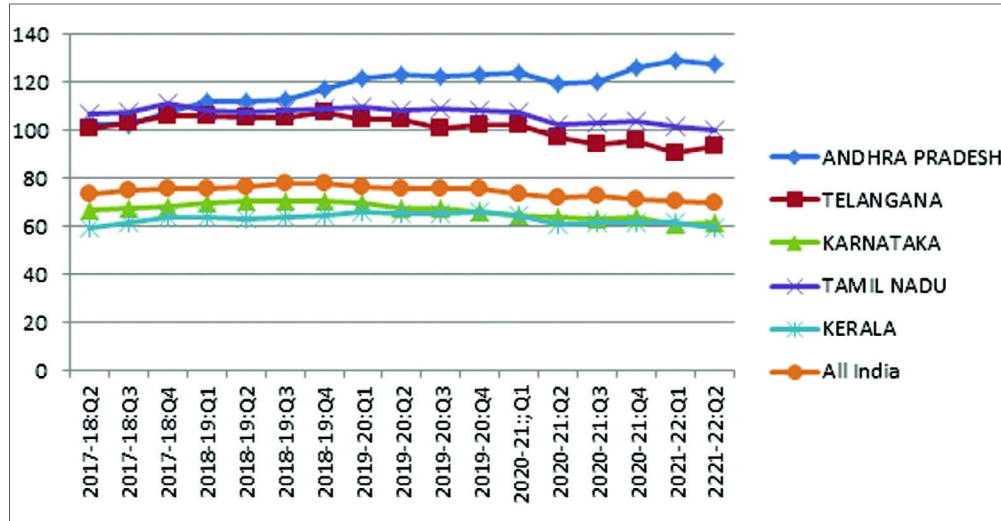
same is Karnataka where the deposit growth rate is highly fluctuating and the alternative quarters are showing negative growth rates. The Q1 of 2020-21 which represents the nation-wide lockdown period showed the highest growth across all South Indian states except Karnataka. The deposit growth in four out of five south Indian states is higher than the national average. Among all, Andhra Pradesh and Telangana showed the highest increase in deposits. These high deposits growth during the peak of the pandemic could be attributed to two factors. One, the lockdown measures reduced the consumption of those employed in the formal sector resulting in increase in the value of deposits. Two, states increase in the direct cash transfers especially to people below poverty to smoothen their consumption needs. It may be noted that Andhra Pradesh and Telangana governments provided cash transfers during the pandemic while Kerala relied heavily on in-kind transfers like food-kit. This is perhaps the reason behind Kerala's low deposit growth in 2020-21 Q1. The growth reduced in subsequent quarters in most of the states. However, 2021-22 shows a negative growth in both the quarters and the decline in high in Andhra Pradesh and Telangana.-

The bracket figures in Table 1 depict the Year-on-Year growth rate of credits of the South Indian states. In contradiction to the trend of growth of deposits, credit growth has declined from the very first quarter of 2020-21. Kerala and Tamil Nadu are the two states who witnessed a negative growth rate difference throughout all the quarters of 2020-21. This is in tune with the All India figures. When Kerala picked up to positive signs in the first two quarters of 2021-22, Tamil Nadu, being the most industrialized state in India, remained exhibiting negative signs. This is the solitary condition of Tamil Nadu where all the other states have shown improving trends for the corresponding period. An interesting factor which could be observed from the two tables above is that the signs of the difference in the growth rates are just opposite across almost all rows.

The credit-deposit (CD) ratio shows a declining trend during the pandemic in all the states except Andhra Pradesh. The CD ratio was 123 per cent in 2019-20 Q4 and it gradually increased to 127 per cent by 2021-22 Q2. Kerala ranks among the lowest in CD ratio among all the south Indian states. The CD ratio of Kerala declined from 65 per cent before the pandemic (2019-20 Q4) to 59 per cent in 2021-22 Q2. During this period Tamil Nadu experienced a 10 per cent decline and Telangana experienced a 7 per cent decline in CD ratio compared to a 5 per cent decline at all Indian levels. It appears that the decline in CD of four south Indian states is higher than the national average. This has very serious implications on the economic revival.

Kerala witnessed the highest decline in credit in all the four quarters of 2020-21 with Q1 2020-21 showing the largest decline.

Figure 2. Credit-deposit ratio of south Indian states



Source: RBI, 2021-22

Kerala ranks the lowest in CD ratio among all other states. The ratio declined in all the south Indian states during the pandemic except Andhra Pradesh.

Despite the interventions by the RBI, commercial banks are withdrawing from credit provisioning. For a quick economic revival, it is important that the banks play a proactive role in helping the large micro and medium enterprises through credit provisioning.

3. Conclusion

Financial intermediation is an integral requirement of an economy since it facilitates financial flows in the system. We analyzed the trends in the growth of deposits, credit and credit-deposit ratio of Kerala in comparison with South Indian states during the pandemic. The analysis shows that Kerala experienced on of the lowest deposit growth and highest decline in credit growth during the pandemic. This has resulted in a decline in CD ratio during the pandemic. At the same time the Public Sector Banks recorded a net profit of Rs. 31,820 crore in financial year 2021, which the highest during the last five years as per Finance Minister Nirmala Sitharaman. Hence, this study argues that commercial banks have withdrawn from lending instead of scaling up the credit allocation for the business revival.

■

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GIFT GULATI INSTITUTE OF FINANCE AND TAXATION

GST updates

Relfi Paul

Highlights of 46th GST council meeting

GST Council decided to defer the rate hike on textiles that were to be implemented from 1st January 2022

The 46th GST Council was held on 31stDecember 2021 at Vigyan Bhavan, New Delhi. It was chaired by the Union Finance Minister Smt. Nirmala Sitaraman. The meeting was also attended by the Union Ministers of State for Finance Shri Pankaj Chowdhary and Dr. Bhagwat Kishanrao Karad, besides the finance ministers of the States and UTs and other senior officers of tax administration. This meeting was called under the emergency provisions with just two days notice to exclusively discuss the GST hike on textiles. The State of Gujarat requested to reconsider the 45th GST Council decision to correct inversion in the tax structure of the textiles sector which prompted the 46th GST Council to keep the GST hike on textiles from 5% to 12% on hold that were to take effect from 1st January 2022.Also, the Council informed the Group of Ministers to include the GST rate on textiles in their study and submit the report by February 2022. The Finance Minister clarified that the GST hike on footwear was not on the Council's agenda and it was not up for discussion. Hence, the new GST rate of 12% will apply to footwear from 1st January 2022.

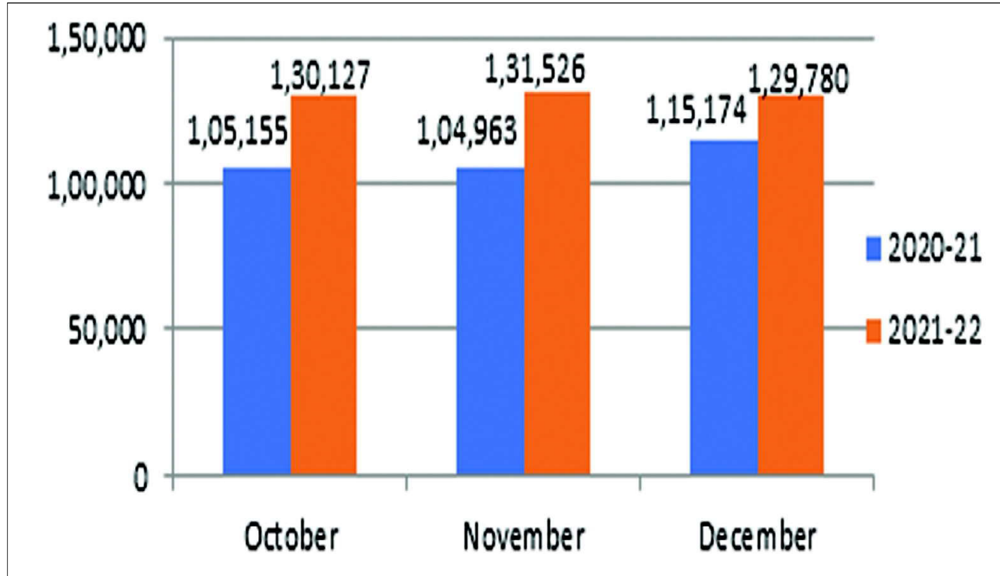
GST revenue performance for 3rd quarter of FY 2021-22

The gross GST collection for the third quarter (October-December) of the current FY was Rs. 3,91,433 which is 17% higher than the revenue collected in the same period last year FY 2020-21. The average monthly gross GST collection for this third quarter has been Rs. 1.30 lakh crore against the average monthly collection of Rs. 1.10 lakh crore and Rs. 1.15 lakh crore in the first and second quarter, respectively. The gross GST revenue collected in the month of October was Rs. 130127, November was Rs.131526 and December 2021 was Rs. 1,29,780 crore. This growth and consistency indicates that the economy is recovering gradually from the impact of second and third wave of Covid-19 pandemic.It is also the result of various policy and administrative measures that have been taken in the past to improve compliance. A large number of initiatives undertaken in the last one year, like the enhancement of system capacity, nudging non-filers after last date of filing of returns, auto-population of returns, blocking of e-way bills and passing of input tax credit for non-filers etc has led to consistent improvement in the filing of returns over the last few months. Moreover, the CGST enforcement agencies, along with the State counterparts have detected large tax evasion cases, mainly cases relating to fake invoices, with the help of various IT tools developed by GSTN that use the return, invoice and e-way bill data to find suspicious taxpayers. The improvement in revenue has also been due to various rate rationalization measures undertaken by the Council to correct inverted duty structure. Considering all the above initiatives, it is expected that this positive trend in the revenues will continue in the last quarter as well.

The two charts (Fig 1 & 2) below show trends in monthly gross GST revenues during the third quarter of FY 2021-22 compared with the same period FY 2020-21:

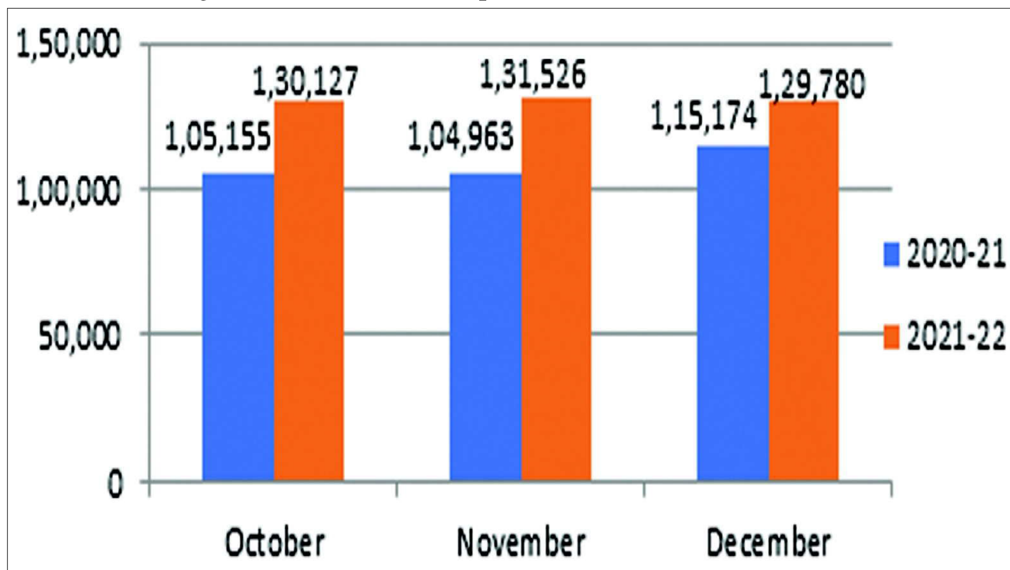
The gross GST revenue collected in the month of December 2021was Rs. 1,29,780 crore of which, CGST was Rs. 22,578 crore, SGST was Rs. 28,658crore, IGST was Rs. 69,155 crore (including Rs. 37,527 crore collected on import of goods) and cess was Rs. 9,389 crore (including Rs. 614 crore collected on import of goods).The government has settled Rs. 25,568 crore to CGST and Rs. 21,102 crore to SGST from IGST as regular settlement. The total

Fig.1. Gross GST collection for 3rd quarter 2021-22 (Rs. Crore)



Source: Compiled from various PIB Press Releases dated 1.11.2021, 1.12.2021&1.1.2022

Fig.2. GSTcollection 3rd quarter 2021-22 (in Rs. Crores)



Source: Compiled from various PIB Press Releases dated 1.11.2021, 1.12.2021&1.1.2022

revenue of Centre and the States in the month of December 2021 after settlement was Rs. 48,146 crore for CGST and Rs. 49,760 crore for the SGST. The revenues for the month of December 2021 are 13% higher than the GST revenues in the same month last year and 26% higher than the GST revenues in December 2019. During the month, revenues from import of goods were 36% higher and the revenues from domestic transaction (including import of services) are 5% higher than the revenues from these sources during the same month last year. The GST collection in the month was close to Rs. 1.30 lakh crore despite reduction of 17% in the number of e-way bills generated in the month of November, 2021 (6.1 crore) as compared to the month of October, 2021 (7.4 crore) due to improved tax compliance and better tax administration by both Central and State Tax authorities.

In November 2021 the gross GST collection was Rs. 1,31,526 crore of which CGST was Rs. 23,978 crore, SGST was Rs. 31,127 crore, IGST was Rs. 66,815 crore (including Rs. 32,165 crore collected on import of goods) and Cess is Rs. 9,606 crore (including Rs. 653 crore collected on import of goods). The government has settled Rs. 27,273 crore to CGST and Rs. 22,655 crore to SGST from IGST as regular settlement. The total revenue of Centre and the States after regular settlements in the month of November 2021 was Rs. 51251 crore for CGST and Rs. 53,782 crore for the SGST. The revenues for the month of November 2021 are 25% higher than the GST revenues in the same month last year and 27% over 2019-20. During the month, revenues from import of goods were 43% higher and the revenues from domestic transaction (including import of services) are 20% higher than the revenues from these sources during the same month last year.

Rs. 1,30,127 crore was collected in October 2021, of which CGST was Rs. 23,861 crore, SGST was Rs. 30,421 crore, IGST was Rs. 67,361 crore (including Rs. 32,998 crore collected on import of goods) and Cess was Rs. 8,484 crore (including Rs. 699 crore collected on import of goods). The government has settled Rs. 27,310 crore to CGST and Rs. 22,394 crore to SGST from IGST as regular settlement. The total revenue of Centre and the States after regular settlements in the month of October 2021 was Rs. 51171 crore for CGST and Rs. 52,815 crore for the SGST. The revenues for the month of October 2021 are 24% higher than the GST revenues in the same month last year and 36% over 2019-20. During the month, revenues from import of goods were 39% higher and the revenues from domestic transaction (including import of services) are 19% higher than the revenues from these sources during the same month last year.

State wise GST collected during third quarter of FY 2021-22

The State wise GST collection was Rs.96430 crore in October, Rs.98708 crore in November and Rs. 91639 crore in December 2021. When we look at the revenue performance of the states during this third quarter of 2021-22, total Rs. 286777 crore collected which is 13 % higher than the same period in the last financial year. It is important to note that in this period, the gross GST revenue collection has achieved 17% growth. It is clear from the given table that, almost all States has achieved positive growth except the State of Uttarakhand in this third quarter compared to the same period in last financial year. Around 14 States has achieved 13% or above growth rate. This shows that the States are slowly recovering from the second wave and third wave of Covid-19 pandemic. The State of Odisha shows the highest growth rate of 34%.

Table 1 shows the state-wise details of monthly GST collected (in Rs. Crore) in 3rd quarter of FY 2021-22 and its comparison with the same quarter in last FY 2020-21:

The State of Kerala has collected Rs.1932 crore in October, Rs.2129 crore in November and Rs. 1895 crore in December 2021. The total collection in this third quarter was Rs.5956 crore which is 16% higher compared to the same period in the last financial year. This amount includes the SGST collected by the States and share of IGST. Apart from this, the State has received Rs.5290.89 crore as GST compensation in three instalments in this period. The State can claim moderate growth in GST collection only if it includes the amount received on account of GST compensation.

Kerala has collected Rs.5956 crore in the third quarter of FY 2021-22, which is 16% higher than the GST collection in the same period last year.

Table 1. State-wise details of monthly GST collected in 3rd quarter of FY 2021-22 and its comparison with the same quarter in last FY 2020-21: *(in Rs. Crores)*

States/UTs	Oct.2021	Nov.2021	Dec.2021	(3rdQtr 2020-21)	(3rdQtr 2021-22)	Change (%)
J&K	648	383	320	1055	1351	22
Himachal Pradesh	689	762	662	2119	2113	0
Punjab	1595	1845	1573	4125	5013	18
Uttarakhand	1259	1263	1077	3804	3599	-5
Haryana	5606	6016	5873	17108	17495	3
Delhi	4045	4387	3754	10075	12186	18
Rajasthan	3423	3698	3058	9231	10179	10
Uttar Pradesh	6775	6636	6029	16936	19440	13
Bihar	1351	1030	963	3047	3344	9
Assam	1425	992	1015	2947	3432	15
West Bengal	4259	4083	3707	11599	12049	4
Jharkhand	2370	2337	2206	5828	6913	16
Odisha	3593	4136	4080	7807	11809	34
Chhattisgarh	2392	2454	2582	6477	7428	13
Madhya Pradesh	2666	2808	2533	7511	8007	7
Gujarat	8497	9569	7336	21822	25402	15
Maharashtra	19355	18656	19592	48499	57603	16
Karnataka	8259	9048	8335	21372	25642	17
Goa	317	518	592	952	1427	34
Kerala	1932	2129	1895	5009	5956	16
Tamil Nadu	7642	7795	6635	20890	22072	6
Telangana	3854	3931	3760	10101	11545	13
Andhra Pradesh	2879	2750	2532	7568	8161	8
Total (all States & UTs)	**96430**	**98708**	**91639**	**250058**	**286777**	**13**

Source: Compiled from various PIB Press Releases dated 1.11.2021, 1.12.2021&1.1.2022

GST compensation released to states

So far in the financial year 2021-22, the government has released Rs. 2,19,000 crore to the states as GST Compensation. This amount includes Rs. 60,000 crore from Compensation cess fund and Rs.1.59 crore from loan from market. During this third quarter of FY 2021-22, a total of Rs. 1,01,000 crore has been released in three instalments, which are Rs. 40,000 crore on 7th October, Rs.44000 crore on 28th October and Rs.17000 crore on 3rd November 2021.

The Covid-19 pandemic has not only significantly affected the GST collection of the Centre, but has also created huge compensation requirements to States. Because of the lower economic activity during pandemic, the fund collected through the compensation cess was inadequate to meet the compensation requirements of States. In this context, the issue has been deliberated in the 41st and 42nd GST Council meetings. Accordingly, the Centre had borrowed Rs. 1.1 lakh crore under a special window loan and passed on to the States as back-to-back loan for FY 2020-21. It is estimated that Rs. 2.59 lakh crore will be required to pay as compensation to States/UTs in the FY 2021-22. Out of this only Rs. 1 lakh crore can be expected from compensation Cess fund. Hence, 43rd GST Council meeting has also permitted to borrow Rs. 1.59 lakh crore from the market for managing compensation requirement of FY 2021-22. Subsequently, Rs. 75,000 crore has been released to States/UTs on 15 July 2021, which is almost 50% of the total shortfall. Then, a total of Rs. 1,01,000 crore has been released in three installments during the third quarter of the current financial year. The 45th GST Council decided to extend the Compensation cess till March 2026, exclusively to repay the back-to-back loan taken so far to manage the compensation requirements. It is also significant to note

The Govt. has estimated Rs. 2.59 lakh crore needs to payto States/UTs in the current financial year as compensation. Out of this, only Rs. 1 lakh crore will be expected from compensation cess fund. The balance requirement of Rs. 1.59 lakh was already mobilised from market and disbursed among the States/UTs on a back to back basis.

that there is no compensation to States beyond June 2022, which is the last date as per the GST Compensation to States Act 2016.

Table 2 below shows the details of GST compensation released to States/UTs during the third quarter of the FY 2021-22:

Table 2. The State/ UTs wise details of amount released in lieu of GST Compensation *(in Rs. Crores)*

Sl. No.	Name of the State/ UTs	07.10.21	28.10.21	03.11.21
1.	Andhra Pradesh	823.17	905.59	542.99
2.	Assam	446.30	490.76	159.56
3.	Bihar	1714.76	1885.69	342.33
4.	Chhattisgarh	1249.09	1374.02	274.07
5.	Goa	213.09	234.28	163.38
6.	Gujarat	3280.58	3608.53	1428.41
7.	Haryana	1860.17	2045.79	518.12
8.	Himachal Pradesh	678.01	745.95	177.69
9.	Jharkhand	624.92	687.76	264.46
10.	Karnataka	4555.84	5010.90	1602.62
11.	**Kerala**	**2198.55**	**2418.49**	**673.85**
12.	Madhya Pradesh	1763.81	1940.20	542.15
13.	Maharashtra	3467.25	3814.00	3053.60
14.	Meghalaya	35.47	39.18	27.78
15.	Odisha	1617.65	1779.45	286.01
16.	Punjab	3052.15	3357.48	834.83
17.	Rajasthan	1828.48	2011.42	653.45
18.	Tamil Nadu	2036.53	2240.22	1314.43
19.	Telangana	1149.46	1264.78	279.19
20.	Tripura	100.88	111.34	16.93
21.	Uttar Pradesh	2047.85	2252.37	1417.18
22.	Uttarakhand	838.52	922.30	270.27
23.	West Bengal	1616.39	1778.16	771.82
24.	Delhi	1558.03	1713.34	1155.09
25.	J&K	967.32	1064.44	168.41
26.	Puducherry	273.73	303.56	61.08
Total		**40000.00**	**44000.00**	**17000.00**

Source: PIB Press Release dated 15.07.2021, 07.10.2021, 28.10.2021 & 03.11.2021

Changes on law and procedure

The Government has issued four Central Tax notifications, ten Central Tax (Rate) notifications, ten IGST (Rate) notifications, ten UTGST (Rate) notifications and five Circulars during this third quarter of FY. 2021-22.

Notifications - Central tax

1. Due date for GSTR-9 and GSTR-9C extended to 28th February 2022

The due date for furnishing annual return in FORM GSTR-9 & self-certified reconciliation statement in FORM GSTR-9C for the financial year 2020-21 has been extended from 31.12.2021 to 28.02.2022. The CBIC has also notified some amendments in GST Forms and CGST Rules.

Source: Notification No. 40/2021-CT dated 29.12.2021

2. Certain clauses of finance act, 2021 with effect from 1st January, 2022

The Union Budget 2021 has presented various amendments to the GST Law through Finance Act, 2021. However, the same were not notified at that time. Now, the CBIC has notifying the applicability of the majority of the amendments (sections 108, 109 & 113 to 122) with effect from 1st January, 2022. (Except Section 7(1)(aa) and Section 50 - which are retrospective from 1st July, 2017).

Source: Notification No. 39/2021-CT dated 21.12.2021

3. Mandatory aadhaar authentication for registered person

The CBIC seeks to bring into force certain sub-rules of Rule 2 of the Central Goods and Services Tax (Eighth Amendment) Rules, 2021, introduced vide Notification No. 35/2021-Central Tax dated 24th September, 2021. The key changes to come into effect are as follows:

" Rule 10B of CGST Rules shall be inserted w.e.f 1st January, 2022 which prescribes compulsory Aadhaar authentication for registered person in order to be eligible for following purposes:

Filing of Revocation Application under Rule 23

Filing of Refund Application under Rule 89

Refund under Rule 96 on IGST paid exports

" Rule 23 has been amended to incorporate mandatory Aadhaar authentication for filing revocation application.

" Rule 89 has been amended to incorporate mandatory Aadhaar authentication for filing refund application

" Rule 96 has been amended to incorporate mandatory Aadhaar authentication for obtaining refund in case of duty paid exports.

Source: Notification No. 38/2021-CT dated 21.12.2021

4. Extended tenure of NAA & amends Form GST DRC-03

The Government has extended the tenure of National Anti-profiteering Authority (NAA) to 5 years and also amended FORM GST DRC-03.Pertinently, with the amendment of Rule 137 of CGST Rules 2017 the tenure of the National Anti-profiteering Authority has been extended to five years, the amendment comes into effect from 30 November 2021. Further, vide the said notification, a new cause of payment has been added in Form DRC-03 for payment of tax ascertained through Form GST DRC-01A.

Source: Notification No. 37/2021-CT dated 01.12.2021

Notifications – Central tax (Rates)

Sl.No.	Notification No.& date	Subject
1	Notification No. 22/2021-Central Tax (Rate) dated 31.12.2021	Amends notification related to CGST rate on Services w.e.f 01.01.2022 by supersede notification 15/2021-CT(R) dated 18.11.2021 and amend Notification No 11/2017- CT (Rate) dated 28.06.2017.
2	Notification No. 21/2021-Central Tax (Rate) dated 31.12.2021	CGST rate on footwear increased w.e.f 1st January 2022 by supersede notification 14/2021- CT(R) dated 18.11.2021 and amend Notification No 1/2017- CT (Rate) dated 28.06.2017.
3	Notification No. 20/2021-Central Tax (Rate) dated 28.12.2021	Amends the concessional rate notification on specified handicraft items – Notification No. 21/2018 – Central Tax (Rate) dated July 26, 2018 in order to align the HSN mentioned therein with the new edition of HSN 2022.
4	Notification No. 19/2021-Central Tax (Rate) dated 28.12.2021	Amends the GST exemption notification for goods – Notification No. 2/2017 – Central Tax (Rate) dated June 28, 2017 in order to align the HSN mentioned therein with the new edition of HSN 2022.
5	Notification No. 18/2021-Central Tax (Rate) dated 28.12.2021	Amends the GST rate notification for goods – Notification No. 1/2017 – Central Tax (Rate) dated June 28, 2017 in order to align the HSN mentioned therein with the new edition of HSN 2022.
6	Notification No. 17/2021-Central Tax (Rate) dated 18.11.2021	The CBIC has notified that GST on intra-state and inter-state supplies of motorcycles, omnibus or any other motor vehicle shall be paid by electronic commerce operators. The same shall come into force w.e.f. 01.01.2022.
7	Notification No. 16/2021-Central Tax (Rate) dated 18.11.2021	The CBIC has notified that services provided as listed under article 243G/W to Governmental authority or a Government entity, would be liable to tax as they are excluded from exemption entries. The same shall come into force w.e.f. 01.01.2022.

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8	Notification No. 15/2021-Central Tax (Rate) dated 18.11.2021	The CBIC has notified that certain services supplied by way of composite supply of works contract like construction of dams, canal, residential complex for self-use; civil structure other than for commerce and industry; involving earth work more than 75%, which are provided to Governmental Authority or a Government Entity, the same would be liable @18% as against 12%/5% at present. The same shall come into force w.e.f. 01.01.2022.
9	Notification No. 14/2021-Central Tax (Rate) dated 18.11.2021	The CBIC has augmented the GST Rate from 5% to 12% on fabrics, apparels and footwear with the objective to eradicate the problem of the inverted duty structure faced by the small segment of the textile value chain. The same shall come into force w.e.f. 01.01.2022. Increase in GST Rate on Information Technology software to 18% by amends Notification No 1/2017-Central Tax (Rate) dated 28.06.2017.
10	Notification No. 13/2021-Central Tax (Rate) dated 27.10.2021	Increase in GST Rate on Information Technology software to 18% by amends Notification No 1/2017-Central Tax (Rate) dated 28.06.2017.

Source: https://cbic-gst.gov.in/central-tax-notifications.html Accessed on 31.12.2021

Compensation cess (Rate)

Sl.No.	Notification No. & date	Subject
1	Notification No. 2/2021-Compensation Cess (Rate) dated 28.12. 2021	Amends the compensation cess rate notification – Notification No. 1/2017 – Compensation Cess (Rate) dated June 28, 2017 on specified goods in order to align the HSN mentioned therein with the new edition of HSN 2022.

Source: https://cbic-gst.gov.in/central-tax-notifications.html Accessed on 31.12.2021

Notifications – Integrated tax (Rate)

Sl.No.	Notification No. & date	Subject
1	Notification No. 22/2021-Integrated Tax (Rate) dated 31.12.2021	Seeks to supersede notification 15/2021- Integrated Tax (Rate) dated 18.11.2021 and amend Notification No 8/2017- Integrated Tax (Rate) dated 28.06.2017.
2	Notification No. 21/2021-Integrated Tax (Rate) dated 31.12.2021	Seeks to supersede notification 14/2021- Integrated Tax (Rate) dated 18.11.2021 and amend Notification No 1/2017- Integrated Tax (Rate) dated 28.06.2017.
3	Notification No. 20/2021-Integrated Tax (Rate) dated 28.12.2021	Seeks to amend Notification No 22/2018- Integrated Tax (Rate) dated 26.07.2018
4	Notification No. 19/2021-Integrated Tax (Rate) dated 28.12.2021	Seeks to amend Notification No 02/2017- Integrated Tax (Rate) dated 28.06.2017.
5	Notification No. 18/2021-Integrated Tax (Rate) dated 28.12.2021	Seeks to amend Notification No 01/2017- Integrated Tax (Rate) dated 28.06.2017.
6	Notification No. 17/2021-Integrated Tax (Rate) dated 18.11.2021	Seeks to amend Notification No 14/2017- Integrated Tax (Rate) dated 28.06.2017.
7	Notification No. 16/2021-Integrated Tax (Rate) dated 18.11.2021	Seeks to amend Notification No 9/2017- Integrated Tax (Rate) dated 28.06.2017.
8	Notification No. 15/2021-Integrated Tax (Rate) dated 18.11.2021	Seeks to amend Notification No 8/2017- Integrated Tax (Rate) dated 28.06.2017.
9	Notification No. 14/2021-Integrated Tax (Rate) dated 18.11.2021	Seeks to further amend Notification No 01/2021-Integrated Tax (Rate) dated 28.06.2017.
10	Notification No. 13/2021-Integrated Tax (Rate) dated 27.10.2021	Seeks to amend Notification No 1/2017- Integrated Tax (Rate) dated 28.06.2017.

Source: https://cbic-gst.gov.in/central-tax-notifications.html Accessed on 31.12.2021

Notifications – Union territory tax (Rate)

Sl.No.	Notification No. & date	Subject
1	Notification No. 22/2021-Union Territory Tax (Rate) dated 31.12.2021	Seeks to supersede notification 15/2021- Union Territory Tax (Rate) and amend Notification No 1/ 2017- Union Territory Tax (Rate) dated 28.06.2017.
2	Notification No. 21/2021- Union Territory Tax (Rate) dated 31.12.2021	Seeks to supersede notification 14/2021- Union Territory Tax (Rate) and amend Notification No 1/2017- Union Territory Tax (Rate) dated 28.06.2017.
3	Notification No. 20/2021- Union Territory Tax (Rate) dated 28.12.2021	Seeks to amend Notification No 22/2018- Union Territory Tax (Rate) dated 26.07.2018
4	Notification No. 19/2021- Union Territory Tax (Rate) dated 28.12.2021	Seeks to amend Notification No 2/2017- Union Territory Tax (Rate) dated 28.06.2017
5	Notification No. 18/2021-Union Territory Tax (Rate) dated 28.12.2021	Seeks to amend Notification No 1/2017- Union Territory Tax (Rate) dated 28.06.2017
6	Notification No. 17/2021-Union Territory Tax (Rate) dated 28.11.2021	Seeks to amend Notification No 17/2017- Union territory Tax (Rate) dated 28.06.2017
7	Notification No. 16/2021-Union Territory Tax (Rate) dated 18.11.2021	Seeks to amend Notification No 12/2017- Union territory Tax (Rate) dated 28.06.2017.
8	Notification No. 15/2021-Union Territory Tax (Rate) dated 18.11.2021	Seeks to amend Notification No 11/2017- Union territory Tax (Rate) dated 28.06.2017.
9	Notification No. 14/2021-Union Territory Tax (Rate) dated 18.11.2021	Seeks to further amend Notification No 01/ 2021- Union territory Tax (Rate) dated 28.06.2017.
10	Notification No. 13/2021-Union Territory Tax (Rate) dated 27.10.2021	Seeks to amend Notification No 1/2017- Union territory Tax (Rate) dated 28.06.2017.

Source: https://cbic-gst.gov.in/central-tax-notifications.html Accessed on 31.12.2021

Circular

1. Tax on supplies of restaurant services via E-Commerce Operators (ECOs)

The GST Council in its 45th meeting held on 17th September, 2021 recommended to notify, Restaurant Service? under section 9(5) of the CGST Act, 2017. Accordingly, the tax on supplies of restaurant service supplied through ECOs shall be paid by the ECOs. In this regard Central Tax (Rate) notification No. 17/2021 dated 18.11.2021 has been issued. This circular has issued clarifications in furtherance of certain representations that have been received by the Government requesting for clarification regarding modalities of compliance to the GST laws in respect of supply of restaurant service through ECOs.

As 'restaurant service' has been notified under section 9(5) of the CGST Act, 2017, the ECO shall be liable to pay GST on restaurant services provided, with effect from January 01, 2022, through ECOs. Accordingly, the ECOs will no longer be required to collect TCS and file GSTR 8 in respect of restaurant services on which it pays tax in terms of section 9(5). On other goods or services supplied through ECOs, which are not notified u/s 9(5), ECOs will continue to pay TCS in terms of section 52 of CGST Act, 2017 in the same manner at present.

Source: GST Circular 167/2021 dated 17.12.2021

2. Clarification on refund related issues

The CBIC has clarified various issues pertaining to the refund claim of GST. Some of the clarifications have been encapsulated below:

(i) The provisions of section 54(1) of the CGST Act regarding time period, within which an application for refund can be filed, would not be applicable in cases of refund of excess balance in electronic cash ledger.

(ii) Furnishing of certification/ declaration under Rule 89(2)(l) or 89(2)(m) of the CGST Rules, 2017 for not passing the incidence of tax to any other person is not required in cases of refund of excess balance in electronic cash ledger as unjust enrichment clause is not applicable in such cases.

(iii) It is not mandatory for the registered person to utilize the TDS/TCS amount credited to his electronic cash ledger only for the purpose for discharging tax liability. Now, the registered person is at full liberty to discharge his tax liability in respect of the supplies made by him during a tax period, either through debit in electronic credit ledger or through debit in electronic cash ledger, as per his choice and availability of balance in the said ledgers.

(iv) Further, as the tax on the supply of goods, regarded as deemed export, would be paid by the supplier in his return, therefore, the relevant date for purpose of filing of refund claim for refund of tax paid on such supplies would be the date of filing of return, related to such supplies, by

the supplier.

Source: GST Circular 166/2021 dated 17.11.2021

3. Clarification in respect of applicability of QR code on B2C invoices

The CBIC has issued clarification in respect of applicability of Dynamic Quick Response (QR) Code on B2C invoices and compliance of notification 14/2020-Central Tax, dated 21.03. 2020:

Issue:In cases, where receiver of services is located outside India, and payment is being received by the supplier of services, through RBI approved modes of payment, but as per provisions of the IGST Act 2017, the place of supply of such services is in India, then such supply of services is not considered as export of services as per the IGST Act 2017; Whether in such cases, the Dynamic QR Code is required on the invoice issued, for such supply of services, to such recipient located outside India?

No, wherever an invoice is issued to a recipient located outside India, for supply of services, for which the place of supply is in India, as per the provisions of IGST Act 2017, and the payment is received by the supplier, in convertible foreign exchange or in Indian Rupees wherever permitted by the RBI, such invoice may be issued without having a Dynamic QR Code, as such dynamic QR code cannot be used by the recipient located outside India for making payment to the supplier.

Source: GST Circular 165/2021 dated 17.11.2021

4. Clarifications regarding applicable GST rates and exemptions on certain services

The issues regarding applicable GST rates & exemptions on certain services have been examined by GST Council in the 45rd meeting of the Council held on 17th September, 2021. The issue-wise clarifications are given below:

1. Services by cloud kitchens/central kitchens: Service provided by way of cooking and supply of food, by cloud kitchens/central kitchens are covered under 'restaurant service', as defined in notification No. 11/2017- Central Tax (Rate) and attract 5% GST without ITC.
2. Supply of ice cream by ice cream parlors: Ice cream parlors sell already manufactured ice- cream and do not cook/prepare ice-cream for consumption like a restaurant, it is supply of ice cream as goods and not as a service, even if the supply has certain ingredients of service. Accordingly, it is clarified that ice cream sold by a parlor or any similar outlet would attract GST at the rate of 18%.
3. Coaching services supplied by coaching institutions and NGOs under the central sector scheme of 'Scholarships for students with Disabilities': Where total expenditure is borne by the Government is covered under entry 72 of notification No. 12/2017-Central Tax (Rate) dated 28th June, 2017 and hence exempt from GST.

4. Satellite launch services provided by M/s New Space India Limited (NSIL): It has been clarified vide Circular No. 2/1/2017-IGST dated 27.09.2017 that Place of Supply (PoS) of satellite launch services supplied by ANTRIX Corporation Ltd to customers located outside India is outside India and such supply which meets the requirements of section 2(6) of IGST Act, constitutes export of service and shall be zero rated. If the service recipient is located in India, the satellite launch services would be taxable. As the satellite launch services supplied by NSIL are similar to those supplied by ANTRIX Corporation Ltd, the said circular No. 2/1/2017-IGST dated 27.09.2017, is applicable to them.

5. GST on overloading charges at toll plaza: Overloading charges at toll plazas would get the same treatment as given to toll charges. Entry 23 of notification No. 12/2017-Central Tax (Rate) dated 28th June, 2017, exempts Service by way of access to a road or a bridge on payment of toll charges.

6. Renting of vehicles to State Transport Undertakings and Local Authorities: Services where the said vehicles are rented or given on hire to State Transport Undertakings or Local Authorities are eligible for the exemption irrespective of whether such vehicles are run on routes, timings as decided by the State Transport Undertakings or Local Authorities and under effective control of State Transport Undertakings or Local Authorities which determines the rules of operation or plying of vehicles.

7. Services by way of grant of mineral exploration and mining rights: The service by way of grant of mining rights, during the period 1.7.2017 to 31.12.2018, it was taxable at 18% in view of principle laid down in the 14th meeting of the Council for residuary GST rate. Post, 1st January, 2019 no dispute remains as stated above.

8. Admission to indoor amusement parks having rides etc. 28% rate (entry 34 (iiia)) applies on admission to a place having casino or race club (even if it provides certain other activities) or admission to a sporting event like IPL. On the other hand, Entry 34 (iii), having a rate of 18%, covers all other cases of admission to amusement parks, or theme park etc or any place having joy rides, merry- go rounds, go- carting etc, whether indoor or outdoor, so long as no access is provided to a casino or race club. This clarification will also apply to Entries 34(iii) and 34(iiia) as they existed prior to their amendment w.e.f 01.10.2021.

9. Services supplied by contract manufacturers to brand owners for manufacture of alcoholic liquor for human consumption: The expression "food and food products" excludes alcoholic beverages for human consumption. As such, in common parlance also alcoholic liquor is not considered as food.

Accordingly, services by way of job work in relation to manufacture of alcoholic liquor for human consumption are not eligible for the GST rate of 5% prescribed under the said entry. GST Council recommended that such job work would attract GST at the rate of 18%.

Source: GST Circular 164/2020/2021, dated 06.10.2021

5. Clarification regarding GST rates and classification on certain goods

Based on the recommendations of the 45th GST Council meeting held on 17th September, 2021, at Lucknow, clarification, with reference to GST levy, related to the following are being issued through this circular:

i. Fresh vs dried fruits and nuts;

ii. Classification and applicable GST rates on Tamarind seeds;

iii. Coconut vs Copra;

iv. Classification and applicable GST rate on Pure henna powder and leaves, having no additives;

v. Scented sweet supari and flavoured and coated illaichi;

vi. Classification of Brewers' Spent Grain (BSG), Dried Distillers' Grains with Soluble (DDGS) and other such residues and applicable GST rate;

vii. GST rates on goods (miscellaneous pharmaceutical products) falling under heading 3006; Circular No. 163/19/2021-GST Page 2 of 9

viii. Applicability of GST rate of 12% on all laboratory reagents and other goods falling under heading 3822;

ix. Requirement of original/import essentiality certificate, issued by the Directorate General of Hydrocarbons (DGH) on each inter-State stock transfer of goods imported at concessional GST rate for petroleum operations;

x. External batteries sold along with UPS system/inverter;

xi. Specified renewable energy projects;

xii. Fiber drums, whether corrugated or non-corrugated.

Source: GST Circular 163/19/202, dated 06.10.2021

Important portal updates

1. Availability of input tax credit (ITC) for FY 2020-21

As per Section 16(4) of CGST Act, 2017, no taxpayer shall take input tax credit in respect records (invoices and debit notes) for supply of goods or services (or both) for Financial Year 2020-21 after the due date of furnishing the return for the month of September 2021. The due date for the GSTR-3B for September 2021 is either 20th October 2021 for monthly filers and 22nd or 24th October 2021 depending on the State/UT of registration of the taxpayer. In view of the same, the following may kindly be noted:

i.) Records (invoice or debit notes) pertaining to Financial Year 2020-21 reported in GSTR-1 after due date of

GSTR-3B of September 2021 will not reflect as "ITC Available" in GSTR-2B of the recipients. Such records will reflect in "ITC Not Available" section of GSTR-2B and such ITC shall in turn not be auto-populated in GSTR-3B.

ii.) Records (invoice or debit notes) pertaining to Financial Year 2020-21 reported in GSTR-1 after due date of GSTR-3B of September 2021 will also not reflect as "ITC as per GSTR-2A" in Table-8A of GSTR-9 of the recipients.

It is requested that the taxpayers may take note of the above and ensure that their records pertaining to Financial Year 2020-21 are reported on or before the due date of their GSTR-3B for the month September 2021, or for the quarter of July to September 2021 in case of quarterly GSTR-3B filers. Availment of ITC by the recipients contrary to the legal provisions in GST may entail action by the tax administrations in accordance with law.

Source: GSTN dated 17/10/2021

2. Resumption of blocking of E-way bill (EWB) generation facility

The blocking of e-way bill generation facility had been temporarily suspended by Government on account of Covid pandemic. In terms of Rule 138 E (a) and (b) of the CGST Rules, 2017, the e-way bill generation facility of a person is liable to be restricted, in case the person fails to file their return in Form GSTR-3B / statement in CMP-08, for consecutive two tax periods or more, whether monthly or quarterly.The blocking of e-way bill generation facility has now resumed on the e-way bill portal for all the taxpayers. Going forward, from the tax period August, 2021 onwards, the System will periodically check the status of returns filed in Form GSTR-3B or the statements filed in Form GST CMP-08 as per the regular procedure followed before pandemic, and block the generation of e-way bills as per rule.

Source: GSTN dated 04/10/2021

DISCLAIMER:The content does not represent the views of the Gulati Institute of Finance and Taxation (GIFT). For any statutory purpose, please refer to the original Notifications/Circular and Acts and Rules.

New studies on Kerala

Young Scholars' Forum, GIFT
Led by Ashkar K

Economics

Scopus Indexed Journals

1. Das, A., Das, K., & Basu, T. (2021). Human development in the villages of Kerala: an analysis from Census 2011. Development in Practice, 1-17. https://doi.org/10.1080/09614524.2021.1937536

India ranks over 100 in HDI. However, Kerala has a high HDI and is commonly referred to as the master of social development. This paper analyses the nature of human development in the villages of Kerala to reveal the spatial pattern of human development at the local level. HDI is calculated following the approach of UNDP. The outcome shows that 28.75% of the villages of Kerala still need more attention to human development. Hence, this study reveals that there are some loopholes in Kerala, which need special focus.

2. Mohammed Kasim, C., Azad, P., Muhammed Refeque, E., & Maya, K. (2021). Effectiveness of public policy in reviving the COVID?19 hit economy: Evidences from Kerala, India. Journal of Public Affairs, https://doi.org/10.1002/pa.2794

This paper examines the effectiveness of policy intervention of the State Government of Kerala in India in mitigating the risks caused by the pandemic. It was found that state policies are effective in reviving the crisis-hit economy as they have primarily helped low-income groups and other marginalized communities. Sufficient evidence that government interventions are effective in helping those who have lost their jobs was not found. The level of effectiveness is inversely related to age, education, and family size. An extensive fiscal package to help people recover from the crisis was suggested.

3. Luke, M. (2021). Globalization and the Changing Geography of Social Life in Rural Kerala. Journal of South Asian Development, 09731741211057821.

This article contributes to the study of globalization and social change in rural Kerala by examining the historical trajectories of educational, occupational and spatial mobility among three communities-Syrian Christians, Ezhavas and Pulayas-in the village of Kavakad, Kerala. It addresses the involvement of each community in transnational migration and related mobilities away from the village. The article highlights the ways in which spatial mobility is a key factor in shaping the relative social mobility of each community and suggests a need for alternative development interventions at the local level to support the spatial mobility of marginalized rural communities.

4. Ramesh, R., & Prajitha, K. C. (2021). Family Planning Practices in Kerala: A Critical Appraisal Using National Family Health Survey Data. Indian Journal of Clinical Medicine, https://doi.org/10.1177/2633944721106478

Adequate attention to family planning can not only reduce poverty and hunger in countries with high birth rates but also avert maternal and childhood deaths. Kerala, the southernmost state of India, has achieved its replacement level fertility rate far ahead of India. The study aims to analyze the contraceptive prevalence of the state over the years and also at the district level and the choices of different family planning methods in the state.

Other Journal Articles

1. Kumar Ajith, K., & Vidya, N. A Study on the Roles of Kudumbashree and Kerala Social Justice Department in Uplifting the Transgenders. Journal of Research in Humanities and Social Science, 9(9), 78-83.

The key objective of this paper is to examine the various income generating and social uplifting activities introduced by Kudumbashree (State Poverty Eradication Mission, Kerala) and Social Justice department of Kerala for the upliftment of the transgender community in Kerala. In addition to this the research analyses the types of problems faced by transgender community from the society and finds solution to the problems faced by transgender community as a whole. So far Kudumbashree has influenced millions of families in the eradication of absolute poverty and bringing women to mainstream in Kerala and extended their consultative and direct intervention outside the state and all over the globe

2. Philip, S., & Abraham, M. P. (2021). Health Care Expenditure and Health Status of the Elderly in Kerala-An Empirical Analysis. The National Council of Churches Review (NCC Review), 141(9),473-488. https://ncci1914.com/wp-content/uploads/2021/12/NCC-Review-October2021.pdf#page=17

The world in which we are living today is slowly graying; the proportion of the elderly among the total population is increasing; a natural outcome of demographic transition. Population ageing is a global phenomenon. Population ageing varies widely by means of geographic region and within region. In India, the process of ageing occurs much faster in the South than in the Northern states (UNFPA, 2013). Among the South Indian states, Kerala has unique demographic characteristics and is in the final stage of demographic transition. Hence, the society should be prepared to ensure the growing elderly a healthy, happy, active and contented life.

3. Murugan, A. M., & Rajan, M. R. B. (2021). A Study on Exploring the Recovery Hope of the Domestic Tourism Industry in Post COVID-19 on Kerala Tourism. Wesleyan Journal of Research, 14(1).

The research paper addresses two important concerns, first, pertains to the major challenges that the hospitality and tourism industry faces amid current conditions; and second relates to the vital learnings for the industry. The study critically discusses prominent themes in the light of the existing arguments from the literature and reflects on implications for the decision makers. The major implications of the study are in the form of determined themes adding to the evolving theory on COVID-19 pandemic and tourism & hospitality industry; and managerial recommendations to address a host of issues while taking essential learnings stemming from the current circumstances. Limitations and scope of future research are also discussed.

Books

1. Devi, K. S. The Realities Behind the Returnees after COVID- 19: A Study Based on the Recent Experiences from Kerala. Indian Agriculture, Farmer and Labour: Issues and Reforms, 55.

The paper focuses on the impact of COVID 19 on the migrant labourers from Kerala in the context of the migration from India to Gulf countries. The pandemic was a stumbling block in the lives of those who haven't had any other alternative earnings to survive. It is the need of the time to protect their interests. The government has to find ways to ensure social security for all these migrant labourers with the available services. It also shed light on the problems faced by them after the pandemic and also analysed the strategies adopted by the government for the rehabilitation of returnees.

Other Articles

1. Rajan, I., & Pattath, B. (2021). Kerala Return Emigrant Survey 2021: What Next For Return Migrants of Kerala?. Working Paper Series No. 504. Centre for Development Studies: Thiruvananthapuram.

This report concerns emigrants who returned to Kerala between May and December 2020 in the midst of the Covid-19 pandemic. It documents the experiences of 1985 return emigrants (REM) through a quantitative survey conducted via Computer Assisted Telephonic Interviews (CATI). While the REM have been a demographically, politically and economically significant component of Kerala's population, the COVID-19 REM represent a unique case in history that has the potential to not only affect the economy, society, and psyche of Kerala for many years to come, but to also provide valuable insights into the future of global labour migration governance.

2. Jacob, S. P., & Prasad, R. Labour In-Migration and the Production of the New Subaltern in Kerala. Social Action, 71(2), 178-190

The study, based on ethnographic fieldwork conducted at a village in Perumbavoor region of Ernakulam district, shows that new social as well as geographical spaces have already emerged in Kerala as a result of large-scale in-migration of labourers form different parts of the country. The natives attribute them with subaltern characteristics, like unclean, savage, stranger, uncivilised, subordinate, etc. These labourers are evolving as the 'new subaltern' in Kerala and are similar to the subalternity experienced by the 'slave castes'- dalits and adivasis, of the pre-independent period

History

Other Journal Articles

1. Subramanian, S. V. (2021). The Architectural Tradition of Ponnani, Kerala: A Historic Malabar Port Town. Journal of Traditional Building, Architecture and Urbanism, (2), 385-396. https://doi.org/10.51303/jtbau.vi2.526

This study attempts to convey an understanding of Ponnani, one of Malabar's few surviving historic towns, with an analysis based on field visits and existing literature. The relationship between the region's architecture and landscape and current threats to its heritage is explored. Its vanishing traditional knowledge systems and vernacular architectural types are also discussed, in what may serve as a reference for adaptive use by future generations.

Health

Scopus Indexed Journal Articles

1. Sneha, P., & Ashwin, V. (2021). Interpreting Kerala's COVID-19 Numbers. Economic and Political Weekly, 56(14). https://www.epw.in/engage/article/interpreting-keralas-covid-19-numbers

Through a series of data visualizations, the authors attempt to describe Kerala's COVID-19 trajectory, the state's policy response and how to assess its pandemic performance. Using demographic, economic, social (particularly public health) data, the authors provide context

on the vulnerability of the state to outbreaks, show how to use comparative indicators, and account for district-level variation and reporting errors. Finally, the authors examine what has changed in the consequent waves of the pandemic and discuss the enduring strengths of the "Kerala model".

2. Madhavan, R. K., Mathew, R., Michael, J. P., Karunakaran, A., & Abraham, B. (2021). A Cross-sectional Study on Coping Styles and Suicidal Intent among Young Adult Suicide Attempters at a Tertiary Care Centre in Kerala, India. Journal of Clinical & Diagnostic Research, 15(10).

The studies on the coping styles influencing suicidal intent among young adult suicide attempters which are few from the Indian context. Young adults are of utmost importance in any nation and interventions for suicide prevention have to be undertaken at different levels. This study aims to estimate the coping styles and suicidal intent among young adult suicide attempters and to assess the various coping styles associated with the suicidal intent.

Other Journal Articles

1. Sangeetha, K. L., & Mavoothu, D. (2021) Can Social Media Usage Enhance Psychological Well-Being Through Social Capital? Evidence from Kerala during Covid-19 Lockdown. Bharata Mata Journal of Multidisciplinary Studies, 8(2), 30-53.

This study examines how technology adoption, especially social media usage, helps the people to maintain a positive well-being by staying connected with others during social distancing and lockdown in the context of COVID-19. Findings of the study indicate that social media usage was positively related with social capital and psychological well-being. This study extends the theoretical models by adding the significant role of social media in maintaining social capital for well-being during COVID-19 lockdown.

2. Ranjit, G., & Akhil, M. (2021). A Study on Work Stress Management among Employees in a Spinning Mill in Kerala. Asian Journal of Sociological Research, 5(3), 32-38. https://globalpresshub.com/index.php/AJSR/article/view/1340

The objectives of the study were to find the stress level of employees in the co-operative industries, its causes, impact on productivity of the employees, handling stress generated at the workplace and understanding the relationship between stress and various other factors such as age, gender, organizational policies etc. It was found that the majority of the people experienced high levels of stress, job insecurity and work pressure. Productivity of employees was affected and the majority of them handle stress with the support of the family. Recommendations like introduction of stress buster programs, increasing the retirement benefits, improving the labour facilities and so on were made.

3. Mani, A. P., Rayan, S., Thilak, S. A., Shekar, A., Madompoyil, B., & Madalageri, N. K. (2021). A Cross-Sectional Study on Learning Preferences Among First-Year Medical Students in a Medical College in Kerala. National Journal of Physiology, Pharmacy and Pharmacology, 11(12), 1337-1340. http://10.5455/njppp.2021.11.06209202102072021

Education in the medical field puts tremendous pressure on young students who have just passed out of the schools and don't have much awareness about the medical curriculum. The purpose of education, especially in medical colleges, is better served if educators can understand the learning styles of their students. Students use different sensory modalities to gather new information. This study shows that the most common preferred mode of learning is the kinesthetic method under the unimodal method. Unmatched learning methods and

teaching-learning styles may negatively impact the learning of the students.

Environment

Books

1. Ramesh, M. V., Sudarshan, V. C., Harilal, G. T., Singh, B., Sudheer, A., & Ekkirala, H. C. (2022). Kerala Floods 2018: Causative Factors that Transformed Single Event to Multi-Hazard Disaster. Civil Engineering for Disaster Risk Reduction, Civil Engineering for Disaster Risk Reduction (pp. 61-82). Springer: Singapore.

This research paper reflects upon the events that unfolded during monsoon of 2018 in the state of Kerala, leading to multi-hazardous events in the form of spatially distributed floods, landslide events and a death toll of more than 400. This work unveils the events that generated the multi-hazard scenario and the underlying possible parameters that lead to this feature. The analysis indicates that India will require integrated solutions for managing multiple hazards, and develop integrated models which need rapid application across all hazard spectrum to make the communities disaster resilience

2. Amala Krishnan, U. S., & Kolathayar, S. (2022). Overview of Water Resources in Kerala and Feasibility of Coastal Reservoirs to Ensure Water Security. Climate Change and Water Security (pp. 507-514). Springer: Singapore

This paper presents the current scenario of water resources in the state and proposes alternative ways to ensure water security considering the unique geography of the state. The annual water demand of Kerala state is around 45.36 TMC feet and the total runoff of all rivers adds to about 2500 TMC feet. Kerala's coast spans over 570 km and has excellent potential to store freshwater in coastal reservoirs. The capacity to store the water is huge without acquiring land and zero displacements of people.

Art and Culture

Scopus Indexed Journal Articles

1. Roopesh, O. B. (2021). Educating 'Temple Cultures' Heterogeneous Worship and Hindutva Politics in Kerala. Sociological Bulletin, 70(4), 485-501. https://doi.org/10.1177%2F00380229211051042

The study attempts to examine the anxiety of Rashtriya Swayamsevak Sangh and its sympathisers about the 'true' knowledge on temple culture, and their efforts to teach everyday Brahmanical rituals and other forms of worship such as srividya and kuladevathas. The paper argues that Sangh Parivar is interested in heterogeneous worship practices in Kerala as part of their ideological expansion. Their obsession for the didactics of temple culture is a response to the modern secularisation process and ambition to educate the Other Backward Classes and Dalits in Brahmanical knowledge. Finally, the study aims to document the ethnographic details of Sangh Parivar activities in the world of worship and temple culture.

2. Benjamin, B. A. (2021). Television and Material Culture: Mediating the Temporal and Consumerist Practices in Pre-liberalised Kerala. Rupkatha Journal on Interdisciplinary Studies in Humanities, 13(4). https://doi.org/10.21659/rupkatha.v13n4.16

The present paper tries to look into the ways in which television fashioned new spatio-temporal practices and embodied various consumerist tendencies in pre-liberalised Kerala to argue that television is an artifact grounded in the region's cultural values and material aspirations. The first section looks at how television-viewing and the socialities formed around the act were 'timed' by television. In the second section, the paper studies the popular advertising strategies employed to market television as a 'tamed' object that is representative of the consumerist

aspirations that defined the region.

Other Journal Articles

1. Menon, D. M., & Sreejith, D. (2021). Reading Theyyam as an Archive of The Subaltern Community of Northern Kerala. Journal of Visual and Performing Arts 2(2). 72-82. https://dx.doi.org/10.29121/shodhkosh.v2.i2.2021.41

Theyyam is a ritual art form exclusive to Northern Kerala, performed by the Scheduled Castes & Scheduled Tribes, projecting rituals and spiritual practices of the communities. Socio-religious movements gave them a platform to put forth their problems and change the attitude and treatment of upper castes towards them. This research attempts to read Theyyam as an archive of the subaltern community by borrowing the Archive concept defined by Gayatri Chakravorty Spivak in her essay 'The Rani of Sirmur: An Essay in Reading the Archives.' The art form is linked with religious beliefs, and has survived over the years.

Other Articles

1. Jalarajan, R. S., & Suresh, A. K. (2021). Postmodern Transpositions of Shakespeare in Malayalam Cinema-A Transformative Discourse of Regional Tragedy.

The evolution of Malayalam cinema into a new format of experimental filmmaking is central to the analysis of Shakespearean adaptations in the "New Wave" Malayalam cinema. The analysis looks beyond the Jayaraj adaptations to understand how transposing canonical works of Shakespeare replaces a different localized setting, which is devoid of the established characteristics such as the invocation of a mythological tone, visualization of the traditional past of Kerala, etc. The outright rejection of this attitude defines the post-Jayaraj Shakespeare adaptations of Malayalam cinema.

Education

Other Journal Articles

1. Shihab, I., & Devi, B. M. (2021). Use of E-Journals Among Faculty Members and Research Scholars of the University of Kerala. Journal of Library Development, 7(2), 25-42. http://ischolar.info/index.php/JLD/article/view/210532

The current investigation is the utilization of e-journals by the academics at the University of Kerala. The study is dependent on data gathered through a very much organized survey. The research shows that a hundred percent of the researchers and faculty members at the University are utilizing e-journals. The top ten most preferred online databases of respondents in Science, Social Science, and Arts subjects are listed separately in the study, necessitates the need of Universities to come across through user needs while subscribing online databases of e-journals.

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GIFT GULATI INSTITUTE OF FINANCE AND TAXATION

What is new(s) from GIFT

A. International webinar

1 International seminar on India's experience with goods and services tax(GST) on 12 and 13 November 2021.

About the seminar

The two-day International Seminar on 'India's experience with Goods and Services Tax' organized by Gulati Institute of Finance and Taxation commenced on 12th November 2021. Dr. K.J Joseph, Director, GIFT welcomed the guests, speakers, and the participants. The seminar was inaugurated by Shri K.N. Balagopal, Hon'ble Finance minister of Kerala. Prof. M. Govinda Rao, former director of the National Institute of Public Finance and Policy delivered the keynote address. Smt Anitha Kumary L, Associate professor, GIFT proposed the vote of thanks.

It was after more than decade-long deliberations that India transitioned to the Goods and Services Tax (GST) regime in July 2017.It was often termed as a landmark reform and a great success of India's fiscal federalism. While the states have compromised on their autonomy and forgone a substantial part of their own tax revenue, they were in guaranteed the GST compensation that assured 14 per cent growth in their GST revenue for the initial five years. The one-nation-one-tax regime was expected to raise growth, the tax- GDP ratio, enhance, efficiency and competitiveness and bring down prices.

The COVID-19 pandemic has indeed been the unanticipated dampener. Nonetheless, it is pertinent to explore how GST has impacted the key stakeholders-the states concerned, the business community, especially the unorganized enterprises, the consumers, and the economy at large. More specifically, it is the time to seek answers to a number of issues of much relevance for policy and practice. These include, but not limited to, how has the business responded to GST? How effective has been the GST governance? Has the economy become more competitive globally? It is also pertinent to examine how has GST impacted the state' tax revenue and the fiscal federal relations? What has been its macroeconomic impact including on prices? Other issues relating to tax administration, GST and e-commerce sector, revenue productivity, also assume importance. It is also perceived that much more could be learned from countries with longer experience in dealing with GST.

The purpose of the international seminar was to bring together different stakeholders-academia, government and business-to facilitate an informed discourse on various issues related to GST. The seminar had special panels of senior administrators, experts from other countries that implemented GST, and experts from India apart from the presentation of research papers by scholars. The details of the scholars and topics discussed are as follows.

Day One

Panel Discussion -I: India's Experience with GST: Administrators' Perspective

Chair: R.K. Singh IAS (Additional Chief Secretary, Finance, Govt. of Kerala)

1. Shri. Ashok Kumar Meena IAS (Former Finance Secretary and currently, Principal Secretary, Panchayati Raj & Drinking Water Dept., Govt. of Odisha)
2. Shri Giridhar G Pai IRS (Commissioner, CGST & Central Excise Commissionerate, Govt. of Kerala)
3. Shri K Mahesh IAS (Secretary, Housing and Town & Country Planning Department, Govt. of Puducherry)
4. Shri Jepson (Additional Commissioner, SGST Dept. of Kerala)

Panel Discussion-II: GST in India: The way forward

Chair: Prof D.K. Srivastava, (honorary professor, Madras School of Economics)

1. Pinaki Chakraborthy (Director, NIPFP)
2. Prof. R Kavitha Rao (Professor, NIPFP)
3. Prof Sebastian Morris (Senior Professor, Goa Institute of Management)
4. Mr. M. Unnikrishnan (Chartered Accountant)

Technical Session-I: GST and State Finance

Chair: Prof. R, Kavitha Rao (Professor, NIPFP)

1. Impact of GST on the States' Tax Revenue with Special reference to West Bengal,

Dr. Sudip Kumar Sinha (Secretary, Finance Dept. West Bengal) Co-authored by

Dr Harikrishna Dwivedi (Chief Secretary, Government of West Bengal)

Prof. Achin Chakraborty. (Director, Finance Department, Government of West Bengal)

2. India's GST paradigm and the trajectory of fiscal federalism: An analysis with special reference to Kerala

Prof. K.J. Joseph (Director, Gulati Institute of Finance and Taxation)

Smt. Anitha Kumary (Associate Professor, Gulati Institute of Finance and Taxation)

3. What Explains Inter-state variations in GST Collection

Dr Kiran Kumar Kakarlapudi (Assistant Professor, Gulati Institute of Finance and Taxation)

Dr Santhosh Kumar Dash (Assistant Professor, Gulati Institute of Finance and Taxation)

Discussant:Dr. Ramalingam, Associate Professor, GIFT

Panel Discussion-III : GST: lessons from International Experience-I

Chair :Prof T M Thomas Isaac (Former Finance Minister,Government of Kerala)

1. Mr Mpho Legote (Director,VAT,Excise Duties & Subnational Tax Analysis)
2. Prof. Debora Freire,
3. Mr. Adrian Garcia Gomez, (Senior researcher and coordinator of the Tax and Income Unit, Center for Research on Economics of Public Finance (CIEP),

Special Lecture: The Canadian GST experience in a global context

Prof pierre Pascal Gendron(Faculty of Business,Humber Institute of Technology & Advanced Learning)

Day 2 of the Webinar

Technical Session-II: GST and Economy-I

Chair: Prof. Achin Chakraborty (Director, Institute of Development Studies Kolkata)

1. Does GST in India Hurt Producing Regions? A New Estimate of the Tax Base Under GST of Selected States

Dr. Sebastian Morris (Senior Professor, Goa Institute of Management) Co-authored by

Dr. Ajay Pandey (Professor, IIM

Ahmedabad)

Dr. Sobhesh Agarwalla (Professor, IIM Ahmedabad)

Dr. Astha Agarwalla (Professor, Adani Institute of Management, Ahmedabad)

2. Burden of Uniform Tax Rate on Household Consumption Expenditure: A Study of GST in India

Dr.Parma chakravartti (Assistant Professor, GIFT)

Dr. Zakaria Siddiqui (Associate Professor, GIFT)

3. Impact of GST on Inflation: Evidence from Causal Analysis

Dr. Anoop S Kumar (Assistant Professor, GIFT) Co-authored by

Dr. Santosh K Dash (Assistant Professor, GIFT)

Panel Discussion-IV: GST: lessons from International Experience-II

Chair: Prof Nanak Kakwani (Honorary Distinguished Fellow, GIFT)

1. GST in New Zealand, 35 Years' Experience

Adv. Dave Ananth and Patrick Wilson

2. Goods and Services Tax: Australian experience and comparative analysis

Prof Binh Tran Nam (UNSW Business School, Sydney)

Prof Yan Xu (UNSW Business School, Sydney)

3. Malaysian experience of Goods and Services Tax

Jalbir Singh Riar(Ernst and Young Tax Consultants, Sdn Bhd Malaysia)

Technical Session III-GST and state level experience

Chair: Shri R Mohan IRS, Honorary Fellow, GIFT

1. Odisha's Fiscal Management in the GST Regime

Dr. Amarendra Das (Reader-F [Economics], NISER, Bhubaneswar),

2. State Finances in Post GST Era in Punjab

Dr Sukhwinder Singh (Consultant, 6th State Finance Commission, Govt. of Punjab)

Dr Jatinder Singh (Assistant Professor, Centre for Research in Rural and Industrial Development, Chandigarh)

Raminder Singh (PhD Scholar, Centre for Research in Rural and Industrial Development, Chandigarh)

3. GST and Sustainability: The Indian Experience

Dr. Renjith P S (Assistant Professor, GIFT)

Technical Session IV-GST and Compensation

Chair: Prof Pinaki Chakraborty, Director, NIPFP

1 GST Shortfall- A State-wise Analysis and Way forward

Prof Asif R Mohanty, Centre for Excellence in Fiscal Policy and Taxation, XIM University, Bhuvaneswar

2 Demystifying Integrated GST for Better Revenue to Consuming States

Dr N Ramalingam, Associate Professor, GIFT

Discussant:Dr. Zakaria Siddiqui, Associate Professor, GIFT

PhD students of GIFT were the Rapporteurs of the programme. Smt Anitha Kumary L, Associate Professor and Dr Santhosh Kumar Dash, Assistant Professor, GIFT coordinated the seminar.

2. Reimagining innovation system for Covid 19 and post Covid-19 world

GLOBELICS-INDIALICS in association with GIFT and KHALSA College Patiala organised three days Seminar on Reimagining Innovation System for Covid 19 and Post Covid-19 World, on October 12 to 14, 2021. National and International experts participated in the Webinar. The scholars include Prof Bengt Ake Lundvall, Prof Keun Lee, Prof Susan Cozzens, Prof Erika Karaemer-Mbula, Prof Michiko lizuka, Prof

Anna Kingri, Prof Nandita Mathew, Prof Rasmus Lema, Prof Sujit Bhattacharya, Prof Sachin Chaturvedi, Prof Xiaolan Fu, Prof Raja Rasiah, Prof Mammo Muchie, Prof Da Gabriela Dutrenit, Prof Rainer Walz, Prof Jose Ed uardo Cassiolato, Prof Rasigan Mahara jh, Prof Glenda Kruss, Prof Jeffrey Orozco, Prof Dinesh Abrol, Prof Zhang Liyan, Prof Thamkom Arun, Prof Liyan Zhang, Prof Helena M M Lastres, Prof Papia Sengupta, Prof Angathevar Baskaran, Prof Charles Edquist, Prof Edward Lorenz, Prof Claudia De Fuentes, Prof K J Joseph and Prof Lakhwinder Singh.

B. Public lecture series: Kerala economy in transition

1. Lecture No.12 -(GIFT and KEA) 'Making of the Kerala model'

Prof. Micheal Tharakan, Kerala Council for Historic Research has presented a lecture in the topic of 'Making of the Kerala Model:Factors and Processes on 8th October 2021.

Abstract:Submission of Malayali Memorial in 1890 in Thiruvithamcore is usually understood as the beginning of conscious public activity for the shaping of a modern Keralam. This Memorial asking for smoother entry of non 'Paradesi' Brahmins into higher bureaucracy was soon overshadowed by a Ezhava Memorial by groups still considered unattended. Not only were these public actions challenging a social structure which was questionable but also they were outcomes of social and economic developments which took shape decades earlier. With political and administrative centralization into Princely States of Thiruvithamcore and Kochi and into the Colonial district of Malabar in the 18th century, a pre-modern social order came to a close. It opened up possibilities for new alignments, such as between (mainly in Princely States) the centralising Monarchy and the superior tenants against the landed baronage. This alignment led, at the onset of demand for increased production, to letting new land into cultivation. The privileged tenants and even lower middle peasantry made use of this opportunity to go in for expansion of cash crop cultivation. Cash crop cultivation was strengthened by the introduction of plantation cultivation by European investment. Coconut and Natural Rubber soon became the routes to commercial prosperity and even rudimentary industrial investment.

The ultimate social sanction of being treated along with the so called highest castes was allowed in another way through acquiring modern education. It ended in a spurt in educational qualifications without much care for educational content and methods. It was accompanied by other 'services' like public health, thereby increasing human development. Those who did not have the initial facilities like finances (for which land was absolutely necessary) and the social sanction for being accepted in mainstream educational and other institutions, were kept out; unless they could get into 'subsidized' institutions run by Missionaries. They gained the benefits only when irrigational technology allowed some of them to be free from bonded labour. It was into such a divided social setting that some public demands took shape all over Keralam. They were for Aikya Keralam because commercial agriculture and industry required a common market, basic land reforms, because even privileged tenants did not yet had land ownership rights, and democratisation of education, because education was considered necessary for an 'ideal' Keralam. It was on the wave created by these demands that the First Communist Ministry was elected. They were not allowed to rule for long and were also kept out of power for nearly a decade; forcing them to go in for a "Rainbow Coalition' in which there were parties not in total agreement with their ideology. Their opponents also congregated into another Coalition. Since both fronts have to work within the Constitutional restrictions and political moderation they both concentrated in Welfare

programmes, without hampering Human Development Index (HDI). Nevertheless, the inbuilt economic and social division in the pre-independence days was not erased completely. As a result, even when Keralam became a fast growing region with high HDI, inequalities are also on the increase. In the last State elections, it looks that adding Care to Welfare had helped the Ruling dispensation to win for a second time. Whether the care element will be seen as a rights issue or it will turn out to be the beginning of a new round of "care-competition" is to be seen.

Prof Dileep Menon, Director, Centre for Indian Studies in Africa, University of Witwatersand moderated the discussion. Dr.Justin Mathew, Assistant Professor, Hansraj College, University of Delhi was the discussant of the programme. Professor K J. Joseph, Director, GIFT and President, KEA , delivered the welcome address. GIFT Faculty, KEA Executive members and many distinguished academicians and students in Kerala and from outside Kerala participated in the webinar. Prof Hari Kumar , KEA proposed the vote of thanks to the programme. . Smt Anitha Kumary L, Associate Professor , Prof Hari Kumar, KEA, Prof Sheeja S R and Dr Anoop S Kumar, Assistant Professor, GIFT were the coordinators of the programme.

2. Lecture No.13 -(GIFT and KEA) 'Social process in the making of Kerala model'

Prof. K N Ganesh, Former Head, Department of History, Calicut University, presented the lecture on 'Making of modern Keralam: The social processes that gave rise to the Kerala' on 22nd October 2021.

Abstract: Pre-Modern Keralam shared the basic features of the rest of India, including jati formation, landlord-tenant relations and forms of power based on territorial chiefdoms. Being the coastal region that became part of the Indian Ocean trade networks, it also developed a chain of ports of trade and local trade networks that linked the linked the local resources with the Indian Ocean trade. European colonial expansion systematically eliminated the links with the Indian Ocean trade , which was subsumed under the East India company trade. With the British conquest, landlord tenant relations and territorial chiefdoms were brought under the revenue settlements of the colonial administration , with a novel form of the 'rule of property', which also made effectively made use of the jati formation to keep the labouring poor under subjugation and also develop a servile middle class from the dominant castes.

The presentation addresses the question of how the social relations emerging under the British rule gave rise to new social contradictions and conflicts and gave rise to the social configuration of Modern Keralam. The first feature of these conflicts was the upsurge of the labouring castes against the dominant castes , territorial chiefdoms and the colonial state, which later consolidated into the organisations of the workers, peasants, women, Dalits and other sections of the population. The second has been the enthusiastic reception of what has been called the elements of ' quality of life' including education, health , and other indices of the standard of living including population control by the labouring population , including substantial changes in language , communication and the growth of a 'public sphere' . Subtle shifts in the legal and authoritative frameworks under colonialism also introduced changes in the familial frameworks, forms of inheritance and also facilitated population movements. The social indices of the growth of modern Keralam thus should be seen as the result of the assertion of labouring groups, which has been a unique feature of Keralam, when compared to other parts of India. How far did the transformation of the Kerala society under colonialism contribute these changes is a matter to be further explored.. This resulted in inevitable conflicts with the prevailing economic structures and forms of Governance, which continue to have

their impact even today.

Prof Arunima, Director, Kerala Council for Historical Research moderated the discussion. Dr.Abhilash Malayil, Assistant Professor, Sree Sankaracharya University of Sanskrit was the discussant of the programme. Professor K J. Joseph, Director, GIFT and President, KEA delivered the welcome address. GIFT Faculty, KEA Executive members and many distinguished academicians and students in Kerala and from outside Kerala participated in the webinar. Smt Anitha Kumary, Associate Professor and Executive member , KEA proposed the vote of thanks to the programme. Smt Anitha Kumary L, Associate Professor , Prof Hari Kumar, KEA, Prof Sheeja S R and Dr Anoop S Kumar, Assistant Professor, GIFT were the coordinators of the programme.

3. Lecture No.14 -(GIFT and KEA) 'Sectoral performance : Primary sector

Prof. Rama Kumar, School of Development Studies, Tata Institute of Social Sciences, Mumbai presented the lecture on 'Kerala's Agricultural Economy: Some Thoughts on Challenges and the Future Policy on 19th November 2021.

Abstract:Contribution of agriculture in the Gross State Domestic Production (GSDP) of Kerala is roughly 10 per cent and it shows a declining trend for the last 15 years, because of the multiplicity of jobs, agriculture is a part time affair in Kerala. This has affected the quality of agricultural production and productivity in the state, compared to other Indian states. There is also a shift of land from agriculture to non agriculture purposes like residential and commercial over a period of time. This is one of the reasons for the high land value in the rural parts of the state, compared to all India level. In seventies more 9-10 lakh hactres were dedicated to the production of food grains in Kerala, but now it is not more than 2.5 hactares.

There is also a major shift in the cropping pattern of Kerala over last four decades. Fragmentation of land is also a serious problem for the development of agriculture sector of the state . Poor level of productivity and imbalances in fertilisation are also serious issues. Kerala is the lowest fertiliser consumption state in India. There is sharp fall in the per hectare fertiliser consumption in the state between 2011 and 2019. During 1987 -1997 period, Kerala registered 4.96 per cent compound annual growth in agriculture sector, however during 1997 - 2005 period flat growth observed. Lately, there is serious absolute decline between 2011 and 2015.Then there is stagnation in the agri sector of the state, he added. Kerala's agriculture is the poorest performing one in the country . Paddy production remains almost stagnant at 5.5 million tones over the last decade and production of Pepper and ginger also dropped. Natural rubber production also shows a declining trend.

Prof K Pushpangadan, , Honorary fellow of GIFT, who moderated the session.. Shri Deepak Mercy Johnson, . Research scholar, Indian Statistical Institute , Bangaluru center was the discussant of the programme., Professor M.A.Oommen and Dr. Mary George also spoke on the occasion. Professor K J. Joseph, Director, GIFT and President, KEA delivered the welcome address. GIFT Faculty, KEA Executive members and many distinguished academicians and students in Kerala and from outside Kerala participated in the webinar. Prof Hari Kumar , KEA proposed the vote of thanks to the programme. Smt Anitha Kumary L, Associate Professor , Prof Hari Kumar, KEA, Prof Sheeja S R and Dr Anoop S Kumar, Assistant Professor, GIFT were the coordinators of the programme.

4. Lecture No.15 -(GIFT and KEA) 'Sectoral performance : Secondary sector

Prof. Jayan Jose Thomas, Humanities and Social Sciences, Indian Institute of Technology, Delhi presented the lecture on 'Can Knowledge Drive

Kerala's Future Industrial Growth? on 3 December 2021.

Abstract:Kerala aims to leverage its social sector achievements for future economic growth, especially growth led by knowledge industries. However, the challenges are enormous. The size of the working age population in the state is expected to shrink during the 2020s itself, almost two decades before such a decline is to be registered at the national level. Kerala as a region is not suitable for industries that are based almost exclusively on the easy availability and low wages of less-skilled workers. In fact, Kerala does not have to join the race with other Indian states to improve the 'ease of doing business' indicators, if such competition may erode the state's achievements in the social spheres. On the other hand, Kerala should chalk out a plan for knowledge-led economic growth, drawing on the skills and resources of its educated youth, its universities and research institutions, and of the diaspora of professionals and entrepreneurs from Kerala spread all over the world. Some of the sectors in which Kerala has huge potential for future growth include the healthcare industry, life sciences, biotechnology, pharmaceuticals, space and aeronautical technologies, and artificial intelligence. The limited financial autonomy for the state government remains an important hurdle. Kerala will have to build institutions that can help mobilize the considerably large savings in its economy into investments that are urgently needed for its future growth (including investments in modern transport facilities and new research centres). Also required are institutions to plan and implement the strategy to build a modern industrial sector.

Dr Beena, Associate Professor, Centre for Development Studies who moderated the session.. Shri Hemant Kumar R, Principal, Ettumanoorappan College, Kottayam was the discussant of the programme., Professor K J. Joseph, Director, GIFT and President, KEA , delivered the welcome address. GIFT Faculty, KEA Executive members and many distinguished academicians and students in Kerala and from outside Kerala participated in the webinar. Smt Anitha Kumary, Associate Professor and Executive member , KEA proposed the vote of thanks to the programme. Smt Anitha Kumary L, Associate Professor , Prof Hari Kumar, KEA, Prof Sheeja S R and Dr Anoop S Kumar, Assistant Professor, GIFT were the coordinators of the programme.

5. Lecture No.16 -(GIFT and KEA) 'Sectoral performance : Secondary sector

Shri Balagopal Chandrasekhar, Investor, Mentor, Writer and Trustee -ANAHA delivered the lecture on 'Can Kerala become the Taiwan of India ? on 17 December 2021.

Abstract :The discourse on the Kerala economy is usually framed in the context of the so-called Kerala Model, which is contrasted with the 'model' presumably followed by other States and the country since 1947. The Kerala Model is said to be one of primary focus on social development, neglecting productive sectors. While conceding that there have been impressive gains on the social development front, the view is that this 'model' is unsustainable, and is responsible for a variety of alleged weaknesses of the Kerala economy. These include the slow growth and even decline of output of the primary and secondary sectors, while it is the tertiary sector alone that has shown growth. This leads to high unemployment, leading to many people having to seek employment outside the State and even the country. Another argument is that the growth of external remittances in the last two decades of the last century actually caused the decline of the tradeables sectors, while leading to the growth of the non-tradables sector, the 'Dutch Disease' argument.

The evidence emerging now is that while the traditional manufacturing sector has indeed

declined substantially, several small enterprises set up in the last three decades have grown organically over the years to become significant enterprises today, employing several hundreds of skilled people and producing goods that are exported to other regions in the country, and overseas. These were set up by entrepreneurs with little experience in the modern manufacturing industry, and using hi-tech methods and processes. They required skilled technically qualified people, who were available locally. They did not require substantial investment to set up, and grew as business developed. They were obviously able to take advantage of favourable factors present in the local business ecosystem that enabled such enterprises to get going. These enterprises stress R&D and innovation, and many have good links with research institutions. This process continues to this day, and actually can be said to be gathering momentum. This phenomenon represents the emergence of a modern manufacturing sector taking advantage of favourable factors created by the 'model' that is generally criticised as holding Kerala back. This is also to be noticed in a section of the traditional manufacturing sector that has sought to modernise. Therefore, a structural transformation has been happening unnoticed in the manufacturing sector, creating enterprises that are viable, growing, and employ large numbers of skilled people.

The trend is now further supported by the start up ecosystem that was created in the State over the past few years as part of deliberate policy, through the agency of the Kerala Start up Mission (K-SUM). This has resulted in many start ups emerging from the technology business incubators in various parts of the State, that have attracted the attention of investors. The growth of PE and VC investments in such startups has steadily grown from less than $ 10 million in 2014 to over $ 150 million last year.

Together, these two streams signal the emergence of an MSME cohort in the manufacturing sector in Kerala that is suited to the factor endowments of the State, and is positioned to take advantage of the emergence of favourable factors based on high HDI, good connectivity, high urbanisation, and good governance. So, perhaps we are seeing the positive effects (with a lag) of investment in social development, creating a population that enjoys universal education, good public health programs, social welfare programs, and very low incidence of Multi-Dimensional Poverty. This could perhaps be the validation of the Kerala Model that we have been waiting for.

Dr Christabell P J , Associate Professor, Department of Economics, University of who moderated the session.. Dr M Parameswaran, Associate Professor, Centre for Development Studies was the discussant of the programme., Professor K J. Joseph, Director, GIFT and President, KEA , delivered the welcome address. GIFT Faculty, KEA Executive members and many distinguished academicians and students in Kerala and from outside Kerala participated in the webinar. Prof Hari Kumar , KEA proposed the vote of thanks to the programme. Smt Anitha Kumary L, Associate Professor, Prof Hari Kumar, KEA, Prof Sheeja S R and Dr Anoop S Kumar, Assistant Professor, GIFT were the coordinators of the programme.

C. Webinar

1. Pro- poor growth, the lecture delivered by Prof Nanak Kakwani, Distinguished Fellow , GIFT on 29th October, 2021 organised by GIFT

Abstract:This lecture reviews how pro-poor growth evolved, providing its intuitive interpretations and policy implications. It provides a critical assessment of alternative definitions of pro-poor growth proposed in the literature. China has achieved an unprecedented poverty reduction. It has succeeded in lifting

almost one billion people out of poverty in three decades. This lecture tells the Chines story of how it achieved unprecedented poverty reduction. The poverty equivalent growth rate (PEGR) proposed by Kakwani and Son (2008), published in the Review of Income and Wealth, is the primary vehicle to tell this story. The analysis presented in this chapter covers the period 1988-2018.

Prof K J Joseph chaired the session and also delivered welcome address . Dr Zakaria Siddiqui proposed the vote of thanks to the Programme. Smt Anitha Kumary L, Associate Professor and Dr Anoop S Kumar, Assistant Professor, GIFT coordinated the programme.

2." Scope of practice and opioid prescribing behavior of nurse practitioners serving medicare beneficiaries" organised by GIFT on 29 November 2021.

The lecture was delivered by Dr Shishir Shakya, Assistant Professor, Department of Economics, Shippensburg University of Pennylvania. Prof K J Joseph, Director, GIFT chaired the session. Dr N Vijayamohanan Pillai, Honorary Fellow, GIFT was the discussant of the programme. . Smt Anitha Kumary L, Associate Professor and Dr Anoop S Kumar, Assistant Professor, GIFT coordinated the programme.

D. Awareness programme

GIFT in association with Women and Child Department organised an awareness programme on Posh Act 2013 on 18th December 2021. Smt Sabeena Beegum S, District Women and Child Welfare Development Officer delivered the presidential address. Prof K J Joseph, Director, GIFT inaugurated the programme. Adv Sreeja Sasidharan was the resource person. Smt Anitha Kumary L , Associate Professor, GIFT proposed the vote of thanks and coordinated the programme.

E. Teaching and training programmes

1. Post graduate diploma in GST (PGDGST)

The training program comprising 120 hours of teaching through online mode has started in the month of July 2021. Out of this, Hundred and Fourteen hours (114) classes (weekend batches) and Hundred and Eleven hours (111) for week day batches completed till December 31, 2021. Sixty-Six (63) hours were conducted for weekend batches and Sixty-six hours classes were conducted for weekday batches for the months of October, November and December, 2021. Dr Ramalingam, Smt Jenny Thekkekara and Smt Anitha Kumary L , Associate Professors, GIFT handled the classes.

Course Co-ordinators: Dr. N Ramalingam and Smt. L Anitha Kumary

For more details: https://www.gift.res.in/index.php/course/detail/14/PGD-GST

2. PhD programme

The activities in PhD programme during October, November and December 2021

Second batch and third batch scholars completed their course work focusing on public economics, public finance, and Indian fiscal federalism. Currently the classes on Research and Publication Ethics are going on under the guidance of Prof. Mala Ramanathan for both the batches. Coursework Examination is scheduled to begin from March 02, 2022. First batch scholars, Lekshmi Prasad and Suha A. M. presented the first chapter of their thesis in November, 2021. Five scholars have submitted articles for the latest edition of Kerala Economy. Scholars along with the faculty presented in the webinar jointly organized by GIFT, Central University of Kerala, and S B College on Economic Survey 2021-22 and Union Budget 2022-23.

Course Coordinator: Dr. Zakaria Siddiqui

3. RCBP programme

Research Capacity Building Program

Gulati Institute of Finance and Taxation (GIFT) has notified the second part of the Research Capacity Building Program (RCBP)- Data Analytics in R for the academic year 2021-22 on September 19, 2021. It intends to facilitate an interactive learning platform for research capacity building of Research Scholars and make participants proficient in programming and statistical computing methods using R software. A total of 40 teaching hours has been planned to cover five modules in online mode.

More than 60 applications have been received for the program out of which58 applications (including 25 candidates from Part A course) were selected to join the program after the screening. The Director, Prof. K J Joseph, inaugurated the program on October 20, 2021, and welcomed the participants. The course was officially commenced on October 21, 2021. The main course instructor for Part B is Dr. Anoop S Kumar, Assistant professor, GIFT. The RCBP team has created an exclusive zoom link and Google classroom for smooth online communication for Part B of RCBP. Four interactive lectures have been conducted during October under various themes, including R installation and introducing R studio and basic operations in R.

During the month of November, 12 lectures have been conducted covering modules two and three of the syllabus, which includes R markdown files, data frames, introduction to loops in R, introduction to functions in R, and data import in R. The participants have carried out several statical exercises using R. The RCBP had five special lectures during December by Dr. Zakaria Siddiqui, Associate Professor GIFT, on the extraction of NSS Data using R.

Course Coordinator: Dr. Renjith P S

F. Publications

1. Kerala Tax Reporter (KTR)

September, October and November issues of KTR published Online and offline.

https://www.gift.res.in/ktr

2.Innovation and Development

A Routledge journal from GIFT, Volume 11, No. 1 published, Editor in Chief, K J Joseph.

For details, please visit https://www.tandfonline.com/toc/riad20/current

3. Weekly update on the Indian economy

This is an attempt by the Young Scholar' Forum in GIFT, led by Smt. Shency Mathew to update on important developments in the national economy. Latest issue: 25-31, December 2021.

For details, please visit https://www.gift.res.in/index.php/publish/publish_list/14/Weekly-Updates-on-Indian-Economy.

G. Faculty publications

1. Anoop S Kumar (2021) Adaptive market hypothesis: An empirical analysis of the Wine Market. Wine Economics and Policy 10(2): 99-109. doi:10.36253/wep-9492

2. Siddiqui, M. Z., Biswas S., Jose S. (2021) "Alarming Hunger in India: Real or Methodological Fallacy?" Economic and Political Weekly, 55(50), 13-17

3.Joese, Sunny and Siddiqui, Zakaria (2021) "Alarming hunger or statistical artefact?" The Hindu, October 18, 2021

4. Siddiqui, M. Z., Biswas S., Jose S. (2021) “Alarming Hunger in India: Real or Methodological Fallacy?” Economic and Political Weekly, 55(50), 13-17

5. Smt. Anithakumary.L കടം കെണിയാകുമോ? പരിധി വിട്ടിട്ടില്ല - വലിയ ബാധ്യത Malayala manorama 08/10/2021

6. Dr. Zakaria Siddiqui, Alarming hunger or statistical artefact? The low rank on the global Hunger index should push india to look again at its policies and interventions, The Hindu 18/10/2022

7. Dr. Santosh kumar DashGST collections indicate eConomic revival Even after accounting for the base effect, tax revenues have made a smart recovery in most states in Q1 of 2021-22 Business line 23/11/2021

8. Dr. N.Ramalingam GST PUZZLE: Within state's hands, but beyond its reach Indian express 30/11/2021

9. Dr. K J. Joseph, Dr. Zakaria Siddiqui, Rju Mohan വൈദ്യുതി ഡ്യൂട്ടി കൂട്ടണമെന്ന് ഗിഫ്റ്റ് പഠനം, Mathrubhumi 02-12-2021

10. Dr. K J. Joseph, Dr. M A. Oommen, Goods and Services Tax as an Unfinished agenda- seen purely from a revenue point of view and as a fiscal policy tool, india's GST is still on a rocky road The Hindu 11-12-2021

Soft copy of Kerala Economy is iavailable in GIFT website.
For free download, please visit www.gift.res.in

Gulati Institute of Finance and Taxation (GIFT), Thiruvananthapuram, Kerala, formerly Centre for Taxation Studies, has been conceived as a premier national institute to promote theoretically grounded and empirically based research in finance, taxation and related issues within an interdisciplinary perspective to aid policy making at the national and sub-national level. Affiliated to Cochin University of Science and Technology, GIFT is also mandated to facilitate research leading to PhD and undertake training programs for capacity building of different stakeholders, including government officials. It also offers a Post Graduate Diploma in Goods and Service Tax. Recently, GIFT joined hands with Kerala Financial Corporation (KFC) in training the new entrepreneurs being promoted under the Chief Minister's Entrepreneurship Development Programme (CMEDP).

The governance of the Institute is entrusted with a Governing Body and an Executive Committee, consisting of scholars of eminence and senior administrators representing both the Central and the State Governments. K. N. Balagopal, Minister of Finance, Government of Kerala, is the Chairperson of the Institute.

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