PANEL DISCUSSION REPORTS

DEVELOPMENTAL SPECTRUM OF KERALA AND PUBLIC FINANCE POLICY PERSPECTIVES

19th MARCH 2014

Centre for Economy Development and Law

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Kerala is widely regarded as a unique experimentation in quality life criteria and equitable distribution of resources among the people. Consequentially, the state is appraised as the specimen for redefining developmental perspective. However the Kerala model has also been under criticism from few corners. It is always relevant to examine socio-economic and legal factors behind Kerala experience.

PANEL DISCUSSION REPORT

RAPPORTEURS:

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PANEL MEMBERS:

DR. K GOPAKUMAR, DR. A. A. BABY, PROF. MARTIN PATRIC, SIDDIK RABIYATH

JEL CLASSICATION CODE: O10, O11, O18, O21, O40

OPEN FORUM ON DEVELOPMENTAL SPECTRUM OF KERALA AND PUBLIC FINANCE POLICY PERSPECTIVES – THE REPORT

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The developmental experience in Kerala reflects economic growth and social development. Compared to other states the development in Kerala is unique. The origin of Kerala model development trace back to the second half of nineteenth century when several distributive policies were initiated. Socio religious reform movements, land reforms and the availability of mass literacy played a crucial role in the development pattern of Kerala in the twentieth century. Now, in the twenty first century it is the Public Finance policy initiated by the Government actually directs the developmental activities. Thus, this open forum intends a discussion on "The developmental spectrum of Kerala and public finance – policy perspectives."

The discussion started with a warm welcome address by Mr. A. Suhurth Kumar Associate Professor, Government Law College, Thrissur. In the welcome address he mentioned the importance of the area selected for discussion. The discussion indicates the "Kerala Model Development" and its various aspects pointing how the public finance policy is supporting the development, its lacunas and how it can be modified.

The open forum was inaugurated by Prof. (Dr.) Mercy Thekkekara, Principal, Government Law College, Thrissur. In the inaugural address Principal Prof. (Dr.) Mercy Thekkekara mentioned that the development in Kerala is higher than in many of the North Indian States. Pointing out the fact that many Keralites seeks employment in other states or foreign countries, Principal raised a question why it is so? Moreover Prof. (Dr.) Mercy Thekkekara also explained that Kerala depends other states even for vegetables and food grains and having poisonous agricultural products. To overcome this crisis our agricultural sector needs a radical change.

Dr. K. Gopakumar (GIFT, Thiruvanathapuram)

The presentation of experts on the topic was started by Dr. K. Gopakumar. In his presentation he discussed that The Kerala model development has proved to be a ‘social development sans economic growth’. Kerala has achieved great progress compared to other states, in reducing the rate of female infanticide, increasing the lifespan of the human population with the help of medical facilities etc. However when it comes to progress in primary and secondary sectors, the growth rate of Kerala is below the National Average. The situation of this unidirectional growth calls for a deliberate action from public and Government to move towards achieving equitable distribution of social resources to uplift the downtrodden with help from the state.

Dr. Gopakumar also observed that there is a big gap between the expense requirements and income of the Government in Kerala. The high demand in social government sectors and lack of money in the treasury is a major cause of the shortcomings in the development process of the state. Unless the Government has sufficient money, it can’t continue developmental activities. Often the Government finds it difficult to secure funds that are needed to achieve the planned scale of development. One can say that the fiscal metabolism hasn’t been successful.

Social growth without agriculture is impossible. Government sectors will not be able to contribute developmental activities if it lacks the money, an important developmental indicator. There is a big gap between income and expenditure. As an example he fingers high fee structure of private educational institutions and criticizes the inability of government for proper funding. If the same state of affairs continues we cannot achieve economic justice.

Unfortunately no state in this country had adequate resources to ensure the positive obligations. Here raises the questions where is the resources? Further, why there is no specific provision in the constitution provides for proper transfer of resources. And why such a situation has to be addressed by a student of law.

Besides, Dr. Gopakumar says that government can access resources only trough fee or tax and no transaction can be done unless under the authority of law. At this point what is the authority of the state? Under the framework of the Indian Constitution, the States may exercise power only on the subjects provided in the state list and also the concurrent list. The State can deliver on the positive obligations imposed upon it only if it has sufficient resources proportionate to the "positive obligations imposed".

In order to fill the gap between income and expenditure, a Finance Commission may be constituted to carry out the distribution of sufficient resources from the Centre to the State. Then Dr. K.Gopakumar observed the following points:-

- The relevant question in the 21^{st} century is 'isn't it time for the amendment or modification of the constitutional provisions defining and determining the Centre State relationship'.
- By virtue of Art. 265, no tax shall be levied or collected except by authority of law. It can be noted that the states have not been given enough authority to levy taxes to meet their expenses.
- Under the Constitution there are 4 sources of taxes:

  i. Taxes and duties collected and appropriated by the union government.

ii. Taxes and duties collected by the State Government (this goes to the consolidated fund).
iii. Duty levied and collected by the Union Government, appropriated by the State and
iv. Taxes levied and collected by Union and assigned to states.

- To bring down deficits, states started to cut down on the expenses incurred on capital expenditure. This decision has had an adverse effect on the development of society.

Dr. Gopakumar, concluded his presentation by stating that "It is time to define and strengthen the Centre-State relationship against the backdrop of Principles of Federalism. Unfortunately the Indian Constitution which seems to have reiterated several provisions of the Government of India Act 1935 has hardly helped in making any positive changes towards federalism".

Dr. A. A. Baby (Former Fellow, CDS, Thiruvanathapuram)

Dr. A. A. Baby in his introduction to the topic mentioned that " The term 'Kerala Model' needs to be rephrased to 'Kerala Developmental Experience', because a 'Model' is something that can be imitated and the developmental programs in Kerala still needs a lot of improvement before it can be called a 'Model'."

Besides, Unemployment is still a problem in Kerala and so is the lack of environmental care and such other factors. The State Domestic Product of the State is only 1/70 of that in U.S.A. The State has to go a long way before it can be at par with advanced countries in terms of Human Development Index, Per Capita Income etc.

Interestingly, Kerala has had a unique developmental stride compared to the other states in India. The foreign influence, dating back to the colonial period gives a competitive edge to the State of Kerala, especially in matters such as improvements in educational facilities. For example, the Mid Day Meal Scheme, introduced by ‘Chavara Achan’ in 1860s – 70’s in Kerala was one of a kind initiative which proved to be a great success. Even though many other Indian States have come up with similar plans, they suffer from the scarcity of resources. The exports of spices and condiments to western countries, where they use it for preservation of meat, for prevention and cure of diseases etc. also have helped in boosting the development of the state.

Generally the development of the country as a whole can be attributed to the lifestyle followed in the country that is largely based on tolerance and acceptance of diverse elements. The relationship between India and the outer world started before a long time. Europeans depended on India for many things like spices, Ayurvedic medicine become greatly useful for them. Thus India has a culture of consolidating all fields of knowledge.

Prof. Martin Patric (Rural Research Centre, Cherai, Ernakulam)

Prof. Martin Patric expressed his views on “Contours of Centre state financial relations.” The federal characteristics of Indian constitution clearly demarcates the powers of taxation between centre and the state and for devolution of taxes and grants in aid under Article 280. The main questions before all finance commission are the following:-

i. How much through devolution and how much in the form of grants; and

ii. What are the criteria for their distribution among different states?

The terms of reference in this regards may be vertical transfers or horizontal transfer. Vertical transfers are used to determine the share of central revenues to be transferred to the states. On the other hand horizontal transfers are used to determine the inter-state allocation of these central revenues to be transferred to the states. Also determining the quantum of grants to the states “in need of assistance” under Article 275 is also important.

The additional terms Prof. Martin Patric referred are the following:-

- To determine grants for up gradation of different services of the state governments.
- To determine grants for meeting the specific problems of states as also for meeting the expenditure for mitigating the effects of natural calamities.
- To review the debt position of the state and to suggest debt relief measures.

Referring to the three theories of fiscal federalism he Prof. Martin referred that Stabilization and Distribution shall be the domain of the Union and the allocation function shall be the one with provinces. He emphasized the provision of public goods and equalization of fiscal capacities. According to the Public Choice Theory the State needs to be prevented from fiscally expanding and borrowing as it places a burden on future generations.

Finance Commission still accounts for more than two-thirds of the revenue transfer from the Centre to the States. However these transfers accounted for 13.7 per cent of the State’s revenue and 15.8 percent of its revenue expenditure in 2012-13. The 12th Finance Commission had stepped up the States’ share in total Central taxes only marginally from the 29.5 per cent fixed by 10th and 11th FCs to 30.5 per cent. Prof. Martin then observes that Fiscal Consolidation considered only first generation problems in education, health care and social security Kerala suffers from Second generation problems.

Transfers to local bodies are another important component. Under the 13th FC's award, Kerala received the lowest share in the total grants for local bodies. It came down from 4.5 % during 12th FC to 3.1 %. Referring to the other considerations he says that the reality is The States' share rarely reached the stipulated limit of 38 % except for 2005-6 and 2006-07. But it was on account of the proliferation of centrally sponsored schemes, not the most preferred means of transfers to the states. He then specifies the reasons why it falls in the share as follows:-

- the use of criteria inappropriate for the state
- Use of inappropriate indicators for the criteria used
- Inappropriate weightage given for the different criteria
- failure to use criteria, which are most relevant to the state

After discussing the demands of 14th FC and Compensation for centre induced fiscal deficit Prof. Martin came to the conclusion that a review of terms of reference to various FCs reveals that the Union Government has unilaterally decided the contours of both Union and State finances, within which the commission has to function. Over the years the impartial arbitrator's role of the Finance Commission is undermined by the Central government in a number of ways. Also observed that there are very poor transfers from all central agencies and Conflict of priorities and TORs are framed without consulting states.

Siddik Rabiyath (Assistant Professor, Department of Economics University of Kerala, Thiruvananthapuram)

Mr. Siddik Rabiyath initiated his presentation referring to the 'growth debate' we are witnessing from 1980 onwards. From the period of Rajiv Gandhi the growth rate is momentously changing. The growth target 3.5% of Indian economy has been broken by the growth rate of 4.5%. By this time neo classical economy turned in to a neo liberal economy with the policies initiated by Smt. Indira Gandhi. By 1980's reached 6%, by 2000 arrived at 8% and 2004 onwards attained two digit growth 10%. Besides, the year 1988 observed massive opening of market, in 2007 global economic crisis which is repeated in 2008 and in 2010 European countries under gone huge crisis. Whether the Indian economy is elastic towards the world crisis? What happened to the economic growth in India? To answer this Mr. Siddik Rabiyath went to the sector wise analysis of growth rate.

The graph shows that all the three sectors in India undergone a negative growth rate. It reflects the crisis immediately affected the three sectors harshly. Especially the industrial sector and agriculture showed a direct dip in the second, third and fourth quarter of 2008-09 and the first quarter in 2009-10, whereas the services sector showed some gain during the first, second and third quarter but fallen prey in the fourth and the following financial year. The strength of the crisis dipped the GDP growth from 7.3 percent in the first quarter of 2008-09 to 5.8 percent in the fourth quarter of the same financial year.

The intervention of RBI and the Government through motivating packages gave new life to boost the economy and thereby resulting in high GDP growth rate in 2010 -2011. But, the industrial sector started declining growth rate from the first of 2010-2011. It is accompanied by the decline in the growth rate of agricultural sector from the third quarter of 2010 – 2011. From the next quarter ownwards the service sector also have a declining growth rate. Pointing out these facts Mr. Siddik Rabiyath observes that "In a nutshell the overall economy started a recession from the first quarter of 2011-12. The last six quarters the economy slipping gradually to a state of recession."

Besides, Mr. Siddik Rabiyath refers to the growth rate of various industries. On the graphical analysis it is clear that the mining and quarrying shows the most vulnerable industry. He fingers to the information that as an immediate effect of the crisis, the growth of mining and quarrying declined and reached a negative growth by fourth quarter of 2008-09. The four quarters in 2008-09 the other industries like manufacturing and construction industries too declined nearly to one percent. Interestingly electricity, gas and water supply was the only industry, which showed a steady growth over the period of first wave of crisis.

In the opinion of Mr. Siddik Rabiyath, the period 2010 showed a second wave of crisis. During this period the decline registered in all industries including electricity, gas and water supply, which was the resilient industry in 2008 crisis. There is also a continuous decline of manufacturing, mining and quarrying industries since the first quarters of 2010-11 and reached negative. Also the service sector shows a gradual decline since the crisis in 2008. Out of the total services in the sector, the financial services only show a consistent growth.

On the whole, In India all sectors showed negative growth. If we refer the GDP rate of last eighteen quarters, it is continuously falling and we are also moving towards great crisis. At this juncture Mr. Siddik Rabiyath criticizes the current policy of the Government. He mentions that current GDP is below 5% and anxious about what is happening to the neo liberal policies.

Mr. Siddik Rabiyath concludes that after 1930 world has not experimented depression but now the world is moving towards it and India is not an exception. Compared to other sectors service sector is doing little better. It has the latest growth rate of 5.9% but one percent decline in it is enough to create a trickledown effect. Besides international trade and volatility shows an inverse relation. This inverse relation perhaps shows relative prices of exchange. It also is argued that the high volatility of exchange rate affect production and manufacture.

Interactive Session

The questions raised by the audience in the interactive session are the following:-

1. How the gold rates affect the economic policy?
2. Is there any policy for the orientation of human resources in the economic strategy?
3. Is there any indirect effect of industrial and other sectors in agricultural sector?
4. How the privatizations affect Indian economy?

Responding to the above question the panel observed that the investment in gold becomes a saving on the other hand. Compared to the increase in the rate of landed property the price of the gold is not much increased. There have some direct and indirect elements that upshot agriculture. Agriculture has now become a shield that has to be protected and improved carefully. Further it was observed that we don’t have a policy for the orientation of human resources. The panel disapproved with the privatization and said that Indian democracy has now become plutocracy where some economic people decide. It happens due to the deliberate omission on the part of the government.