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# FINANCING KERALA'S DEVELOPMENT

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The constraints of financial resources, and the scope for generating additional resources were reviewed during an informal discussion on "Possibilities of Decentralised Development in Kerala" organised by the Centre for Development Studies in March 1980.[1/] Reordering of priorities, as by reducing emphasis on major irrigation and power projects, exploiting the existing tax potential more fully, toning up the operation of the industrial and commercial enterprises in the public sector, and tapping institutional finance and bank credit were some of the points which emerged during the discussion.[2/] The purport of the present article is to elaborate and supplement some of the foregoing points.

## I. Resource Gap in the Five Year Plans

The proposed outlay, the State's own resources and the resource gap in the successive five year plans are summarised in Table 1: Evidently, in the past five year plans, the resource gap has been substantial.

Table 1: Resource Gap in Kerala's Five Year Plans (Rs. crores)

| | Plan Outlay | State's own Resources | Resource Gap | (3) as % of (1) |
|---|---|---|---|---|
| | (1) | (2) | (3) | (4) |
| Second FYP | 87.00 | 47.60 | 39.40 | 45.29 |
| Third FYP | 170.00 | 57.74 | 112.26 | 66.04 |
| Fourth FYP | 258.40 | 83.35 | 175.05 | 67.[illegible] |
| Fifth FYP | 747.50 | 290.50 | 457.00 | 61.14 |

Source: Kerala's Five Year Plans.

The outlay in the State sector during the sixth plan (1980-85), as finally approved by the Planning Commission, comes to Rs.1550 crores. As against this, the State's own resources are estimated at Rs.879 crores, or 56.7 percent. The sources of finance, as given in the plan document, are reproduced in Table 2.

Table 2: Patterns of Plan Financing

| | Estimated Resources (1980-85) (Rs.crores) |
|---|---|
| 1. Balance from current Revenues at 1979-80 Rate of Taxation | 329.16 |
| 2. Contribution of Public Enterprises at 1979-80 Rates of Fares and Tariffs: | |
| (a) State Electricity Board | (-) 103.70 |
| (b) Road Transport Corporation | (-) 41.17 |
| 3. Loans from the Market by the State Government (Net) | 117.56 |
| 4. Share of small savings | 47.02 |
| 5. State Provident Fund, etc. | 147.27 |
| 6. Miscellaneous Capital receipts | (-) 119.47 |
| 7. Additional Resource Mobilisation: | |
| 1980-81 Measures (By Enterprises) | 125.91 |
| 1981-85 Measures (By State) | 135.00 |
| 8. Negotiated Loans (Gross): | |
| (i) State Government - | |
| Loans from LIC for Housing, etc. | 16.15 |
| for Water Supply | 21.02 |
| Loans from RBI | 8.85 |
| (ii) State Enterprises - | |
| Loans from LIC | 49.26 |
| Loans from REC | 8.72 |
| 9. Market Borrowing by Kerala State Electricity Board | 52.25 |
| -do- by Others | 25.00 |
| 10. Withdrawals from Cash Balance | 65.22 |
| Total States Own Resources | 879.05 |
| Central Assistance | 430.00 |
| | 1309.05 |

Source: State Planning Board, Sixth Five Year Plan 1980-85 Government

A close look at the projections would raise some doubts in ones mind about their feasibility. Take, for instance, balance from current revenue. Instead of yielding a revenue surplus of Rs.16 crores as anticipated at the time when the budget for 1980-81 was presented, the year has ended up with a revenue deficit of Rs.19 crores. According to available indications, the current financial year may end up with a more sizeable deficit, and the annual plan of 1982-83 is contingent upon central assistance and/or overdraft from the Reserve Bank of India. The performance record of the public sector undertakings in Kerala is so dismal that the prospects of their generating any surplus in their current mode of functioning are quite bleak. Given the several constraints on the Central government's financial position, rendered more severe by the stringent conditions of the IMF loan, the prospects of Central assistance or direct investment on a scale higher than during the previous plans are equally dim. In the light of the foregoing, Kerala has no option but to identify and mobilise her internal resources more fully, and utilise them more productively.

II. Resource Mobilisation Efforts by the State Government

(i) The overall record of the Kerala Government in the field of taxation is not bad, given the State's limited fiscal autonomy and the comparatively low level of income per capita obtained in the State. Between 1960-61 and 1976-77, per capita State tax revenue (at current prices) increased from Rs.11.86 to Rs.79.61, nearly twice the rate of increase in the State's income per capita; by 1980-81, per capita State tax increased further to Rs.101. Per capita tax rate in the State has been, by and large, higher than the all-States average, while the State's domestic product per capita was below the all-States average; in other words, the tax-income ratio here has been above the all-States average.[3] Thus, the State Government's performance in tax collection does not suffer in comparison with that of most other States.

(ii) Needless to say, the tax-income ratio is a crude index of tax effort. Apparently, even in terms of this, Kerala's ranking among the States have come down a bit in recent years. Be that as it may, the question still remains whether the State Government has tapped all the potential tax avenues. An obvious case is taxation of agricultural sector. Taxes on the agricultural income, and land revenue as a proportion of the income originating in the agricultural sector are shown in Table 3.

Table 3: Direct Taxes on Agricultural Sector, Kerala

( Rs. in lakhs)

| Year | Income Originating in agriculture | State Taxes on Agrl. Income | Land Revenue | Total | Col(4) as % of col. (1) | All-State average % |
|---|---|---|---|---|---|---|
| | (1) | (2) | (3) | (4) | (5) | (6) |
| 1961-62 | 24162 | 246 | 158 | 404 | 1.67 | 1.5 |
| 1962-63 | 24834 | 242 | 112 | 354 | 1.43 | 1.9 |
| 1963-64 | 26065 | 216 | 77 | 293 | 1.12 | 1.6 |
| 1964-65 | 31819 | 205 | 245 | 450 | 1.41 | 1.3 |
| 1965-66 | 38332 | 225 | 265 | 493 | 1.29 | 1.3 |
| 1966-67 | 39897 | 280 | 200 | 480 | 1.20 | 0.9 |
| 1967-68 | 49680 | 332 | 185 | 517 | 1.04 | 0.8 |
| 1968-69 | 51355 | 324 | 161 | 485 | 0.94 | 0.9 |
| 1969-70 | 56278 | 295 | 195 | 490 | 0.87 | 0.8 |
| 1970-71 | 63435 | 328 | 115 | 443 | 0.69 | 0.8 |
| 1971-72 | 57903 | 364 | 183 | 547 | 0.94 | 0.7 |
| 1972-73 | 69567 | 312 | 263 | 575 | 0.83 | 0.6 |
| 1973-74 | 94306 | 287 | 308 | 595 | 0.63 | 0.7 |
| 1974-75 | 103968 | 405 | 242 | 657 | 0.67 | 0.6 |
| 1975-76 | 97324 | 728 | 350 | 1078 | 1.11 | - |
| 1976-77 | 102278 | 643 | 320 | 963 | 0.94 | - |
| 1977-78 | 103218 | 1003 | 288 | 1291 | 1.25 | - |

Notes: Estimates of income from 'agriculture proper' are not available for the period 1975-76 to 1977-78. They have been derived by applying the average proportion for this sub-sector for 1960-61 to 1968-69, viz., 94 percent to the income from the primary sector.

Source: col.1: Bureau of Economics and Statistics, Statistics for Planning, Government of Kerala, Trivandrum, 1976, Table 6.3, p.72,
col.2 & 3, Kerala Budget in Brief (Annual Series), Government of Kerala;
col.6: S.L.Shetty, "Structural Retrogression in the Indian Economy

Taxes on the agricultural sector for the period as a whole would work out to less than 1 per cent on the average, whereas the sector would account for about one-half the net State domestic product. True, the sector contributes to State revenue through sales tax on agricultural commodities like coconut, arecanut, tea, rubber, cardamom and other spices. But it is far less than the potential contribution.[4]

(ii) At the same time, the agricultural sector in Kerala has been recieving substantial support from the rest of the economy by way of various subsidies. For instance, the investment on major and medium irrigation projects which accounted for a sizeable proportion of the total outlay under the State's five year plans has not been able to yield any significant returns. Thus, total expenditure on major and medium irrigation projects upto the end of 1979-80 came to about Rs.210 crores.[5] As against this, the revenue collected from irrigation works during the year came to Rs.125 lakhs.[6] This would work out to about 0.6 per cent. When the maintenance grant, Rs.48.7 lakhs, is deducted the net revenue would come to half that rate, i.e., 0.3 per cent. Besides this, the Sixth Plan programmes for the agricultural sector contain several components of subsidies: subsidies on the cost of seed and handling charges (Rs.22 lakhs), subsidy on the cost of green manure seeds (Rs.12.5 lakhs), subsidy on the cost of soil amaliorents (Rs., 45 lakhs), assistance to control brown hopper (Rs.25 lakhs), subsidy on the cost of plant protection chemicals for paddy cultivation (Rs.225 lakhs), subsidy on the cost of metallic storage bins (Rs.6.5 lakhs), subsidy on the cost of seed and fertilizer under the pulses development programme (Rs.50 lakhs), and so and on.[7]

(iii) The transfer of resources by way of subsidies extends to other sectors also. The two major public sector enterprises in Kerala, viz., the State Electricity Board, and the State Road Transport Corporation have been running at a loss. The former had received explicit subsidy of Rs.327 lakhs, Rs.500 lakhs and Rs.537 lakhs during 1976-77, 1977-78 and 1978-79 respectively.[8] As mentioned earlier, the anticipated loss by these two corporations over the sixth plan period is placed at Rs.144.9 crores. Of the ten State-owned industrial enterprises, with a total paid up capital of little over Rs.992 lakhs in 1977-78, six incurred losses, and the total net loss amounted to Rs.175 lakhs, or 17.6 per cent.[9]

(iv) The Sixth Plan involves the continuance of the tradition of subsidisation in the programmes for other sectors, despite acute financial constraints. To mention a few, there is provision for subsidy for calf-feed, distribution of poultry for the economically weaker sections, for housing cooperatives, to industry for project reports, for modernisation, interest subsidy to loans advanced by the Kerala Finance Corporation, interest subsidy to small scale industrial units, investment subsidy for the construction of mini-industrial estates, etc.[10] A priori, it could be argued that these subsidies stimulate production, and/or their benefits accrue to the truly deserving sections of the society. As regards the former, the empirical evidence, for instance growth rate in agriculture, is not convincing. As for the latter, some of the across-the-board concessions are apt to distort the intended social equity criterion.

(v) During the first two years of the current plan period, the State Government introduced a series of tax concessions and subsidies. Thus, the exemption limit for agricultural income tax was raised from Rs.8,000 to Rs.10,000 with effect from 1980-81, and further to Rs.15,000 from 1981-82.

The slabs and rates for agricultural income tax were restructured. These measures were avowedly introduced to remove the disparities in the exemption limits, slabs and rates between the State agricultural income tax and the Central income tax. With respect to the financial year 1981-82, the concessions involved an agricultural income tax relief ranging from Rs.450 to Rs.930 for assessees. Another concession to the agricultural sector consisted in raising the taxable limit and lowering the rates for the plantations. The exemption limit for the levy of plantation tax was raised from 1 to 2 hectares from 1980-81, and from 2 to 4 hectares from next year. Other concessions included waiving the sales tax on fertilisers, increasing the subsidy on interest to agricultural loans, waiving of interest outstanding on agricultural loans upto 75 per cent, raising the exemption limit for the levy of sales tax on the annual turn over initially from Rs.25,000 to Rs.35,000 (1980-81) and subsequently to Rs.50,000 (1981-82), an interest subsidy of 2 per cent on all industrial loans upto Rs.5 lakhs, etc.[11/] The implications of the above concessions for the projected revenue surplus over the Sixth Plan period are obvious.

## III. Potential Sources

(i) Though the mobilisation of resources by the State Government fell short of the required minimum, it is heartening to note that there do exist potential resources which could be canalised into productive investment. According to the results of a survey carried out by the State Planning Board, household savings in Kerala during 1977-78 came to Rs.436 crores; of this 44 per cent was in the form of liquid/financial assets and the rest, 56 per in physical assets.[12/] The principal findings of the survey are rised in Table 4.

Table 4: Household Savings in Kerala, 1977-78

| | | Rural | Urban | Total |
|---|---|---|---|---|
| Total Savings: Rs. crores | | - | - | 436.34 |
| Savings in the form of: | | | | |
| Financial Assets Rs. crores | | - | - | 190.43 |
| Physical Assets Rs. crores | | - | - | 245.91 |
| Average Saving per household | Rs. | 965 | 1369 | 1032.00 |
| Outstanding debt per household: | | | | |
| at the beginning of the year | Rs. | 525 | 566 | - |
| at the end of the year | Rs. | 567 | 964 | - |

Source: Report on the Survey of the Household Savings and Investment, op.cit.

The report is quite frank and modest in stressing the limitations of the estimates, and hence their non-comparability with the national estimates. Most importantly, the estimates stand for gross savings, without allowance being made for depreciation in the case of physical assets and change in liabilities. Notwithstanding these limitations, gross savings when compared with State Domestic Product or personal disposable income would seem to compare favourably with the national averages. Thus, 'net' household savings after deducting increase in liabilities (but not depreciation) would come to about Rs.413 crores, which would work out to a little over 21 per cent of the total personal disposable income of Rs.19547 crores. This, despite the limitations of the estimate, compares favourably with the corresponding proportion for the country as a whole during 1977-78, viz., 15.1 per cent.[13/] The relevant figures are presented in Table 5.

Table 5: Household Savings and Personal Disposable Income

| | Rural | Urban | Total |
|---|---|---|---|
| Total number of households (lakhs) | 35.3 | 7.0 | 42.3 |
| Average saving per household (Rs.) | 965.0 | 1367.0 | - |
| Net borrowing per household (Rs.) | 42.0 | 128.0 | - |
| 'Net' saving per household (Rs.) | 923.0 | 1241.0 | - |
| Aggregate net savings of all households (Rs.crores) | 325.8 | 86.9 | 412.7 |
| Aggregate annual consumption expenditure (Rs.crores) | - | - | 1542.0 |
| Aggregate Personal Disposable Income (Rs. crores) | - | - | 1954.7 |
| Savings as proportion of Disposable Income(percent) | - | - | 21.1 |

Alternative sources of information seem to confirm the above proposition. For instance, between December 1970 and 1975, aggregate deposits with scheduled commercial banks in Kerala increased by Rs.258.4 crores, i.e., by about 141 per cent; during the next quinquennium, the deposits with scheduled banks rose by Rs.1012.7 crores or by about 283 per cent, the highest rate of increase among all the States. (See Table 5). In the course of three years, since the conduct of the Survey on Household Savings and Investment, the deposits with scheduled banks increased by Rs.694.4 crores, i.e., more than the increase reported during the preceding six years. Again, between 1977-78 and 1979-80, deposits with primary agricultural credit societies in Kerala almost doubled, from Rs.55.55 crores to Rs.110.73 crores.14/

(ii) As against the impressive increase in deposits, the credit-deposit ratio in Kerala has been low compared with the national average, and significantly lower than that in the neighbouring States. (Table 6). The assistance received by Kerala from the term-lending institutions like IDBI, IFCI, ICICI, LIC, etc. has also been low both in absolute and relative terms. For instance, disbursements by these financial institutions as of March 1980

Table 6: Increase in Aggregate Deposits with Scheduled Commercial Banks

| States | 1970-75 | | 1975-80 | | Credit-deposit ratio | | |
|---|---|---|---|---|---|---|---|
| | Rs.lakhs | Percent | Rs. lakhs | Percent | 1970 | 1975 | 1980 |
| 1. Andhra Pradesh | 39866 | 201.41 | 126548 | 212.12 | 1.09 | 0.77 | 0.74 |
| 2. Assam | 7502 | 153.86 | 21679 | 174.66 | 0.47 | 0.45 | 0.46 |
| 3. Bihar | 49005 | 173.44 | 92471 | 146.46 | 0.35 | 0.44 | 0.41 |
| 4. Gujarat | 47369 | 92.87 | 158075 | 160.69 | 0.60 | 0.61 | 0.58 |
| 5. Haryana | 11930 | 154.17 | 45694 | 232.33 | 0.60 | 0.63 | 0.70 |
| 6. Himachal Pradesh | .. | .. | 13410 | 186.43 | 0.16 | 0.19 | 0.34 |
| 7. Jammu and Kashmir | 6740 | 220.05 | 27941 | 285.02 | 0.18 | 0.36 | 0.31 |
| 8. Karnataka | 36997 | 122.95 | 125240 | 188.17 | 0.78 | 1.00 | 0.75 |
| 9. Kerala | 25841 | 140.77 | 101269 | 238.97 | 0.71 | 0.72 | 0.68 |
| 10. Madhya Pradesh | 24232 | 159.58 | 77824 | 197.44 | 0.63 | 0.50 | 0.56 |
| 11. Maharashtra | 141987 | 97.71 | 408375 | 142.14 | 0.91 | 0.86 | 0.79 |
| 12. Orissa | 8156 | 176.38 | 30254 | 236.73 | 0.55 | 0.47 | 0.59 |
| 13. Punjab | 39644 | 145.21 | 128276 | 191.61 | 0.35 | 0.38 | 0.43 |
| 14. Rajasthan | 19159 | 137.73 | 58087 | 222.00 | 0.55 | 0.59 | 0.67 |
| 15. Tamil Nadu | 59809 | 170.21 | 157340 | 165.63 | 1.33 | 1.09 | 0.94 |
| 16. Uttar Pradesh | 73361 | 146.11 | 234610 | 189.87 | 0.53 | 0.45 | 0.42 |
| 17. West Bengal | 98289 | 116.90 | 231236 | 126.80 | 0.93 | 0.73 | 0.64 |
| All India | 768286 | 127.46 | 2328445 | 169.83 | 0.76 | 0.73 | 0.67 |

Source. Reserve Bank of India, Statistical Tables Relating to Banks in India (Annual Series).

Note : The data for 1980 supplied by Dr.S.L.Shetty.

came to Rs.78.30 per capita for Kerala, as against Rs.136.5 for Karnataka, Rs.124.9 for Tamil Nadu, and Rs.95.6 for the country as a whole.[15]

(iii) We have already referred to the drain of financial resources by way of subsidies. The amounts involved are out of all proportion to the resources at the disposal of the State Government. Although the benefits of some of them might accrue to the deserving poor, a good number of them entailing the bulk of the expenditure are across-the-board concessions, and, therefore, would not satisfy the criterion of social equity. Be that as it may, the amount involved constitute a potential source of finance for productive investment.

## Conclusion

From the foregoing discussion, it looks as though it is the pattern of utilization of resources, particularly in the public sector, rather than their availability, which holds down Kerala's devclopment. A sizeable proportion of the resources mobilised by the State government has gone into investment in power, and large and medium irrigation projects which have had poor financial returns and doubtful impact on agricultural production and productivity. The returns from public sector investments in industrial and commercial enterprises have been equally poor. A critical scrutiny of the public sector development outlays is therefore called for. Nor has the State government tapped all its tax avenues fully. On the other hand, it has of late further accentuated the process of depletion of resources, by way of tax concessions and subsidies at a time when confronted with a major challenge of the financial requirements of the Sixth Plan. There are also fairly large potential resources in the form of household savings, and credit facilities with commercial banks and term-lending institutions. What constraints stand in the way of attracting these potential resources for productive investment in the State is another question which needs careful study.

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## Notes and References

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15/ I.D.B.I., Operational Statistics, 1979-80, Bombay, 1981, Table 43, pp.102-103.