

Development implications of the budget 2022-23

M K Sukumaran Nair

Honorary Director, Centre for Budget Studies, CUSAT

I am asked to speak about the development implications of the state budget for the year 2022-23. Our Finance Minister Mr. K.N. Balagopal has already spoken about this in greater detail. He reiterated many fascinating ideas already spelt out in his budget speech. One of those is the creation of a knowledge economy. The last budget of Dr. Thomas Isaac has already provided a comprehensive framework for a knowledge economy as Kerala's future growth locomotive. The creation of a knowledge economy is not merely imparting basic skills, particularly digital skills to people. It is not mere frontloading of large sums of money in universities either. It should be closer to something like Rostow's concept of drive to maturity where the use of technology percolates to every layer of society resulting in a significant rise in the living standards of people across the board (Rostow, 1960). In this context, it may be useful to recall the not-so-pleasant experience of some of the African countries that had frontloaded the universities with massive mineral incomes which did not produce the desired result due to the lack of appropriate institutions and the much-required human capital. In order to absorb the investment to produce results high-quality human capital is required. The creation of a knowledge economy presupposes the creation of research-intensive universities. The universities in Kerala which have been performing, to say the least, the functions of teaching shops, will have to turn themselves into research-intensive institutions working at the cutting edge state-of-the-art knowledge. Highly motivated students who meet the requirements of quality standards are needed and to work with them a galaxy of well-trained and well-motivated academic staff. Unfortunately, our universities and colleges are not adequately equipped to do the job of training world class researchers. A perusal of the Ph.D. theses that have been produced in our universities bears eloquent testimony to this.

It is not difficult to see that in Kerala most of the teachers have been trained in ordinary colleges and universities, without getting adequate opportunities to get exposed to the best minds in the world and also world class research facilities that can go a long way in producing excellent researchers who can make a difference.

Therefore, a total restructuring of the University system is already overdue. Chosen institutions should be provided whatever is rightly required to emerge as academic leaders who keep constantly updating, and learning from the best practices in the world. Otherwise, pumping large amounts of money into the University system will churn out only mediocre students defeating the very purpose. This is, in fact, the very first step to the transformation to a knowledge economy. Huge investments in academia should be accompanied by hard decisions battling vested interests.

A second point that the Minister rightly emphasized is the agricultural transformation of Kerala. He spoke about a number of schemes that could be implemented. As Prof. Ramakumar who spoke just before me pointed out, in Kerala the size of most farms is very small, often less than 15 cents. Farming is either a hobby or at best a part-time occupation for these farmers. Agriculture is not the main source of income for them and they have only a casual interest in cultivation. But experience elsewhere shows that intensive farming with modern scientific practices can generate substantial income from small farms.

As the data show, the performance of our agricultural sector owing to a number of reasons has been abysmally poor. For the last three decades, agricultural growth has been negative despite massive spending on agriculture by the state. As farmers, in general, are no longer keen on farming due to many reasons, the government has to do proactive supply-side policy intervention. The Agricultural Department should shake off its bureaucratic attitude and go to the farmers with support in soil testing, provisioning of seeds and fertilizers, supplying laborers and appropriate machinery, and purchasing surplus produce from the farmers. Creation of suitable institutions in the agricultural sector is an important step, though a very difficult one but not insurmountable. The creation of institutions is very important, as "institutions matter" (North, 1990; Acemoglu and Robinson, 2012)

The 3rd point which the Minister did not explicitly mention, but implied in his speech, is the development alternative that the government has been trying to build and carry forward. As we had experienced the bitter consequences of the neo-liberal policies put in place in the

country in the 90s such as increasing corporatization and a sharp rise in inequality, such a move by the government seems to be quite in order. However, the warp and woof of the alternative are yet to be spelled out in clear terms. This needs a great deal of homework. In any case, building and maintaining a strong public sector in manufacturing and the services sector is an essential ingredient of such a model.

Public ownership is necessary when discussing an alternative system based on public participation. In Kerala, we have a large number of public sector undertakings. Unfortunately, most of those are loss making. Out of the 10 industrial groups, 9 are making losses (KER, 2021), and that too almost consistently over the years. The Kerala State Transport Corporation with a large fleet of buses has been incurring such heavy losses that every month, the state has to give loans and subsidies even for salary payments and to meet fuel costs. The Kerala State Electricity Board and the Kerala Water Authority also find it extremely difficult even to pay salaries and pensions to their employees. Unless the state is able to run the public sector undertakings at least on a 'no profit-no loss' basis, the endeavor to build a development alternative will land it on a slippery slope. Setting the PSUs right may not be always politically correct and hence decision making may be very cumbersome. But hard decisions are to be made.

Another issue that needs to be urgently fixed is the mounting public debt that makes the fiscal gliding path bumpy. The situation is that the revenue receipts are not enough to meet even the revenue expenditure. The victim of the situation is capital expenditure which is crucial to step up growth. Of course, KIIFB (Kerala Infrastructural Investment Fund Board) is a convenient platform used by the government for investment. But as some critics point out, such investments may end up inflicting severe strain on the fiscal health of the economy. However, if expenditures are made prudently, the PSUs are made profitable and the whole public sector including the government itself made right sized, economic growth can be amped up. KIIFB has already sanctioned over 900 infrastructural projects for Rs. 64344.64 crores. The actual expenditure incurred till today is only Rs. 13000 crores. KIIFB has already collected Rs. 8848 cores from petroleum CESS and motor vehicle tax towards meeting the above expenditure showing that repayment is not impossible as alleged by some. If prudently managed, the investments channeled through KIIFB can promote growth without causing severe fiscal strain on the economy. The ride, however, is going to be herky-jerky, but if carefully driven the desired goals can be achieved. The previous few budgets have already

put forward a significant move in this direction. The present budget can certainly move forward provided adequate safeguards are taken.

The last couple of budgets and especially the present one have provided a clear road map for the long term development of the state economy taking into consideration the characteristic features of the economy such as high population density, availability of educated manpower, constraints on manufacturing development, the inflow of remittance incomes, etc. However, the details will have to be worked out. Necessary structural change will have to be brought about. Over and above political and economic institutions will have to be created wherever necessary and strengthened wherever they exist.

Reference

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