

## **Editorial**

### **Kerala: Research and development budget 2023-24**

K J Joseph

Director, Gulati Institute of Finance and Taxation, Thiruvananthapuram.

We are extremely happy to present the opening issue of the fourth volume of Kerala Economy. In this Issue, we open with a special section on COVID 19 Pandemic and Kerala Economy wherein you will find six articles that present the highlights of a detailed report that we prepared at the request of the Government of Kerala. These articles dealt with the impact of COVID 19 on Kerala Economy with respect to employment, income, inequality, household borrowing and migration in a comparative perspective with other states. These issues are analysed against the backdrop of the global, national and subnational response towards meeting the challenges posed by the once in a century pandemic. It is our hope that in a context wherein the pandemic is still remaining as a threat, although with reduced intensity, the insights and findings offered by these articles will be of interest.

Yet another feature of this issue is the two reports on the panel discussions that GIFT organized on Union Budget 2023-24 and Kerala State Budget 2023-24. The latter was organized jointly with the Department of Political Science, University of Kerala. In these reports, we present the observations on the Union Budget and the State Budget by the scholars of eminence from within the state and outside. You will also find a few articles reflecting on the select aspects of the Union Budget and Kerala State Budget along with our regular columns.

Some of the initiatives in the budget like, make in Kerala, setting up of an industrial corridor along the Vizhinjam port, new energy parks, among others, are expected to have immense implications for Kerala's long-term development inter alia by being instrumental in reversing the prevalent de-industrialization in the state. This has indeed been widely appreciated. It is rather surprising that although Kerala's per capita income, even after excluding remittances, is estimated at almost 1.6 times the national average, our Tax-GSDP ratio is only on par with national average. Hence, Kerala cannot afford to continue anymore by competing with

Scandinavia in the provision of social protection and with Africa in terms of taxation. A trend reversal cannot be postponed any further. Such a reversal could not have been possible when the economy was crippled with demonetization and subsequently confronted with severe crisis conditions on account of the hasty implementation of GST followed by the deluge in subsequent years and the culmination of the crisis due to the pandemic. The focus of the state has been on saving the lives and livelihood wherein it stood head and shoulders above others. With the economy reverting to normalcy, there has been a few inevitable proposals in the budget towards raising the tax base.

Although both budgets have been subjected to detailed interrogation by eminent scholars, I felt it important to highlight certain key aspects of Kerala Budget that seems to have not received the attention that they deserve. The most important one that went unnoticed was the pioneering effort by the government of Kerala to come up with a Research and Development (R&D) Budget. Like the gender budget, Kerala is the first state in the country to prepare an R&D budget at the state level. Such an initiative needs to be viewed in a context wherein the State for the first time in the country embarked upon an ambitious agenda of transforming Kerala to a knowledge economy. Evidence across the world clearly indicates that economic development is the progeny of science, technology and innovation. A very often used indicator of a country's capability in the sphere of innovation in general and science and technology in particular is R&D.

As is well known, India is first among the developing countries to articulate the role of Science and Technology (S&T) in addressing basic development problems of poverty, unemployment, illiteracy, among others. This got its explicit expression in the Scientific Policy Resolution (SPR) of 1958 where any careful observer could see the seeds of almost all the scientific achievements that we claim today. Subsequent policies with respect to S&T at the national level: Technology Policy Statements (TPS) 1983; Science and Technology Policy (STP) 2003, the Science Technology Innovation Policy (STIP) 2013 and STIP 2020, needless to say, reinforced the role of Science, Technology and Innovation in addressing development needs and helped building India's innovation system at the national, regional and the sectoral level.

India today is touted as the fastest growing economy in the world, and all set to be the third largest in 2029 by overtaking Germany and Japan. However, according to the latest R&D statistics published by the Department of Science and Technology, India's R&D intensity

(R&D expenditure as a proportion of GDP) remains abysmally low at 0.7% in 2019-20 as compared to over 2.5% for China in 2022. It needs to be noted that India had the target of crossing the 2% mark during the 8th five-year plan period (1992-97) itself.

Although there are number of factors behind the poor R&D performance of India, it cannot be de-linked from the fact that the issue of science, technology and innovation in our country has been construed as an agenda of the Central Government and the role that the states could play has not been a matter of serious concern. No wonder, the design and implementation of science, technology and innovation policy primarily remain in the realm of Central Government and most of the State Governments are yet to recognize their role in this sphere. Under globalisation, while there has been an intense competition between the states to attract FDI, such a competition is found missing between states for being innovative by investing in R&D indicating the serious state level deficit in comprehending the role of science, technology and innovation in development.

It is in this context that the attempt by the Government of Kerala to prepare a R&D Budget assumes importance, while preparing such a document is not an easy task. It is a highly informative document providing an overview of the R&D eco system in the state along with R&D expenditure in the public sphere and patenting across states in the country. It is estimated that the allocation for R&D in the Kerala budget 2023-24 is approximately Rs 3,482 Crore which is about 0.3 percent of the GSDP of the State. Out of this, a little over 46% is allocated to institutions engaged in education and R&D, 23 % for medical health, family welfare and sanitation, 14.6% for agriculture and 7.9% for the industrial sector. Out of the total plan expenditure (excluding development expenditure by LSGs and KSEB's internal resources) of Rs 21,069 Crore, 7.2% is estimated as R&D expenditure. The R&D Budget also signals the fact that as the State is transforming itself as a knowledge economy, the local Self Governments shall also get actively engaged in the process of innovation led development.

The Research and Development Budget explicitly recognised that, the estimates of R&D expenditure presented are preliminary and while linking innovation to development, R&D estimate is a rather myopic measure. Being the first attempt, there are limits and scope for improvement. Yet, this pioneering attempt by the Kerala Government will remain as a landmark in the history of budget making in India.

**K J Joseph**