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Kerala Economy

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Rebuild fiscal federalism-
Highlights of a webinar

Debt and development:
Beyond casual observation and commonsense

Disquieting tumble in state revenues of
southern states

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Kerala among southern states

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GIFT GULATI INSTITUTE OF FINANCE AND TAXATION

KERALA ECONOMY

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Editorial

Financing development: Need for a dialogue

The role of the state and public investment in social overhead capital in economic development has been highlighted by development economists of repute like Albert Hirschman. Active role of state by way of public investment in reviving an economy in recession is at the core of Keynesian economics. Yet, with globalization, the states across the developing world were pushed to the backseat under the influence of Washington consensus. However, based on the outcomes of globalization, scholars of eminence, like Dani Rodrik, have argued that the Washington consensus has become Washington confusion and in the early years of the new millennium we witnessed a renewed interest in the role of state in development. Influential economists of younger generation too argue that role of the state cannot be reduced to mere facilitation and fixing market failures. (Reference is to a book - Entrepreneurial State by Mariana Mazzucato). Since the recipe for "development without investment" is yet to be made, the states are constrained in this regard.

The role of state needs no elaboration in the current juncture wherein the Indian economy is confronted with an unprecedented recession resulting from negative growth in the first two quarters of the current fiscal (-23.9% in Q1 and -7.5% in Q2). The recessionary trend on account of the COVID is expected to continue and the projected growth for the current fiscal is around -10 per cent calling for public spending to boost demand. In a period of poor revenue growth, while different options are open for the Central government, the State governments are constrained especially by the FRBM Act and the nature of federal fiscal relationship. While the combined revenue of States accounts only for about 8.6 percent of the GDP their combined expenditure is shown to be as high as over 17 percent. The imbalance appears to have intensified with the roll out of the GST. While the States have surrendered nearly 51.8 percent of the total tax revenue, the corresponding sacrifice by the Centre was only 28.8 percent.

Perhaps, the problem is more pronounced in the case of Kerala. Thanks to the heavy expenditure in the social sector, including health and education, the State is known for its high Human Development Index apart from being in the highest rank among Indian States with respect to the U N Agenda 2030. This, however, has come at a cost. Out of the budgeted expenditure of Rs. 1.44 lakh crore for the year 2021, for example, revenue expenditure including salary, pension and other committed expenditure accounts for as high as Rs. 1.29 lakh crore (90.1%). The state is hardly left with 0.14 lakh crore - not even 0.9 percent of GSDP - for capital expenditure for growth recovery. The option for the State Governments is to borrow. However, the strict implementation of the FRBM Act, which stipulates the states to limit their borrowing to three percent of the GDP, acts as a major barrier.

The State governments are left with hardly any option other than to search for innovative financing options including the harnessing of global financial markets. The Kerala Infrastructure Investment Fund Board (KIIFB) needs to be seen in this context. There are, however, a number of issues arise here. To what extent the existing institutional arrangements enable the states to resort to innovative financing options for development? What are the downsides of innovative financing like off budget borrowing? To what extent India has been successful in exploiting the global financial market for development? Whether investment by the State governments by harnessing the external financial market is superior to FDI, wherein investment is driven by global profit maximizing considerations of MNC's instead of local development priorities? Are there reasons to believe that there exists institutional inertia for change according to changing needs of time and harnessing new opportunities opened by globalization? Implications of public debt on development are yet another issue of much public concern. All of these are matters on which more informed discussion is needed. This issue of the Kerala Economy opens up this subject for discussion.

K J Joseph

GIFT GULATI INSTITUTE OF FINANCE AND TAXATION

Rebuild fiscal federalism - Highlights of a webinar

George Joseph

There is a consensus that the State governments in India are increasingly constrained in the present federal context to finance development. At the same time, ever new restrictions are being imposed on every innovative initiative to mobilize resources. In this context, Gulati Institute of Finance and Taxation (GIFT) organized a national webinar on 'Financing Development under India's Fiscal Federalism'. The webinar unanimously shared the concern over the unfortunate shift in macro-economic management and fiscal federalism especially in the light of COVID pandemic. India has already been facing a recession and the pandemic added woes to the economic crisis. In the midst of serious revenue crunch States are vested with more responsibility on development initiatives and social welfare measures, along with fighting the pandemic which attracts much higher level of expenditure. The revenue - expenditure mismatch is a serious issue on the fiscal affairs of most of the Indian states. The big shift in the indirect tax system of the country seems to be seriously affecting resource mobilization of states. Some experts even call for a reversal in the GST regime. Rising debt is yet another area of concern as states have limited options for resource mobilization after the GST roll out. Borrowing both internally and externally seems to be the only alternative. But the States have been deprived of powers to attract more resources from abroad. In the webinar, organized in two sessions, a galaxy of eminent economists in the country deliberated on this issue. Prof K J Joseph, Director, GIFT, welcomed the guests to the webinar and highlighted the relevance of the issues being deliberated in the specific context of Kerala.

There should be a new discourse on centre - state relations, and rebuilding of fiscal federalism has become the critical factor for ensuring the unity in diversity of the country, the webinar unanimously opined.

Professor M. Govinda Rao

Professor M. Govinda Rao, Member, 14th Finance Commission and Honorary Professor, GIFT, who chaired the first session of the webinar series, said that government intervention is essential for the macro-economic management of any economy. It is indeed very crucial when the economy fails to perform, especially during the time of a pandemic. He added that the nature of such intervention depends on the nature of failure of private sector in an economy. Macro- economic management is predominantly a central government function, whereas allocation is a major function of sub national level governments.

He said that there is a vertical fiscal imbalance between the centre and the States as the Centre has more powers for mobilizing resources. But the states cannot go bankrupt under any condition. Overall, states have been vested with more fiscal responsibilities in the case of social security and development aspects. Yet, their access to financial resources is limited compared to the centre. According to article 293 of the Indian constitution the States cannot borrow overseas without the prior permission of the Centre. Some countries, especially Latin American countries, allow sub national governments to borrow overseas. But they do face severe macro-economic issues, which clearly indicates the need for some checks and balances in the case of borrowing.

The important question in this regard are how much each government can borrow? What is the limit for borrowing? What is the importance of off budget borrowing? These are questions to be discussed in the context of current fiscal instability, he added.

Professor Sushil Khanna

Professor Sushil Khanna of IIM, Kolkata, opined that the recent methods of centralization of resources would be a major threat to States in the case managing fiscal issues. Constitution had clearly earmarked the powers on tax collection between the Centre and the States. Sarkaria commission on Centre - State relations had pointed out the various responsibilities vested with the Centre and States. It is unfortunate to note that the ability of States to raise revenue is very limited at present.

Hence, external borrowing would be essential for raising financial resources in order to meet development and welfare expenditure which are mainly the responsibility of the States. Here, States must have a cautious approach as irresponsible borrowing may topple the fiscal management. It is notable that all direct tax revenue goes to the Centre's kitty, though there is a revenue sharing mechanism in the form of finance commission.

Here comes the importance of off budget borrowing. The first innovative move in this direction came from Gujarat followed by Andhra Pradesh. Kerala has also made very advanced move in the form of masala bonds and KIIFB has shown an innovative method of debt re-payment mechanism mainly based on future tax collection. " Another important issue is that we undermine planning. We must hedge our risks with proper financial planning," he said.

Criticising the recent acts of C & AG on the auditing of KIIFB, he emphasized the importance of neutral regulators in peculiar economic situations like COVID pandemic.

Professor Sebastian Morris

Professor Sebastian Morris, IIM, Ahmedabad said that the uncovered interest parity condition does not hold for India and for other developing countries, resulting in bias against them. The kind of bias is generally termed as 'country risk'. Due to this bias, capital flows out of developing countries during times of crisis. He opined that financial flow does not ensure equilibrium in capital market due to this bias and The MNCs are able to buy out projects.

FDI inflow towards India is much larger when compared to China and East Asian countries and India's FDI intensity is also higher. However, this lower cost capital may not be needed. There is tremendous opportunity ahead for India and one of the major reasons behind this is the higher rate of savings within the country. The savings is ready to be buoyant when the economy returns to the growth path. Further, the FDI tends displace domestic players. However, the established Indian businesses could make use of the capital market bias borrow from the foreign market.

"We expose to high risk if we borrow for longer period if you don't have dollar in your kitty. Rate of capital formation in India has not increased substantially due to the growth in capital inflow" Professor Morris cited. The rate of capital formation in India is not substantially furthered by the gross capital inflows. There is displacement of domestic businesses, something that is anti-nationalistic. In the case of India's FDI inflows, it is mostly poured into brownfield projects that does not create any expansion in production capacity or generate employment. Further, borrowings in foreign currency cannot be treated as a great idea for development initiatives unless there is a clear-cut plan to avoid exchange rate instabilities. He concluded by saying that for a sub-national entity, instruments like masala bonds are better tools to borrow from foreign markets as the exchange rate risk is on the buyer.

Professor Pulin Nayak

Professor Pulin Nayak, Former director, Delhi School of Economics, said that political diversity would not be a reality without economic power. In this regard three fold division of resources - Central, State and Local self-governments - is a crucial factor. Unfortunately, in India the process of centralization of financial resources become more obvious recently.

State sales tax was a reasonable means for funding at the sub national level. When the country accepted the 'One nation, one market' slogan, States were deprived of economic power which was hitherto enjoyed. Success of single tax system mainly depends on the political maturity of both the Centre and the States. The Centre should have the wisdom to see the totality and diversity of the country. Unfortunately, it is not evident in recent times.

In the case of Centre - State relations, three factors are utmost important; allocation, distribution and stabilization. India is on the lower ebb in the case of distribution of resources. He said that there is nothing wrong in 'one nation, many markets' concept.

Stabilisatation is predominantly wrested with the centre as this affects States in different ways. He also said that public expenditure in health sector in India is 1.2 per cent of GDP, which is one of the lowest across the globe. China has 2.9 per cent and most western European nations spend 8 - 10 per cent of GDP in healthcare segment. States should spend substantially in education and health segments. Going with insurance route in health care will be disastrous for a country like India, he added.

Professor C. P Chandrashekhar

Professor C. P Chandrashekhar of Jawaharlal Nehru University, said that there are opinions that state governments have larger part of responsibility in terms of expenditure and development. Despite the efforts of constitution - makers and some Finance Commissions, there is tendency towards centralization of resources using several means like utilization of cess etc, depriving the States from resources. India had actually moved to a regime that reduced the possibility of raising the tax - GDP ratio. India shifted the focus to fiscal responsibility, budget management etc, leaving out the discussion on how much States can mobilize from the market. Neo - liberalism appealing States' access to the global finance market, adopted to undermine the ability of states to mobilize tax. On the other hand, the private sector is freely allowed to access these markets. Only the State governments should not have that access.

COVID is a classic case of crisis which is not because of the irresponsibility of the State. During this time, the centre should stick on to the promise on GST compensation. The collapse in the case of GST revenue is a national issue. The government says that COVID is an act of God and we are not liable to compensate for the act of God. The Centre said that they would not take the responsibility on that count. Here the States must give larger flexibility. It is not fair on the side of the government to undermine the flexibility of the State in the case of access to the global markets.

The States are trapped in a tight fiscal situation and the Centre should compensate for the shortfall. The Centre is not only merely accelerating neo liberalism / centralization of resources, but giving up its basic responsibilities even in the time of crisis. "Here we need a new discourse about the flexibility of the States in the months and years to come. We should re-visit the system of GST and the States should be given more flexibility", Professor Chandrashekhar said.

Professor D. Narayana

Professor D. Narayana, Former director, GIFT, in his discussion stressed the need of an independent body for settling the disputes between the Centre and States. Absence of such a body is a major issue, confronting the States to raise their problems on inancing. The idea of an inter-state fiscal council was mooted earlier, but did not take off. He said that instead of helping the States to raise resources, the Centre is putting more restrictions that hinder development initiatives. Most of the States in India opt responsible borrowing and their fiscal management is satisfactory. Fiscal deficit of states does not exceed 3 per cent of GDP in most cases.

The serious problem confronting the States is financing development. Finance Commissions do not take into account the sky rocketing of capital expenditure by the States. In such a fiscal circumstance bulk of the indirect tax collection had been given to the Centre. He argued that States should be allowed to tap the financial markets and the Centre should facilitate this. It is unfortunate to see the hostile approach of constitutional bodies towards masala bonds issued by KIIFB, he said.

Professor Prabhath Patnaik

Chairing the second edition of the webinar series, Professor Prabhath Patnaik, Emeritus professor, JNU and Honorary Professor, GIFT said that enactment of GST was a critical turning point in India's fiscal federalism. GST meant a complete handing over of rights that the constitution had given to the States. It is unfortunate that the Centre unilaterally imposes its decisions when it comes to sharing of resources as it happens in cases like terms of reference of Finance Commissions. States have no say in such discourses and there has been enormous centralization of power, especially in the case of financial relations. Raising some serious issues on Centre - State financial relations, he added that there should be extensive discussions on the scope of the avenues available for the States to raise revenue. Scope of raising revenue is the touch point, as a serious financial crunch jeopardizes the fiscal stability of the States in India.

Professor Jayati Ghosh

"We are no longer a federal country. While there is strong centralization of fiscal resources, most obligations remain with the states. So, this is a kind of unbalanced federalism", said Prof Jayati Ghosh, JNU. She argued that the state governments should have the courage to say that we no longer agree with the GST regime. They have to say that we won't be in a position to simply continue with GST. Federalism cannot be one way. It has to be on both ways. It is not federalism when the States simply accept what the Centre says. Even during the pandemic and that too in the middle of a recession, India does not have a compensatory mechanism. The Central government should promote a demand stimulus in order to bail out the economy. According to the C & AG data the Centre's overall expenditure during April - October period of the current year had increased to Rs 6549 crore, up by only 0.4 per cent increase, compared to the same period last year. The centre has disbursed Rs 1968 crore to states, up 1.9 per cent increase during the period even while expenditure shot up many fold. She said that the less you spend the less economic activity will be there. This is an urgent need for change, she added.

Professor Partha Mukhopadhyay

Professor Partha Mukhopadhyay, CPR, New Delhi opined that the major issue is: that what States can actually do to tide over the current crisis. The States are constrained because the main sources of revenue are controlled by the Centre while the States have the responsibility to revive the economy.

In a context of severe restrictions on borrowing expenditure, rationalization appears to be a relevant strategy. The state government could also consider raising the use of fees especially from those who could afford to pay. Property transaction tax is an essential component to be tapped as there is enormous amount of evasion and avoidance in this regard. Recommendations of 15th Finance Commission and the quantum of grants are expected by next February. He said that significant action should be there in the coming budgets of the states. They have to ensure that they don't get overboard in the case of taxes. Both the Centre and the States are using fuel taxes as a means to compensate the revenue losses otherwise.

Professor K. Gayithri

Professor Gayithri of ISEC, Bangalore focused on the importance of streamlining of expenditure, especially after the pandemic period is over. She said that overall revenue spending had doubled in almost every year and this points out to the importance of managing expenditure. This argument is not undermining the importance of mobilizing resources. Yet there is serious inefficiency associated with expenditure, especially on capital expenses. This gains more importance when resources are mobilized through borrowing. There should be control over expenditure. There should be some mechanism that ensures the borrowed funds are strictly invested in capital expenditure. Optimizing the use of existing infrastructure also gets prime importance, she said.

She added that revenue expenditure is galloping and spending is going on a reckless manner in recent times. On the revenue mobilization aspect, no tax component is also vital. Non tax revenue sources should be reviewed periodically and fee-based revenue should be encouraged. She concluded that more attention should be given on expenditure side when revenue generation is rather difficult.

Professor A. Damodaran

Professor A Damodaran, IIM Bangalore said that there is a shift in the global capital market in the light of COVID pandemic and fundamental liquidity shortage. Because of low yield in various financial instruments like bonds, this is not good time to tap the international markets, especially trying to mobilize on dollar-based instruments.

Here a question arises, whether FDI or borrowing? He said that borrowing is a much better option than FDI as FDI affects the local markets in various ways. While institutional barriers are a serious issue in the case of overseas borrowing, instruments like climate bonds will be a better option in the current economic situation. Kerala can opt this route especially for the development of districts like Idukki and Wayanad. Coupon rates are rather low for climate bonds, he said.

Professor Lakhwinder Singh Gill

Professor Lakhwinder Singh Gill of Punjabi University, Patiala in his discussion pointed out that the higher degree of centralization of powers over a period is a serious issue. Unfortunately, the political system advocates this shift in favour of centralization. Even regional political parties have abandoned the idea of decentralization because of various reasons. He said that politicizing centralization is a historic process. Hence, there should be a relook on Centre - State relationship in the midst of current economic crisis. A coalition of States is the need of the hour at this critical juncture, he added.

Concluding the sessions Professor Prabhat Patnaik stressed that States should come together in order to fight the excessive centralization of power in recent years. This, according to him, is the need of the hour. "We need to enlarge the fiscal deficit in a time like this. Really the Indian economy is going down on many counts like GDP. In order to arrest the decline, we need to pump in more demand into the economy, either through private sector or by enlarging government expenditure". He also said that the States should tell the Centre that they had agreed upon GST regime on the basis of some promises, that still remain unfulfilled. GST roll back is a different issue, but the States should stand united in the case of compensation and sharing resources, he said.

■

(George Joseph is a Consulting Editor, *Kerala Economy)*

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GULATI INSTITUTE OF FINANCE AND TAXATION

Debt and development: Beyond casual observation and commonsense

K J Joseph and Anoop S Kumar

There is a growing consensus that the emerging fiscal federal relations in India tend to constrain the States more than ever before. With the enactment of Fiscal Responsibility and Budget Management (FRBM) Act in 2003, the State Governments are under severe restrictions on deficit financing. The limits are also set for the freedom of the democratically elected State Government in setting their developmental agenda. The implementation of GST resulted in state governments foregoing their maneuverability and autonomy in taxation, which is the major source of their revenue. As elaborated in the issues of Kerala Economy, with the pandemic there has been a severe decline in the GST collection of all the States. As a result, the resource constrained State Governments are left with hardly any option other than borrowing for financing development.

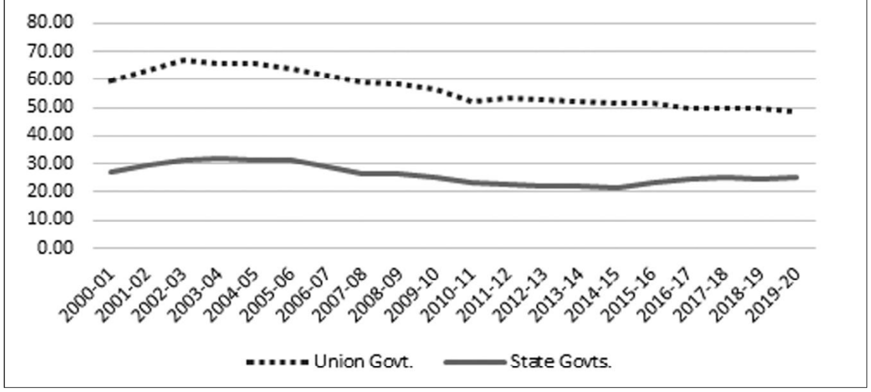
The notion that a Government needs to cut back its spending as a policy response is called household fallacy

Borrowing-induced debt and its implications for development has indeed attracted much scholarly attention both in the developed and developing countries. Empirical evidence is in abundance to indicate the public debt beyond a threshold level could have the dampening effect on growth. The threshold level, however, would vary from one country to another. Of late a discourse has emerged in Kerala focusing on borrowing, public debt and its fiscal implications on development. While such a discourse is highly desirable, much of it is based on casual empiricism. It is argued that Kerala's debt has been doubling on a five-yearly basis. What is more, the estimated per capita debt in Kerala is of the order of Rs 100,000 and a panic is being created in the minds of ordinary citizens. This article intends to set the stage for a more informed discussion on this important issue.

Public debt and private debt

The conventional wisdom talks against borrowing during times of crisis as the future income sources are uncertain,

Figure 1. Debt to GDP ratio of the union and state goverments



Source: State Finances: A Study of Budget, 2020-21, RBI.

adding up to the overall burden. Therefore, it is advised to "tighten your belt" during times of crisis. A household may cut back their expenditure during times of uncertainty. Common sense dictates that a government, either state or union, shall follow the same. But what is true of micro is rarely true of macro- the fallacy of composition error.

Hence, a prudent economic policy can never be framed by common sense and micro level evidence alone. The notion that a Government needs to cut back its spending as a policy response is called household fallacy (Farmer and Zabczyk,2018). They argue that the government is NOT like a household. Unlike households, the government can issue risk-free debt instruments to borrow money. Further, the potential revenue sources for a government are much diverse compared to an average household. Unlike households, the government invests in healthcare and education, something that increases the human capital stock. Yet another line of argument is that in case of domestic debt, interest payment is an income for the creditors in the economy, and its adverse impact would be limited provided the inflation is under control. For a government with a long-term development perspective, it might be advisable to borrow at present and invest by paying interest instead of making the future generation to pay for both inflation and interest rate.

FRBM: Centre and the states

With the FRBM Act in place, the debt-to-GDP ratio for the center was to be brought down to 40 percent by 2024-25 as per the 2018-19 FRBM review committee recommendations. For the State Governments, regardless of their characteristics like stage of development, it has been pegged at 20 percent. Going by the available evidence, the FRBM has been effective in containing public debt. While

It is evident that in the post-FRBM era, there has been a decline in rate of growth of public debt.

the States in general are moving towards the FRBM commitment, the Center is lagging behind. In 2019-20, the Union government posted a debt to GDP ratio of 48.6 percent whereas the state governments had a debt-to-GDP ratio of only 24.92 percent.

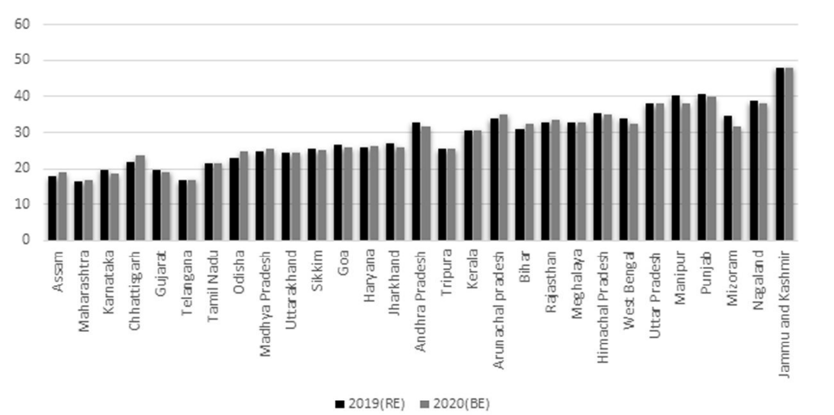
Kerala's debt profile

Kerala's fiscal management during the COVID-19 pandemic was on the news headlines for various reasons. While the state received praise for its exemplary handling of the pandemic, serious concerns were raised regarding the state's fiscal position due to the welfare measures initiated during the pandemic. It was argued that Kerala's debt position would be worsened due to these measures.

Based on the casual observations of Kerala's debt profile, it is often argued that the state is highly debt ridden and that the stock of debt almost doubles every five years, that is, between each successive government. Nevertheless, these numbers are highly misleading because the discussion is based on nominal values. It would be better to look into the real growth in debt between successive periods (Figure 3). It is evident that in the post-FRBM era, there has been a decline in rate of growth of public debt. The recent increase in the growth rate needs to be seen in the context of adverse economic conditions arising out of two consecutive floods during 2018 and 2019.

At this juncture, a comparison of Kerala's debt position and interest payment

Figure 2 : Debt to GDP ratio of Indian States



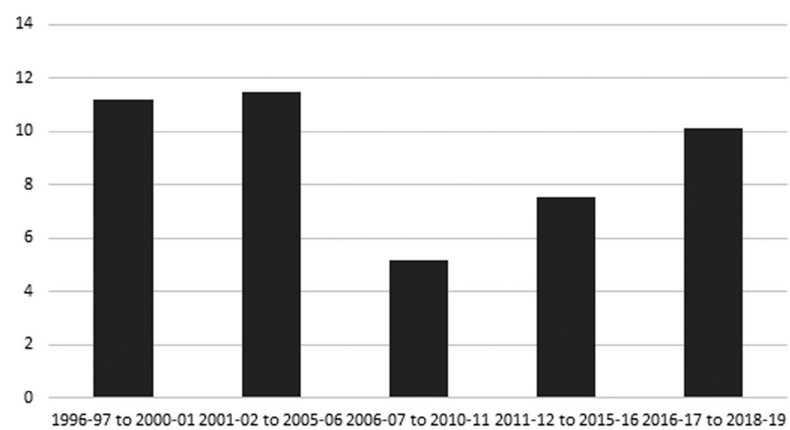
Source: State Finances: A Study of Budget, 2020-21, RBI.

Twelve states in India like UP, Andhra Pradesh, Punjab, Rajasthan, Himachal Pradesh, West Bengal, among others , are having higher debt-GDP ratio than Kerala.

commitment with other states may be in order. With a debt-to-GDP ratio of 30.8 percent in 2020, Kerala stands at the 17th position among 29 states, for which comparable data is available. Twelve states in India like UP, Andhra Pradesh, Punjab, Rajasthan, Himachal Pradesh, West Bengal, among others, are having higher debt-to-GDP ratio than Kerala. Further, as per the RBI estimates, Kerala's interest payment accounts for 2.1 percent of the GSDP as of 2019-20(RE) and among the 29 states, and holds the 20th position.

Kerala has high revenue expenditure compared to capital expenditure. Among revenue expenditure, both development and non-development revenue expenditure hold almost equal share (52.77 percent and 47.23 percent as of 2019-20(RE)). Salary to various government personnel is one major component of the development revenue expenditure. However, once they retire, their pension payments are listed under non-developmental expenditure. In other words, a higher non - development expenditure in the current period is the result of past development expenditure, which is at the core of Kerala's development experience. No wonder, Kerala's share of capital expenditure on total expenditure has been hovering around 10 percent for the last two decades. To ensure higher growth, we need to find alternative resources to mobilize capital.

Figure 3. Annual average growth rate in real debt stock



Source: Kerala State Budget Documents

The conventional wisdom talks about FDI as the route towards development. However, with FDI, the investments are made up of the sectors as per the funder's priority. The priorities of the state may take a backseat here. Instead of FDI, one should think of new ways of borrowing by tapping foreign financial markets with innovative debt instruments.

On the whole, it appears that public debt is neither good or bad. For those who have borrowed and managed debt appropriately, it has been an engine of growth while for others, it has sown the seeds of disaster. Many advanced economies hold significant amount of public debt. But they are not in crisis. In the case of the USA, the debt-to-GDP ratio is 135.7 percent, and the same for the UK is 117.3 percent. For Japan, it is 236.6 percent. At the same time, the Latin American debt crisis is still fresh in our memories. Hence, the discourse on debt management, debt utilization, investment capacity, cost overrun etc. would be highly rewarding.

■

(Professor K J Joseph, Director and Dr Anoop S Kumar, Assistant Professor, GIFT)

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Disquieting tumble in state revenues of southern states

Anitha Kumary L and Parma Chakravartti

An economy is said to be in recession when there is a significant decline in general economic activity in two consecutive quarters. The negative GDP growth (-13.3%) in India during first half of the current fiscal resulting from -23.9 per cent growth in Q1 and -7.5 per cent growth in Q2, (NAS, 2020-21), undoubtedly implies a recession. Such a context calls for an activist role for the state inter alia for reviving the economy and help those affected by the recession. The state's ability to intervene, however, is contingent on the fiscal position of the state. How has the observed recessionary trends at national and sub-national levels affected the state's fiscal position? This article explores this question by analysing revenue, expenditure, borrowing and deficit of Kerala in a comparative perspective with other southern states- Andhra Pradesh, Karnataka, Telangana, and Tamil Nadu. Since we have already dealt with the fiscal position in Q1,2020 (Anitha Kumary and Chakravartti, 2020), the focus here shall be on first half (H1) of the current fiscal as compared to H1 in 2019. We shall also highlight the changes in Q2 as compared to Q1

Government receipts

The southern states in general recorded a decline in the overall revenue receipts (comprising of own tax revenue, own non-tax revenue, share in central taxes and grants-in-aid) during the first half of the current fiscal as compared to the corresponding period in the previous year. The largest fall in revenue receipts is observed in Karnataka (-22.5%) followed by Tamil Nadu (-19%), Kerala (-17.9%), Andhra Pradesh (-14.6%) and Telangana (-14.4%) (Appendix Table A1). Here it is important to note that the recorded negative growth in revenue in Andhra Pradesh and Telangana is on par with the fall in GDP growth at the national level whereas the decline in revenue growth in Karnataka, Tamil Nadu and Kerala was much higher when compared to the GDP growth.

Both own tax revenue and non-tax revenue growth shows a decrease in all the states with a steepest fall in own tax revenue growth observed in Kerala of -31.5 per cent during H1 2020 from H1 2019, then in Tamil Nadu (-26.7%), Andhra Pradesh (-26.2%), Karnataka (-23.4%) and Telangana (-13.1%).The decline in own non-tax

Among the southern states, Kerala recorded the highest decline in own tax revenue (-31.5%), non-tax revenue (-75.6%) and share in central taxes during the first half of 2020.

revenue growth is observed to be highest in Kerala of -75.6 per cent followed by Tamil Nadu (-37.6%), Telangana (-30%), Karnataka (-19%) and then Andhra Pradesh (-9.4 %) during H1 2020 with respect to H1 2019. State's share of central taxes have strikingly registered a fall for all the states with a steepest fall in Karnataka (-38.4 %) and Kerala (-38.1 %). With the negative growth in own tax revenue, non-tax revenue and share in central taxes, the fall in the aggregate revenue receipts would have been at a more severe degree without the positive growth in grants-in-aid and contributions in all the states except Karnataka (Appendix Table A1).

Capital receipts comprising of recovery of loans and advances, other receipts and borrowings and other liabilities show a positive growth in all the states contributed by maximum positive growth in borrowings and other liabilities (Appendix Table A1).

Disaggregating the half-yearly analysis into first and second quarter we observed that the performance of all the states have improved in terms of revenue receipts growth except in Andhra Pradesh during Q2 compared to Q1. Even though the growth in revenue receipts is decreasing in Q2, the extent of fall as compared to Q1 has reduced with a better performance observed in Kerala (Appendix Table A1).

Government expenditure

The total expenditure consisting of revenue and capital expenditure shows a positive growth in three states, Andhra Pradesh (55 per cent), Telangana (9.8 per cent) and Kerala (3.9 per cent) during H1 2020 vis-à-vis 2019 with a negative growth registered in Karnataka (-8.5 per cent) and in Tamil Nadu (-6.5 per cent). Positive growth in both revenue and capital expenditure is noted in the same states having positive growth in total expenditure and it is similar for the states having negative growth. Highest revenue expenditure growth is observed in Andhra Pradesh (48.4 per cent), Telangana (12.9 per cent) and in Kerala (2.5 per cent). Revenue expenditure on subsidies registered a highest growth in Kerala of 217.4 per cent during H1 2020 compared to 2019 (Appendix Table A1). It indicates the state's timely response to safeguard the lives and livelihood of the people during the COVID-19 pandemic by disbursing welfare pensions, payment of relief to BPL families, providing financial aid through Welfare fund boards, providing food security to all including migrant workers through starting community kitchens, distribution of free ration to all categories of ration card holders, financial support to the health sector, micro credit to Kudumbashree groups, providing free food kits so on and so forth (Government of Kerala, 2020).

Capital expenditure showed a positive growth only in two states, Andhra Pradesh (165.2%) and Kerala (22.1%) with a negative growth in rest of the southern states during H1 2020 vis-à-vis H1 2019.

The capital expenditure shows a positive growth only in two states, Andhra Pradesh (165.2 per cent) and Kerala (22.1 per cent) with a negative growth in rest of the southern states during H1 2020 vis-à-vis 2019 (Appendix Table A1)

Total state government expenditure during Q2, 2020 over 2019 registered a fall in growth rate in all southern states except in Andhra Pradesh.This decrease in aggregate expenditure growth is accompanied by a decrease in revenue expenditure growth in the states implying the restriction, states are having on the fiscal space. A positive growth is observed in capital expenditure for all states except for Tamil Nadu during Q2 2020 vis-à-vis 2019 indicating that the states are implementing measures for revival of economic growth. Government of Kerala had initiated an alternative mode for financing capital investment over and above the budgeted capital expenditure.

Financing capital expenditure in Kerala

The basic difference in the pattern of expenditure of Kerala lies in the substantially higher share of social and community services in the total expenditure compared to the share of economic services. This difference in priorities in state's expenditure led the Kerala model of development (George, 1988). As a result, Kerala is having high committed expenditures like salary, pension and interest payments leading to perennial revenue deficit. The balance from state's own revenue is almost nil for meeting capital expenditure. A major portion of borrowing (within the FRBM limit) has been utilized for adjusting revenue deficit. It is evident from Table 1 that the capital investment in Kerala was only 0.9 per cent of GSDP in 2013-14 and marginally declined to 0.8 per cent in 2014-15. In 2015-16, a small increase of 1.3 per cent based on fiscal rule based conditionalities. Even if we include the development fund transfers to local governments, (lion share of it is being invested as road and non road assets) the capital investments come only around 2 per cent of GSDP. Under this context, Government of Kerala in 2016-17 budget, revamped the then existing Kerala Infrastructure Investment Fund Board (KIIFB) and started mobilizing funds for investment.

KIIFB came into existence on 11.11.1999 under the Kerala Infrastructure Investment Fund Act 1999 to manage the Kerala Infrastructure Investment Fund. KIIFB has been functioning as the key Special Purpose Vehicle (SPV) for mobilising and channeling the funds to the various infrastructure SPVs outside the Budget of Government of Kerala. The other operations of the KIIFB are mobilising funds through KSFE, NRI Chitty, KIIFB -Masala Bond Issuance, availing Term Loans from various banks worth Rs.3000 crore and setting up of

Table 1.Capital expenditure in Kerala (Rs. crore)

Year	Capital Outlay(1)	GSDP(2)	Capital Outlay as a percent of GSDP(3)	Development exp to local govern-ments(4)	Col 1 plus Col 4 (5)	Col 5 as a per cent of GSDP
2013-14	4294	465041	0.9	4012.2	8306.2	1.8
2014-15	4255	526002	0.8	5266.5	9521.5	1.8
2015-16	7500	561994	1.3	3060.9	10560.9	1.9
2016-17	10126	634886	1.6	4182.6	14308.6	2.3
2017-18	8749	701577	1.2	5752.2	14501.2	2.1
2018-19	7431	781653	1.0	6197.5	13628.5	1.7
2019-20 (RE)	8013	871534	0.9	6816.4	14829.8	1.7
2020-21(B.E)	12913	978064	1.3	7864.5	20777.7	2.1

Source: Budget in Brief, Government of Kerala, various issues

Infrastructure Fund Management Company.

Presently, KIIFB acts as the main arm of Government to facilitate planned, hassle-free and sustained development of both physical and social infrastructure badly needed in the state for generating employment and income opportunities in the state. Borrowing for capital investment is being done through KIIFB. Better borrow today and pay only the interest rather than paying for inflation, other cost escalation and interest by postponing investment.

Though the investments of KIIFB are from off budget borrowing, a provision has been made for transferring petroleum cess and a portion of tax revenue from motor vehicle tax to KIIFB. Accordingly, 10 per cent of the vehicle tax in the initial year (2016-17), 20 per cent in the second year, 30 per cent in the third year, 40 per cent in the fourth year and 50 per cent thereafter will be transferred. An annuity scheme is being introduced to address the repayment of loans by the state. Based on the annuity scheme the cost of the activities undertaken through KIIFB will be repaid by the Government within a period of 15 to 20 years especially for the investments of low return making assets like education, health, public works etc. The contractors are allowed to fix the rate by considering the interest and maintenance of the period concerned.

Projects initiated by KIIFB

From 2016-17, KIIFB has approved funding of projects worth Rs.42306.1 crore as on 31-03-2019 (Annual Report, KIIFB, 2018-19). The projects initiated by KIIFB are spread over almost all the sectors of Kerala economy. As of now, KIIFB initiated 2228 projects across 26 departments. Highest number of projects is being initiated in General Education Department. Public works Department, Water Resources Department, Fisheries Department, Health and Family Welfare Department are placed in second, third, fourth and fifth positions respectively (Box

Box A KIIFB projects under various Departments

SL.No.	Departments having KIIFB projects	No of Projects
1	Agricultual Department	4
2	Ayush Department	1
3	Backward class development Department	1
4	Coastal Shipping and Navigation Department	9
5	Cultural Affairs Department	24
6	Dewasom Department	26
7	Fisheries Department	167
8	Forest and Wild Life Department	6
9	General Education Department	**644**
10	Health and Family Welfare Department	**121**
11	Higher Education Department	96
12	Home Department	6
13	Industries Department	9
14	Information Technology Department	2
15	Labour and Skill Development	13
16	Local Self Government Department	45
17	Power Department	61
18	Public Works Department	**636**
19	Registration Department	39
20	Revenue Department	2
21	Schedule Caste Development Department	10
22	Sports ad Youth Affairs Department	55
23	Tourism Department	27
24	Transport Department	4
25	Water Resource Department	**198**
26	SC Department	22
	Total	2228

Source:Computed from KIIFB website data-*www.kiifb.org*

A). These projects are spread out in all the 14 districts and in 140 constituencies of Kerala. The timely successful completion of these projects is crucial for the infrastructural development of Kerala. Any slackness in undertaking already sanctioned projects of KIIFB due to unanticipated reasons could affect adversely the infrastructural needs amidst of the financial crisis of the state.

Borrowing and deficit position in southern states

A combination of a decline in tax revenue and an increase in expenditure referred to as scissor crisis (Tarschys, 1983) is observed in all the southern states forcing them to increase their borrowings to meet both revenue and capital expenditure. We can see from table 2 that the primary deficit (borrowing to meet expenses other than the interest payments) is showing a positive growth during Q1 2020 and H1 2020 for all the southernstates but it has improved in Q2 2020 from 2019 in Karnataka, Kerala and Telangana with a negative growth in primary deficit in the respective mentioned states.

Borrowing, which is equivalent to fiscal deficit (FD) shows a positive growth during H1 for all the states with highest growth observed in Karnataka (450.6 per cent) followed by Andhra Pradesh (230.2 per cent), Telangana (76.7 per cent), Kerala (58.4 per cent) and then Tamil Nadu (55.9 per cent) during H1 2020 vis-à-vis 2019. Q1, 2020 over 2019 shows a positive growth in FD in all the southern states, however a fall in the growth of fiscal deficit is observed in Kerala (-0.2 per cent) and in Telangana (-0.8 per cent) during Q2.The half-yearly analysis shows Andhra Pradesh and Kerala are the two southern states crossing the FRBM threshold of FD as percentage of GSDP of 3 per cent with 5.7 per cent and 3.3 per cent of GSDP, respectively. With an increase in the borrowing in all the states during H1 2020, it is expected that the FD as percentage of GSDP of all southern states would be expected to rise more than 5 per cent during Q3 and Q4 as well.

Revenue deficit shows a positive growth during H1 2020 vis-à-vis 2019 in all the southern states. Q1 2020 over 2019 registered a fall in revenue deficit growth

Table 2. Borrowings and Deficits: Its Growth and share in GSDP (%)

Period	States	Growth between 2020 and 2019 (In %)			As % GSDP in 2020			As % GSDP in 2019		
		RD	FD	PD	RD	FD	PD	RD	FD	PD
Q1	Andhra Pradesh	289.7	256.4	218.2	2.8	3.4	3.0	0.8	1.1	1.1
	Karnataka	-214.7	478.0	160.3	0.4	0.5	0.2	-0.4	-0.1	-0.4
	Kerala	138.9	112.9	177.7	1.9	2.3	1.9	0.9	1.2	0.7
	Tamil Nadu	135.4	89.4	215.9	0.9	1.0	0.6	0.5	0.6	0.2
	Telangana	1405.8	179.6	239.2	1.5	1.8	1.5	0.1	0.7	0.5
Q2	Andhra Pradesh	1232.8	197.1	5114.4	1.9	2.2	1.9	0.2	0.9	0.0
	Karnataka	16.2	503.8	-58.8	-0.1	1.4	0.2	-0.2	-0.4	0.6
	Kerala	-17.8	-0.2	-7.8	0.6	1.0	0.5	0.8	1.1	0.6
	Tamil Nadu	15.5	21.4	60.6	0.3	0.6	0.3	0.3	0.6	0.2
	Telangana	-23.5	-0.8	-29.2	0.2	0.9	0.4	0.3	1.0	0.7
H1	Andhra Pradesh	446.1	230.2	440.5	4.7	5.7	4.9	1.0	1.9	1.0
	Karnataka	148.8	450.6	107.2	0.2	0.9	0.4	-0.5	0.3	0.2
	Kerala	63.8	58.4	97.6	2.6	3.3	2.3	1.7	2.3	1.3
	Tamil Nadu	84.2	55.9	141.1	1.3	1.7	0.9	0.8	1.2	0.4
	Telangana	327.1	76.7	82.6	1.7	2.7	1.9	0.4	1.7	1.2

Source: Computed from monthly indicators from C&AG and State Finances: A Study of Budget, 2020-21, RBI.

Note: RD, FD and PD refers to revenue, fiscal and primary deficits, respectively.

Borrowing showed a positive growth in all the southern states with an increase of more than 200 per cent in Karnataka (450.6%) and Andhra Pradesh (230.2%) while the others recorded less than 100 per cent growth during H1 (Telangana (76.7%), Kerala (58.4%) and Tamil Nadu (55.9%).

only in Karnataka with rest of the states showing a positive growth. The performance of Kerala and Telangana is observed to have improved during Q2, 2020 from 2019 in terms of revenue deficit growth with a fall in revenue deficit growth of -17.8 and -23.5 per cents, respectively.

It is important to note that the Aatma Nirbhar Package announced in May 2020 stated an increase in borrowing limit from 3 per cent to 5 per cent of GSDP for 2020-21 (RBI, 2020). Although the borrowing limits are increased, it is still expensive for the states to borrow with interest rate differentials for states and central government. The weighted average yield are 6.85 per cent and 5.87 per cent during 2019-20 and 2020-21 (up to Sept 2020), respectively for Centre and the weighted average yield for state development loans issued during 2019-20 and 2020-21(up to Sept 2020) are 7.24 per cent and 6.43 per cent, respectively. Even though the relative price of weighted average yield is high for the States, the states had to rely on higher borrowings to meet the expenditures in recent times due to dampening down of revenues.

The fall in revenue receipts in the states need to be cushioned from central government by sufficient grant-in-aid and higher share in central taxes for the states to overcome the fiscal stress faced due to the pandemic. Here it is pertinent to state that the states are having great expectations on the Fifteenth Finance Commission transference of tax and grants in aid including revenue deficit grant particularly during COVID-19 pandemic period.

■

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Appendix

Table A1: State finances of southern states: Growth rate in 2020 from 2019 during Q1, Q2 and H1

	Q1					Q2					H1				
	Andhra Prades	Karna taka	Kerala	Tamil Nadu	Telan gana	Andhra Prades	Karna taka	Kerala	Tamil Nadu	Telan gana	Andhra Prades	Karna taka	Kerala	Tamil Nadu	Telan gana
1. Revenue Receipts	34.8	-23.9	-30.0	-23.2	-22.6	-35.4	-21.1	-7.5	-15.4	-8.2	-14.6	-22.5	-17.9	-19.0	-14.4
a.Own Tax Revenue	-20.1	-40.1	-55.8	-51.2	-38.0	-29.4	-6.6	-7.4	-4.3	12.1	-26.2	-23.4	-31.5	-26.7	-13.1
b. Own non-Tax Revenue	-29.1	-26.4	-74.7	-42.9	-23.1	12.3	-13.1	-76.2	-31.6	-36.9	-9.4	-19.0	-75.6	-37.6	-30.0
c. State's share of Union Taxes	5129.8	-27.8	-27.6	-25.6	22.6	-74.7	-46.2	-45.9	-19.4	-51.2	-36.7	-38.4	-38.1	-22.4	-30.3
d. Grants-in-aid	111.7	36.5	210.5	160.8	820.5	4.1	-51.5	117.5	-42.6	-37.7	48.2	-9.7	154.2	22.9	3.0
2. Capital Receipts	255.8	466.0	112.1	87.0	179.1	196.5	149.0	-3.7	-16.5	-0.7	229.7	246.6	55.2	26.5	76.6
a. Recovery of Loans &Adv.	-61.0	-84.1	-12.3	-43.3	-24.9	-23.2	-59.0	-82.9	-95.8	25.5	-42.0	-73.8	-74.5	-93.7	-0.1
b.Borrowings	256.4	478.0	112.9	89.4	179.6	197.1	150.6	-0.2	21.4	-0.8	230.2	250.6	58.4	55.9	76.7
3. Total Receipts	117.5	-7.3	17.1	0.3	27.8	3.2	-9.4	-6.4	-15.7	-6.3	44.4	-8.4	4.8	-8.5	8.3
4. Revenue Expenditure	113.2	6.0	15.9	2.4	45.0	10.3	-21.4	-9.8	-12.1	-9.8	48.4	-8.7	2.5	-5.2	12.9
a. Interest payment	2673.9	19.9	4.9	16.0	63.2	-55.8	12.8	7.8	0.1	65.2	-5.4	16.4	6.5	8.1	64.2
b. Salaries	12.5	—	-22.3	—	-21.7	14.3	—	-23.1	—	-5.1	13.4	—	-22.7	—	-12.8
c. Pension	111.1	-0.8	-17.8	-7.2	166.3	-71.5	-2.8	-2.5	-16.9	-84.3	-31.8	-1.8	-10.1	-11.7	-53.2
d. Subsidy	35.9	—	66.7	—	49.5	-23.5	—	478.1	—	51.5	-14.4	—	217.4	—	50.4
5. Capital Expenditure	160.4	-57.3	21.8	-36.8	-31.8	174.2	17.4	22.3	-11.0	9.6	165.2	-7.7	22.1	-19.3	-11.2
6. Sector wise Expenditure	117.7	-1.0	12.7	1.7	33.2	15.4	-1.0	-7.6	-12.9	-7.6	55.0	—	2.2	-6.5	9.8
a.General Sector	193.7	2.4	-15.2	0.8	27.9	-47.9	4.4	-15.9	-6.9	-28.8	2.7	3.4	-15.6	-2.8	-8.9
b.Social Sector	83.3	25.2	52.7	7.2	33.4	73.6	-27.7	-20.8	2.7	-1.7	78.1	-4.1	11.6	4.9	12.3
c.Economic Sector	148.2	-33.6	31.2	-5.6	36.1	26.9	-10.1	49.1	-37.8	8.9	88.1	-20.1	40.4	-25.8	23.0
7. Grants-in-aid-Contributions	602.9	24.0	113.0	-43.8	—	4800.0	-48.9	-5.1	16.9	—	722.9	-29.9	39.6	-3.5	—
8. Total Expenditure	117.7	-0.5	16.3	0.0	33.2	15.4	-15.1	-7.5	-12.0	-7.6	55.0	-8.5	3.9	-6.5	9.8
9. Revenue Deficit	289.7	-214.7	138.9	135.4	1405.8	1232.8	-16.2	-17.8	15.5	-23.5	446.1	-148.8	63.8	84.2	327.1
10. Fiscal Deficit	256.4	478.0	112.9	89.4	179.6	197.1	-233.4	-0.2	21.4	-0.8	230.2	-450.6	58.4	55.9	76.7
11. Primary Deficit	218.2	-160.3	177.7	215.9	239.2	-5114.4	-58.8	-7.8	60.6	-29.2	440.5	107.2	97.6	141.1	82.6

Source : Computed from monthly indicators, C&AG

Tax monitor

Has tax followed GDP? Kerala among southern states

N. Ramalingam and Santosh Kumar Dash

The pandemic and the subsequent prolonged lockdown of the economy affected the state finances badly. State finances felt the pressure of 'scissor effects'- expenditures surging and revenues collapsing. While states saw a decline in revenue receipts of 21 per cent in the April - June period of 2020-21, revenue expenditure witnessed a growth of 11.7 per cent during the same period (RBI, 2020).

Tax revenue collection in the first half of 2020-21 is lagging behind GDP recovery

As we move towards the second quarter of the current fiscal, GDP showed signs of revival with a marked decline in the negative growth (7.5%). V-shaped recovery is the focal point at present. To the extent that the tax collection is contingent on the GDP, this article explores the response of tax collection to GDP growth in Kerala during the first half of the current fiscal in comparison with other southern states.[1]

Such an inquiry assumes importance because the southern states, on average, witnessed the tax revenue fall of about 25 per cent in the first half of 2020-21. During the same period, Kerala being the worst hit among them had contributed 33 per cent lesser revenue to its exchequer.

The Comptroller & Auditor General of India (C&AG) figures during the April - September 2019 period show that revenue from taxes constitutes around 80 per cent of the total revenue receipts of the southern states with an exceptionally higher share for Telangana (85%). The remaining share come from non-tax revenue, and grant-in-aid and contributions.

At the national level, while tax revenue collection in the first half of 2020-21 declined by 25 per cent, GDP growth fell by 15.7 per cent. While this suggests that recovery of tax revenue collection is still lagging behind GDP growth, analysis of quarterly data indicates that tax revenue collection is on the recovery path. During the first quarter, tax revenue registered a negative growth of 42.2 per cent, which is almost double the rate of contraction of GDP (23.9%). Furthermore, it is found that all tax components had declined by two-fold compared to the fall in GDP growth. In Q2:2020-21 the four southern states lost tax revenue by 9 per cent which is

The fall in tax revenue has reduced from -42.2 per cent in Q1:2020-21 to -9 per cent in Q2:2020-21

almost at par with the GDP growth of -7.5 per cent. In the first quarter, as the worst among the four states, Kerala lost more than half (54.7%) of its tax revenue compared to the same period in the last year. But in the second quarter, Kerala's tax revenue collection fell by 14.8 per cent. Though still worst among other states, Kerala has been able to reduce its loss in tax revenue.

Next, we analyze revenue collections of various tax revenue components for the four southern states during April - September 2020 (H1:2020-21).

Goods and services tax: As per the C&AG's data, this component consists of States' receipt of State Goods and Services Tax (SGST) and Integrated Goods and Services Tax (IGST). The Finance Commission's share of net proceeds assigned to states on Central GST and Central IGST is also included under this head. GST contributes to approximately 35 per cent of tax revenue of southern states (Kerala: 38.6%) in H1:2020-21. The revenue from GST showed a decline of 26 per cent during the six months period for the southern states, compared to the loss of GDP revenue by 15.7 per cent. Among the four states, Kerala suffered the worst revenue loss to the tune of 33.1 per cent compared to the previous year's collection during the same period (Table 3). Similarly, the inter-quarter comparison of GST collection tells that, on average, the four states have recovered their loss from -44.3 per cent in Q1:2020-21 to -9.0 per cent in Q2:2020-21, suggesting recovery in GST collection is in sync with GDP growth recovery. Although Kerala suffered the worst among the four southern states in both quarters, it has managed to reduce its GST revenue collection the most among them: from -54.7 in Q1:2020-21 to -14.8 per cent in Q2:2020-21. The recovery captures the increase in economic activity after the gradual opening up of the economy.

Taxes on sales trade etc.: This is the second most contributor to tax revenue of states, the average being 25.4 per cent in H1:2020-21 (Kerala: 28.3%). This head consists of receipt under Central Sales Tax Act, Kerala General Sales Tax Act (Petrol, Diesel, ATF, Crude oil, Natural Gas, liquor for human consumption) and Kerala state Value Added Tax. Kerala's share on total taxes with regard to Taxes on Sales, Trade etc. is 28 per cent in H1:2020-21. The average loss from Sales Tax for all four states is 22.3 per cent during H1:2020-21 compared to H1:2019-20. Among them, Kerala stands first in terms of its suffering (-32.5%). The trend of quarterly collection reveals that while the southern states suffered a loss of revenue by 48.9 per cent in Q1:2020-21, they have recorded a positive growth of 1.5 per cent in Q2:2020-21. However, when compared to the first quarter loss, Kerala recovered from -61.3 per cent in Q1:2020-21 to -8.1 per cent in Q2:2020-21. Telangana which suffered a decline of 46.6 per cent in Q1 has bounced back to register positive growth (17.6%) in Q2.

State's share of union taxes: Nearly about 15 per cent of tax revenue comes from the state's share of union taxes (Kerala: 15.9%) in H1:2020-21. This component consists of the state's share of union taxes and duties such as corporation tax, taxes on income other than corporation tax, wealth tax, customs duty, union excise duty, and service tax (but does not include the state's share of GST which is included in the GST revenue). The growth rate shows that Kerala and Karnataka are the maximum losers (approximately 38%) on availing the states' share of union taxes during the first half-yearly period of 2020-21. This loss for Kerala and Karnataka is more evidently revealed while comparing the Q2 figures with Q1 figures. The loss from the share of union taxes for Kerala increased to -45.9 per cent in Q2 from -27.6 per cent in Q1 and because of this, Kerala 'bore the brunt' during the pandemic period. The average loss for the four states hovers around 32 per cent in H1:2020-21, 14.6 per cent in Q1:2020-21, and 40.6 per cent in Q2:2020-21.

State excise duties: Duty from country spirits, and foreign liquors and spirits are the major sub-components under state excise. State excise contributes around 12.8 per cent to the total tax revenue of southern states in H1:2020-21. Although its share in total tax revenue of Kerala is small (4.6%), during the six months pandemic period, Kerala suffered a heavy loss among the four states (13.1%). The state excise collection of southern states on average has contracted by 25.6 per cent in 2020-21Q1. However, contributed mainly by Telangana, it registered a positive growth of 28.6 per cent in Q2:2020-21. For Kerala, the quarter-to-quarter growth rate reveals that for Kerala revenue from state excise has grown to 8.5 per cent in the second quarter from the huge slump of -34.2 per cent in the first quarter of 2020-21, indicating a sign of economic recovery.

Stamps and registration fees: Revenue from stamps (both judicial and non-judicial) and registration fees are the major elements under this head. Stamps and Registration Fees (SRF) contributes to 6.4 per cent of tax revenue in H1:2020-21 (Kerala: 5.5%). The collection of SRF witnessed a downfall of 32.8 per cent during H1:2020-21 for Kerala, though the average of four southern states stood at a higher loss of 36.7 per cent. While the SRF collection of southern states contracted by 58 per cent in the first quarter, it moderated to 15 per cent in the second quarter, showing a stronger recovery. This perhaps reflects that real estate sector has started recovering from the onslaught of the pandemic. For the state of Kerala, the trend of revenue loss from the first quarter to second quarter reveals a strong recovery. Among the four states, Telangana suffered the most in both quarters.

Other taxes and duties: It includes taxes on agricultural income, taxes on immovable property other than agricultural income tax, taxes on vehicles, taxes on goods and passengers, and taxes and duties on electricity. Tax on vehicles is one of the major components of other taxes and duties. The share of this tax in

Table 1: Tax revenue - April to June (Quarter 1)

No.	Components	2019-20Q1 (Rs. in crores)					2020-21Q1 (Rs. in crores)					Growth Rate (%)					
		AP*	KA	KL	TN	TS	AP*	KA	KL	TN	TS	AP*	KA	KL	TN	TS	Avg**
1	Tax Revenue	11102	31732	15542	31062	17691	12531	19540	7533	16693	11893	12.9	-38.4	-51.5	-46.3	-32.8	-42.2
2	Goods and Service Tax	2413	12663	6597	9051	6326	4382	7625	2990	4959	3957	81.6	-39.8	-54.7	-45.2	-37.5	-44.3
3	Stamps and Registration Fees	1301	2688	840	2615	1814	534	1178	418	1005	655	-59.0	-56.2	-50.2	-61.6	-63.9	-58.0
4	Land Revenue	7	34	79	16	1	13	22	102	19	0	76.1	-34.8	28.3	22.9	-76.0	-14.9
5	Taxes on Sales Trade etc	5151	4236	4131	9649	4438	2603	2675	1600	4737	2371	-49.5	-36.9	-61.3	-50.9	-46.6	-48.9
6	State Excise Duties	1365	5760	569	1669	2453	1043	3831	374	1035	2531	-23.6	-33.5	-34.2	-38.0	3.2	-25.6
7	State's Share of Union Taxes	-72	4423	2350	5979	1525	3602	3194	1702	4446	1869	-5129.8	-27.8	-27.6	-25.6	22.6	-14.6
8	Other Taxes and Duties	936	1928	975	2082	1135	355	1014	346	492	510	-62.1	-47.4	-64.5	-76.4	-55.0	-60.8

Notes: * Data for the Andhra Pradesh is not taken for analysis; ** Average for four states; AP: Andhra Pradesh, KA: Karnataka, KL: Kerala, TN: Tamil Nadu, TS: Telangana,
Source: Author's computation from *Monthly Key Indicators*, C&AG.

Table 2: Tax revenue - July to September (Quarter 2)

No.	Components	2019-20Q2 (Rs. in crores)					2020-21Q2 (Rs. in crores)					Growth Rate (%)					
		AP*	KA	KL	TN	TS	AP*	KA	KL	TN	TS	AP*	KA	KL	TN	TS	Avg**
1	Tax Revenue	30802	33165	16404	33886	19904	17405	28614	13973	31453	19865	-43.5	-13.7	-14.8	-7.2	-0.2	-9.0
2	Goods and Service Tax	11603	12455	5805	10109	6499	5035	11511	5304	8741	6481	-56.6	-7.6	-8.6	-13.5	-0.3	-7.5
3	Stamps and Registration Fees	1434	2794	913	2778	1355	1353	2504	761	2582	1002	-5.7	-10.4	-16.7	-7.1	-26.1	-15.1
4	Land Revenue	8	62	77	40	0	93	40	110	44	0	1119.2	-34.9	42.9	10.4	-16.7	0.4
5	Taxes on Sales Trade etc	5948	4059	4876	11361	4911	4035	3819	4482	11630	5778	-32.2	-5.9	-8.1	2.4	17.6	1.5
6	State Excise Duties	1450	5121	557	1781	2221	3648	5934	604	2155	3755	151.6	15.9	8.5	21.0	69.1	28.6
7	State's Share of Union Taxes	9580	5986	3171	6541	3858	2421	3221	1717	5274	1884	-74.7	-46.2	-45.9	-19.4	-51.2	-40.6
8	Other Taxes and Duties	780	2688	1005	1276	1059	820	1584	994	1027	966	5.1	-41.1	-1.0	-19.5	-8.9	-17.6

Notes: Same as Table 1
Source: Same as Table 1

Table 3: Tax revenue - - April to September (Half Yearly 1)

No.	Components	2019-20H1 (Rs. in crores)					2020-21H1 (Rs. in crores)					Growth Rate (%)					
		AP*	KA	KL	TN	TS	AP*	KA	KL	TN	TS	AP*	KA	KL	TN	TS	Avg**
1	Tax Revenue	41904	64898	31946	64948	37594	29936	48153	21506	48147	31759	-28.6	-25.8	-32.7	-25.9	-15.5	-25.0
2	Goods and Service Tax	14016	25118	12401	19159.36	12825	9417	19137	8294	13700	10438	-32.8	-23.8	-33.1	-28.5	-18.6	-26.0
3	Stamps and Registration Fees	2735	5482	1754	5393	3169	1887	3681	1179	3587	1657	-31.0	-32.8	-32.7	-33.5	-47.7	-36.7
4	Land Revenue	15	96	157	56	1	105	62	212	64	0	609.2	-34.9	35.5	14.0	-64.5	-12.5
5	Taxes on Sales Trade etc	11099	8295	9007	21010	9349	6638	6493	6082	16367	8148	-40.2	-21.7	-32.5	-22.1	-12.8	-22.3
6	State Excise Duties	2815	10881	1126	3451	4674	4692	9766	979	3190	6286	66.7	-10.2	-13.1	-7.6	34.5	0.9
7	State's Share of Union Taxes	9508	10409	5522	12520	5383	6023	6415	3419	9720	3753	-36.7	-38.4	-38.1	-22.4	-30.3	-32.3
8	Other Taxes and Duties	1716	4616	1980	3358	2194	1174	2599	1341	1519	1476	-31.6	-43.7	-32.3	-54.8	-32.7	-40.9

Notes: Same as Table 1
Source: Same as Table 1

total tax revenue collection stands at 4.9 per cent in H1:2020-21 (Kerala: 6.2%). Tax collection under this head suggests that the southern states suffered a loss of 40.9 per cent in the first half of 2020-21, reducing from -60.8 per cent in Q1 to -17.6 per cent in Q2. It is observed that the worst-hit state is Tamil Nadu. Kerala's loss during H1:2020-21 is -32.3 per cent. From -64.5 per cent decline of taxes during Q1, Kerala recorded only -1.0 per cent fall during Q2, suggesting good recovery of tax collection of Other Taxes and Duties.

Land revenue: Revenue from land consists of land tax and taxes on plantations etc. Though the share of total tax revenue is meager (0.3%), Kerala's collection from this head is highest among the four states (1%). Though the six months period in 2020-21 showed an average loss of 12.5 per cent, Kerala made an unusual revenue jump of 35.5 per cent even in the turbulent period. The quarterly data also reveals the same picture as the revenue in the second quarter increased to 42.9 per cent in Q2:2020-21 from 28.3 per cent in Q1:2020-21. Similar revenue gain is also reflected for Tamil Nadu. Like Stamp and Registration Fees, Telangana also suffered worst in its revenue collection from land.

The first quarter of the current fiscal year of India witnessed an unprecedented economic recession which was followed by a better-than-expected economic recovery in the second quarter. This raises the eyebrows of the sub-national policymakers to expect for a better third quarter and subsequently a positive growth during 2021-22.

The analysis of seven components of tax revenue collections of four southern states depicts that Kerala recovered in the second-quarter (July - September 2020) on other taxes and duties, taxes on sales trade, Goods and Services Tax and State Excise. Though Kerala has significantly recovered in Q2:2020-21, the half-year period figures call for improving tax governance in areas of Goods and service taxes, Stamp duty and registration, Excise duty, and Taxes on sales, trade for the better performance in the second-half of the current fiscal and positive growth during 2021-22.

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[1] The data in this study are taken from *Monthly Key Indicators* of C&AG website -www.cag.gov.in/en/state-accounts-report. The monthly data for the period from April to September 2019 and 2020 of southern states are taken. We have not considered the state of Andhra Pradesh since the data show aberrated values for almost all the components of tax revenue. Hence for the purpose of analysis only four southern states are taken, namely, Karnataka, Kerala, Tamil Nadu, and Telangana.

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Price monitor

Taming the prices during the pandemic

Kiran Kumar Kakarlapudi and Renjith P S

While the price does matter for all, rising price or inflation hits the poor hardest. In simple terms, the price of a commodity is determined by its demand and supply, and a market is said to be in equilibrium when the quantity demanded matches the quantity supplied. Evidently, the COVID-19 induced lockdowns impacted both supply and demand. The lockdown disrupted production and impacted the supply of goods and services on the one hand and loss of jobs and closure of businesses impacted demand on the other. Left to the market, under such supply and demand shocks the prices could be highly volatile and negatively affect the consumers. In situations such as this, state interventions could help regulate the prices to a large extent. How has Kerala fared with respect to managing the inflationary pressures? This study analyses the price trends of Kerala before the COVID-19 and during the months of the pandemic in comparison with the national average and other southern states. To present the emerging patterns in Kerala at the aggregate level, the Consumer Price Index (CPI) data published by the Ministry of Statistics and Program Implementation (MOSPI) from June 2020 to October 2020 has been used. At the disaggregate level, price bulletin data provided by the Department of Economics and Statistics, Government of Kerala has been used.

During pre-COVID, Kerala maintained higher consumer prices as compared to the national average as well as the southern states.

Kerala in comparative perspective

Kerala has been showing higher prices than the national average as well as all the southern states particularly from 2017-18 through 2019-20. In 2017-18, prices were nearly 40 percent higher in Kerala (6.0%) as compared to the national average (3.6%). Though the difference narrowed over the next two years, Kerala maintained high prices in 2019-20 (see Table 1).

A disaggregate analysis of prices across rural and urban areas revealed that prices in rural Kerala were higher than urban Kerala while for all India and other

Table 1. Trends in consumer prices (%)

Year	Kerala	Andhra Pradesh	Karnataka	Tamil Nadu	Telangana	All India
			Total			
2017-18	6.01	3.40	3.01	4.94	3.86	3.59
2018-19	4.94	1.08	3.32	3.67	2.59	3.41
2019-20	6.14	3.54	5.57	5.72	4.53	4.77
			Rural			
2017-18	6.75	3.95	3.16	5.44	4.57	3.60
2018-19	5.01	0.04	2.63	4.05	2.56	2.99
2019-20	6.55	2.20	5.03	5.31	2.31	4.25
			Urban			
2017-18	4.67	2.40	2.86	4.55	3.27	3.58
2018-19	4.76	3.00	3.91	3.44	2.60	3.92
2019-20	5.38	5.93	6.03	5.99	6.42	5.38

Source: Author's calculation using MOSPI data.

During the pandemic, Kerala has been able to keep the prices lower, unlike the southern states. More specifically, rural prices were lower than urban prices in Kerala.

southern states the trend was just the opposite. In 2019-20, the inflation in rural Kerala was 6.6 percent and that of urban Kerala was 5.4 percent. On the contrary inflation in rural India was 4.3 percent as compared to 5.6 percent in urban India (see Table 1).

The pre-COVID-19 patterns in prices seem to have reversed in Kerala during the pandemic. Though there is an increasing trend in prices from June to October both in Kerala and all India, prices in Kerala have been lower than the national average for all the months (see Table 2). There has been an almost one percentage point difference between Kerala and all India prices. In fact, prices in Kerala have been lower than in all the southern states except Karnataka (see Table 2). Further, as opposed to the pre-COVID trend, prices in rural Kerala were lower than urban Kerala from July to October while for all other southern states prices in rural areas were found to be higher than urban areas (see Table 2). The price difference between rural Kerala and urban Kerala has been over one percent during July, August, and September, although the difference reduced in October 2020.

Behind the turnaround

Further, the sources of trend reversal observed at the aggregate level are analyzed through the patterns of price changes across broad commodity groups. Following the general trend, the CPI index shows an increase in the prices of food and beverages over the three months. However, the change in CPI index for food and beverages is lowest in Kerala (6.1%) among other south Indian states from August to October (see Figure 1). Moreover, this increase is lower in rural areas than urban areas only in Kerala while other south Indian states show a faster increase in food prices in rural areas than urban areas. Kerala's low rise in food and beverage prices during the months of the pandemic could be attributed to the state's intervention in ensuring the supply of essentials for all the households, particularly for BPL cardholders. An estimated 87 lakh families in Kerala have been the beneficiaries of food supply kits. Although the other states have provided food supplies, it was restricted to the months of lockdown only. Among the other major commodity groups, clothing and footwear have shown the lowest changes in prices presumably because of the reduced demand for non-essential consumer durables like clothes and footwear. However, it is important to note that the price change in the

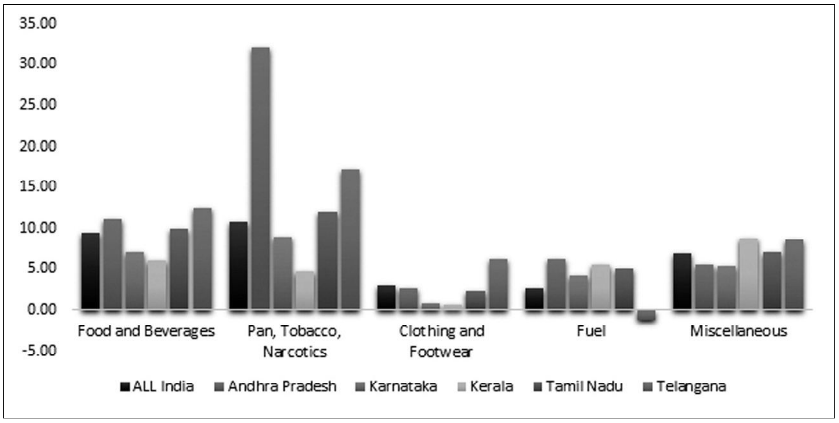
The lower prices in Kerala during the pandemic were driven by essential commodities like food and beverages

Table 2. Consumer prices in Kerala and the other south Indian states from June to October 2020 (in %)

Year	Kerala	Andhra Pradesh	Karnataka	Tamil Nadu	Telangana	All India
			Total			
Jun	5.17	7.99	5.50	6.64	7.80	6.23
Jul	5.82	7.42	5.34	7.14	7.96	6.73
Aug	6.52	7.78	4.99	7.06	8.38	6.69
Sep	6.21	8.93	5.43	7.71	9.54	7.27
Oct	6.51	10.03	6.05	8.04	10.37	7.61
			Rural			
Jun	5.32	8.43	5.89	7.15	8.24	5.17
Jul	5.37	7.78	5.85	7.04	7.98	5.82
Aug	6.20	8.32	5.59	6.50	9.21	6.52
Sep	5.89	9.55	5.96	7.20	10.80	6.21
Oct	6.45	10.50	6.51	7.74	11.98	6.51
			Urban			
Jun	5.00	7.20	5.12	6.32	7.37	6.12
Jul	6.66	6.70	4.83	7.30	7.88	6.70
Aug	7.17	6.81	4.48	7.48	7.71	6.80
Sep	6.92	7.95	4.99	8.08	8.43	7.26
Oct	6.76	9.18	5.68	8.26	9.05	7.40

Source: Author's calculation using MOSPI data.

Figure 1: Consumer prices according to broad commodity groups, August 2020 to October 2020 (average in %)



Source: Author's calculation using MOSPI data.

Higher prices of eggs and vegetables highlight the need for more concerted efforts towards increasing the domestic supply

miscellaneous category is the highest in Kerala among all other south Indian states as well as national averages.

Commodity matters

The analysis thus far reveals the success of Kerala in curtailing the inflationary pressures during the pandemic, especially in essential commodities. This is on account of lower prices in some items as compared to the national averages. Interestingly, a mixed trend has been observed in the retail prices of the major commodities when compared with that of the last months. The monthly average prices of rice and sugar registered a negative growth rate from July to October 2020. The emerging trends suggest prices of four commodities namely vegetables, pulses, eggs, and oil are of concern for the consumers.

At the disaggregate level, the state average retail prices of rice varieties (Red Matta, Red Chamba, and Andhra Vella) remain almost unchanged during the period. While the state intervention could check prices in the case of cereals, there is limited scope for controlling the prices of pulses as India has been a net importer of pulses. Among the other food items, a notable price variation was seen in the case of eggs and oil during the period. In the case of vegetables, the average retail price shows a mixed trend. Some of the locally produced vegetables like banana green, tomato, lady's finger, and ash guard, registers a negative trend during the period (see Table 3) as the state incentivized producing them during the pandemic. However, other commodities like onion (big and small), cabbage, bitter

Table 3: Significant changes in consumer prices in Kerala from July 2020 to October 2020

Commodity	Unit	Percentage variation previous month			Percentage variation previous year
		Aug-20	Sep-20	Oct-20	Oct-19
Black gram split with husk	Kg	1.64	-0.37	6.77	25.97
Dal (Tur)	Kg	1.54	2.62	13.46	18.18
Egg (Hens) White lagoon	Dozen	10.25	8.25	9.55	23.15
Refined oil	Ltr.	-0.25	2.51	7.98	22.13
Onion small	Kg.	2.13	20.06	37.47	42.46
Colocasia	Kg.	4.10	-4.40	-11.34	-13.03
Onion big	Kg.	13.20	64.78	80.59	33.8
Brinjal	Kg.	5.24	3.46	6.52	1.37
Lady's finger	Kg.	30.70	19.79	-19.49	6.53
Cabbage	Kg.	10.63	11.63	41.19	51.05
Bitter gourd	Kg.	6.15	6.99	20.45	24.73
Tomato	Kg.	-12.64	33.45	-21.92	-5.02
Banana green	Kg.	22.65	18.42	-25.03	-23.71

Source : Author's calculation using Kerala Price Bulletin

guard, brinjal, and snake guard showed a positive trend. While some of these commodities are beyond the control of the state, others have the scope for increasing production domestically. Though the government has initiated floor prices for 16 agricultural commodities effective from 1st November 2020 (The Hindu, 2020) to incentivize local vegetable production to meet the growing demand, more efforts are required to combat the growing demand for these commodities.

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GULATI INSTITUTE OF FINANCE AND TAXATION

Labour and employment

The story of social spending - A Revisit to the Kerala model of development - Part 1

A V Jose

In the preceding three issues of Kerala Economy, this column argued that Kerala has a comparatively better track-record in transforming its economy from a rural and primary base towards secondary and tertiary sectors. During transformation, the state made impressive gains in human development compared to other Indian states. Such advances are, by far, the outcome of raising social consumption through a plethora of public spending policies. How did we arrive at this point of increased emphasis on social spending? This note aims to trace the origin of an established culture of redistributive transfers in Kerala. It focuses on the development path that evolved in Kerala from early 20th century onwards, which necessitated a broad-based public spending programme. Towards developing the narrative outlined in this note, the author has borrowed ideas from several scholars of the Centre for Development Studies, Thiruvananthapuram.

An overview of the past decades

This discussion takes us to the antecedents of a distinct development pattern that unfolded in Kerala early on. A pioneering study at the Centre for Development Studies served as a platform to sound out innovative ideas on the nature of public policy interventions required for better quality lives in developing societies (UN/CDS, 1975). The study argued that human development is not necessarily the outcome of high income or faster growth rate, but policy interventions with a redistributive thrust. However, there were some thresholds to cross before public policy measure could become effective. There were notable developments within that took the state close to the point.

Foremost among them was the ascent of a larger geopolitical entity - the princely state of Travancore (Thiruvithamcore) - embracing the southern half of Kerala, which happened early in the 18th century. Many sequential developments followed,

The beneficiaries of land reforms, embarked on availing themselves of more facilities for education and healthcare under the auspices of their caste and community organizations.

The increase of area under plantation crops (tea, coffee, rubber and cardamom) was enormous from 159,000 hectares in 1951 to 704,000 hectares by 2012. Rubber recorded the highest increase as its area grew seven-fold to 0.54 million hectares during the same period.

most notably the early arrival of tenancy reforms. The rising monarchic power of Travancore cut the root of rival chieftains by confiscating their landholdings. The monarchy minimized eviction of peasants and reduced their rental obligations. T C Varghese (1970) has narrated the story in a seminal work.

What followed was the breakup of a completely feudal and hierarchical society leading to the ascent of a broad-based class of peasant proprietors. Similar reforms came in the adjoining Kochi and Malabar regions in Kerala though with a time-lag (UN/CDS, 1975, Chapter V). Relieved of the burden of the insecure tenancy and predatory rents, the peasant proprietors started investing their surplus in expanding the arable land frontiers for commercial farming and their own well-being (Varghese, 1970; George and Tharakan, 1985; Tharakan, 1998). Eventually, they converted the economic space conferred on them to a political space and demanded more reforms for change.

The beneficiaries of land reforms, initially from southern Kerala, embarked on availing themselves of more facilities for education and healthcare under the auspices of their caste and community organizations (Tharakan 1984). From the mid-19th century onwards came the rise of powerful social reform movements, demanding an overhaul of many customary rules of Kerala society, so deeply divided along the lines of caste, community, occupation and property relations. The reform movements, led by charismatic leaders, campaigned for a normative approach to equal opportunity for all and gave voice to the traditionally underprivileged social groups. These movements were the fore-runners of left-leaning political parties, which pervaded Kerala from the early 20th century onwards (Isaac and Tharakan,1986).

As the result of improved access to medical care and education, some distinct changes started appearing in the demography of southern Kerala from early 20th century onwards. The UN/CDS study (1975, Ch. X) points out that in 1921, the death and infant mortality rates were far lower in Travancore compared to Malabar and other states of British India. Concomitantly, the life expectancy at birth was significantly higher in Travancore. Later, the ratios changed faster in Kerala, including the Malabar region. These developments had a cumulative impact on population density, migration of people and a shift of capital to the less densely populated areas of Kerala in the high ranges and the northern districts (Tharakan,1984a). Such demographic gains were the pre-cursors of advancements in human development and the quality of life in the state.

The presence of a large workforce in several labour-intensive industries made it possible for trade unions to give voice and representation and defend the economic interests of workers.

Commercial crops and processing industries

An unprecedented extension of arable land for commercial farming was in evidence from the early 20th century onwards. Quantitative estimates of the progress in different regions of Kerala that came in the wake of land reforms are discussed in Baak (1997), Varghese (1970), CDS/UN (1975), and Sivanandan et al. (1985). An era of structural transformation in the economy, relying extensively on the use of natural resources and mindless exploitation of such resources continued right unto the mid-1970s. The increase of area under plantations was enormous between 1950 and mid-1970s as the total area under four crops - tea, coffee, rubber and cardamom - increased from 159,000 hectares in 1951 to 704,000 hectares by 2012 (Association of Planters of Kerala, 2014). Rubber recorded the highest increase as its area grew seven-fold to 0.54 million hectares during the same period (Government of Kerala, 2010).

Throughout this period, there were cycles of economic boom and depression, which impacted on the social fabric of the entire state. Commercial crops directly influenced the rise of manufacturing industries that processed the produce, notably: coir, cashew, plantation products, textiles and food products. Manufacturing, in turn, led to the ascent of an industrial proletariat, organized under trade unions affiliated to left-wing political parties.

The Travancore region with an abundance of natural facilities for coir processing has historically had some dominance in the market for coir fibre and yarn. From the 1920s, this dominance got extended to the weaving of coir mats and carpets, when numerous factories, each employing hundreds of workers came up in Alappuzha and surrounding areas (Isaac et al., 1992). Similar growth was there in other labour-intensive industries: cashew, tiles, plantations and beedi making (Lindberg 2001 p88, 2005 p28). Plantations too thrived on an unlimited supply of women workers. With crops such as tea, coffee, rubber and cardamom gaining ground in the high and midland regions of Kerala, employment opportunities opened up in large numbers (Kannan 1988, p54).

The presence of a large workforce in several labour-intensive industries made it possible for trade unions to give voice and representation and defend the economic interests of workers (Nair 2006). The unions derived synergy and support from two significant events of the mid 20th century: one, the advent of Independence and constitutional democracy; and two, the linguistic reorganization of Kerala in1956, which led to political realignments across the state.

The post-Independence years

With Independence, the economic interests of workers espoused by the unions gained greater legitimacy. These interests matured into the rights and entitlements of workers, constitutionalised at the national level. The state passed labour-friendly amendments to Industrial Disputes Act, Factories Act, Minimum Wages Act Plantations Labour Act, Payment of Wages Act and the Standing Orders Act because workers in large and small establishments would require protection for safeguarding their employment, wages and working conditions. The legislations strengthened the hands of unions, as they obtained legal immunity while pursuing the interests of workers through industrial action.

Another event of profound significance occurred with the first general election of 1957 held after the linguistic reorganisation Kerala when the Communist Party came to power and initiated significant land reforms in the state. More importantly, the state government responded to any industrial conflict with a pro-labour dispensation. The political leadership included the union leaders, who handled the labour portfolio and influenced the content of employment relations.

The remaining part of this story of social spending as it unfolded during the post-independence decades, influencing the course and content of development in Kerala will appear in the forthcoming issue of Kerala Economy. Part 2 of the story will conclude an ongoing discussion in this column, which traces the links between some distinct features of demography, employment, wages and incomes in Kerala and the progress attained through social spending.

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(Dr A V Jose is the former Director of GIFT)

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Sivanandan P, D. Narayana, and K. Narayanan Nair (1985), "Land, Hunger and Deforestation: A case Study of the Cardamom Hills in Kerala", September 1985, Working Paper No. 212, Centre for Development Studies, Thiruvananthapuram, October

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GIFT GULATI INSTITUTE OF FINANCE AND TAXATION

New studies on Kerala

Young Scholars' Forum, GIFT
led by Jerome Joseph

Scopus indexed journal articles

1. Aneja, R., & Praveen, A. (2020). International Migration Remittances and Economic Growth in Kerala: An Econometric Analysis. *Journal of Public Affairs*. Advance Online Publication. https://doi.org/10.1002/pa.2411

This study examines the trend and pattern of international migration and the resulting inflow of remittances to Kerala for the period 1998-2018 and also analyses the impact of international migration remittances on the economic growth of Kerala.

2. Bennet, L. (2020). Labour welfare measures of migrant workers in construction industry in Kerala. *International Journal of Management*, 11(10), 1238-1241. https://doi.org/10.34218/IJM.11.10.2020.11

Kerala witnesses a large inflow of migrant labour from different parts of the country. However, income and employment condition of the migrant labour in Kerala appears to be inadequate. Present study is an attempt to understand the labour welfare measures provided to the migrant workers in the construction industry in Kerala.

3. Kalathil, S.T., & Abraham, S. (2020). Regulation and Resistance: Defactorisation in the Beedi Industry of Colonial Malabar, 1937-1941. Labor History. Advance Online Publication. https://doi.org/10.1080/0023656X.2020.1844874

This article presents a case study of defactorisation of production in a traditional industry - beedi rolling - in colonial South India. It examines the implementation of the Indian Factories Act and its subsequent impact on Malabar's beedi industry during 1937-1941, focusing on the interaction between state, capital, and labour within the framework of British India's labour-legal history.

4. Joy, N.M., & Paul, S.K. (2020). Analysis of the Economic Value and Status of the Ecosystem Services Provided by the Ashtamudi Wetland Region, a Ramsar Site in Kerala. *Journal of the Indian Society of Remote Sensing*. Advance Online Publication. https://doi.org/10.1007/s12524-020-01263-9

This study has analysed the economic value and current status of 11 important Ecosystem Services provided byAshtamudi, the second largest wetland in Kerala. Even though the valuation of a few ES has been carried out in earlier studies, this particular study has incorporated more services in valuation and analysed the change in its value compared to previous years. This study also tried to analyse the status of 'wetland features' essential for the sustenance of ES, the spatial changes of the service providing habitats, and its impact on ES delivery.

5. Raman, K.R. (2020). Ecospatiality: Transforming Kerala's Post-Flood "Riskscapes". *Cambridge Journal of Regions, Economy and*

Society, 13(2), 319-341. https://doi.org/10.1093/cjres/rsaa023

The challenges in each phase of rescue, relief, and rebuilding at the time of Kerala's 2018 floods and landslides were addressed in this case study. Through the strategic use of 'ecospatiality', it is shown that the 'state-society synergy' does exist in its potentiality, although, by and large, it is ignored in already existing 'riskscape' scholarship. However, the context of this study proves to be an ideal site for illustrating the possibilities of actualising this latent potential of ecospatiality through ecospatiality planning. Such attempts can, at the same time, be of local effectiveness and global significance.

6. Watson, A.S., &Bai, R.S. (2020). Phytoremediation for urban landscaping and air pollution control-a case study in Trivandrum city, Kerala, India. Environmental Science and Pollution Research. Advance Online Publication. https://doi.org/10.1007/s11356-020-11131-1

Air pollutant concentration of Thiruvananthapuram, the capital of Kerala, exceeded the limits of National Ambient Air Quality (NAAQ) standards, according to a study conducted in 2015 by NATPAC. These polluted corridors harbour vegetation on roadsides and traffic islands, planted solely for aesthetic appeal. Analysis of air pollution tolerance levels of existing plants can act as a scientific basis for efficient planning of the urban landscape.

Health

Scopus indexed Journal articles

1. Choolayil, A.C., &Putran, L. (2020). Covid-19, The Local and the Global: Lessons from Kerala. *South Asia Research*. Advance Online Publication. https://doi.org/10.1177/0262728020966102

This article offers a cross-sectional exploration of the Covid -19 containment strategy in Kerala and highlights its initial effectiveness in the Kasaragod district, the first to record a second stage transmission in the state with a cluster of cases from 23 March 2020 onwards. The article explores the confluence of elements that allowed the initial successful recovery from a second stage transmission and then examines the factors that later led to community-level transmission. Given the close connections of Kerala to other parts of the world through migration, the article illustrates how precariously the local is now part of the global.

Other journal articles

1.Ashok kumar, K. (2020). Cost and Return Analysis of Natural Rubber Plantations in Pathanamthitta District in Kerala. MUDRA: Journal of Finance and Accounting, 7 (1), 98-110. https://doi.org/10.17492/mudra.v7i1.195415

In this study, capital budgeting techniques are used to measure the economic worth of investment in rubber plantation. Rubber, being a perennial crop requires huge cultivation and maintenance cost and therefore an attempt is made in this paper to analyse the cost of production and returns on investment in rubber plantations in Pathanamthitta district in Kerala.

2. Kannan, K. P., &Hari, K.S. (2020). Revisiting Kerala's Gulf Connection: Half a Century of Emigration, Remittances and Their Macroeconomic Impact, 1972-2020. *The Indian Journal of Labour Economics*. Advance Online Publication. https://doi.org/10.1007/s41027-020-00280-z

This paper estimates foreign remittances to Kerala for a period of 47 years. Using these data, the paper has presented a modified state income for Kerala and calculated its impact on consumption and savings. The significance of the sizeable emigration to the labour market situation has also been highlighted.

3. Peter, B., Sanghvi, S., & Narendran, V. (2020). Inclusion of Interstate Migrant Workers in Kerala and Lessons for India. *The Indian Journal of Labour Economics.* Advance Online Publication. https://doi.org/10.1007/s41027-020-00292-9

This paper examines labour migration to Kerala, key measures by the government to promote the social security of the workers and the state's response to the distress of migrant workers during lockdown, by synthesising the available secondary evidence.

4.Soloman, S. Veerakumaran, G. (2020). Problems and Constraints Faced by Farmer Producer Company in India with Special Reference to Poultry Sector of Kerala. *International Journal of Innovative Science and Research Technology*, 5(10), 845-852. https://www.ijisrt.com/problems-and-constraints-faced-by-farmer-producer-company-in-india-with-special-reference-to-poultry-sector-of-kerala

This research paper examined the problems and constraints faced by Farmer Producer Company (FPC) in India. The Venad Poultry Farmer Producer Company from Kollam district of Kerala was selected for the study. The problems faced by the company were examined from the view of Board of Directors (BoD). From the director's perspective, the problems were studied under four heads viz; administrative problems, functional problems, structural problems and human resource related problems.

5. Vineethkumar, V., Sayooj, V.V., Shimod, K.P., &Prakash, V. (2020). Estimation of pollution indices and hazard evaluation from trace elements concentration in coastal sediments of Kerala, Southwest Coast of India. *Bulletin of the National Research Centre*, 44(198). https://doi.org/10.1186/s42269-020-00455-0

An attempt is made to assess the concentration of trace elements and pollution indices in the sediment samples collected from the coastal belt of Kerala and possible conclusions were drawn.

The results of pollution indices clearly indicate the moderate level of trace elements contamination in the coastal belts of Kerala. Significant correlations were observed between the concentration of trace elements and physicochemical parameters of the sediments.

Edited volumes and chapters

1. Rajan, S.I. (Ed.). (2020). *India Migration Report 2020 : Kerala Model of Migration Surveys.* Routledge. https://doi.org/10.4324/9781003109747

India Migration Report 2020 examines how migration surveys operate to collect, analyse and bring to life socio-economic issues in social science research. With a focus on the strategies and the importance of information collected by Kerala Migration Surveys since 1998, the volume explores different aspects of migration including, the effect of male migration on women and households, consumption of remittances and their utilization, the twenty-year experience of the Kerala Migration Surveys, and also the issues of migration politics and governance.

Miscellaneous

1. Asok, A.R., Thimothy, R., Mohanan, S., Thambi, B., &Ramshad, M. (2020). I*ndebtedness among the Rural Poor in Kerala.* Centre for Socio-economic and Environmental Studies. https://www.csesindia.org/wp-content/uploads/2020/10/Indebtedness-among-the-Rural-Poor-in-Kerala.pdf

The focus of the Report is the magnitude and nature of indebtedness experienced by rural poor households in Kerala, and the role played by various sources in meeting the credit requirements of this group.

Specific themes addressed in the study include: the framework that regulates the operation of financial institutions; borrowing pattern, credit choices and coping strategies of rural poor households and the magnitude of household indebtedness; operational modalities adopted by major credit providers catering to rural poor; and recommendations to address over-indebtedness among rural poor.

2. Issac, T.M., Mohan, R. & Chakraborty, L. (2020). Fifteenth Finance Commission Award for 2020-21: Implications for the States. *Economic and Political Weekly*, 55(4). https://www.epw.in/journal/2020/45

The first report of the Fifteenth Finance Commission has allayed many fears that arose after the notification of the terms of reference of the commission. The main report for the period 2021-22 to 2025-26 will have to factor in the devastating impact of Covid -19 on the economy and provide adequate fiscal space to the states for socio-economic response and recovery.

What is new(s) from GIFT

A. Webinars

1.Crude Oil Price Crash During COVID-19 Outbreak: Re -Examining Safe Heaven Properties of Gold and Bitcoin by Dr Anoop Kumar, Assistant Professor, GIFT and Dr Geeta Dupatti , on 27-11-2020.

The recent pandemic COVID-19 crisis which started off as more of a health concern resulted in health shocks and then gradually manifested into a global economic shock. It resulted in uncertainties related to asset pricing, liquidity crisis, and commodity price fluctuations, such as oil price crashes. During a financial crisis, investors often flock towards assets commonly known as safe haven assets that do not drop in value during a period of market turbulence. In this article, we examine if Bitcoin and Gold exhibit safe haven properties against oil price fluctuations. Towards this, we employ wavelet power spectrum and wavelet coherence and a wavelet-based quantile correlation method for extracting information across different timescales. We obtain daily returns data of Bitcoin, Gold, WTI, and Brent prices ranging from 02-01-2015 to 24-04-2020 for the analysis. From the wavelet power spectrum, we find that Bitcoin is relatively less impacted by the COVID-19 triggered market meltdown. Increased multiscale correlation between Bitcoin, Gold, and Crude oil returns during the times of turbulence is confirmed using wavelet coherence. The evidence from the wavelet quantile correlation captures the nature of the correlation between the asset pairs i.e. crude oil returns, Bitcoin and Gold during the times of market turbulence. Wavelet Quantile correlation results confirm that Gold exhibits better safe haven properties compared to Bitcoin across different investment horizons during times of crisis and Bitcoin is found to be better suited as a diversifier.

2. Innovative Financing for Development- Quizzing online Dr T M Thomas Isaac Finance Minister of Kerala by Leading National Journalist

Date: 30 November, 2020
Welcome: Professor K J Joseph, Director, GIFT
Journalists
Sukumar Muraleedhar, Professor, Jindal School of Journalism and communication
T K Arun, Consulting Editor, Economic Times
K G Narendranath, Executive Editor, Financial Express
K J Jacob, Executive Editor, Deccan Chronicle
Gireesh,P Senior Editor, Mint

3. State Finances: A Study of Budgets of 2020-21

Date: 3 December, 2020
Welcome: Prof K J Joseph, Director, GIFT
Chair: Prof Pulin B Nayak, Former Director Delhi School of Economics
Speakers:
1.Dr Santhosh Kumar Dash, Assistant Professor, GIFT
2.Dr Kiran Kumar Kakarlapudi, Assistant Professor, GIFT

3.Dr Parma Chakravartti, Assistant Professor, GIFT
4.Dr Anoop Kumar, Assistant Professor, GIFT
Discussant: Professor Lekha Chakraborthy, NIPFP, New Delhi

Seminar Co ordinator: Smt Anitha Kumary L , Associate Professor, GIFT

Abstract: The Reserve Bank of India (RBI) has been publishing a report on State Finances: A Study of Budgets annually since 2002 with a major focus on state finances of India. Along with the study of state finances, the report also highlights important policy measures in the realm of public finance and macroeconomics. The report published in October 2020 was discussed by the faculty members of GIFT. The speakers presented the major highlights of the report with some critical observations. The discussion emphasized that fiscal deficit was achieved through large cuts on both revenue and capital expenditure. Though the combined fiscal deficit of states is budgeted at 2.8% of GDP, this is likely to increase significantly, as indicated by a higher fiscal deficit of 4.6% of GSP for states which presented budget after the COVID-19 outbreak. The COVID-19 pandemic has led to 21 percent reduction in revenue collections during April - June 2020. Although states budgeted reduction in the revenue expenditure, it is likely to increase than what is budgeted for 2020-21 due to COVID leading large deficits. In this context, market borrowings appear to the major source of financing gross fiscal deficit. The increase in indebtedness, coupled with persisting losses of power distribution companies (DISCOMs) and rising guarantees, slants risks to state finances to the downside in the next fiscal year. Going by the history of pandemics in India, the report pointed out the four major pandemics; 1896 plague, 1918 Spanish flu, 1957 Asian flu and 1974 small pox were all associated with deceleration in growth and fall in per capita output and also having the similar pattern of economic recovery. The recovery period for GDP growth was observed to be 3 to 4 years and for per capita output it was observed to be 2 years with an exception in 1918 flu of 4 years. The discussion highlighted that resilience to pandemics such as COVID-depends on structural characteristics such as demographic changes, digital infrastructure and existing health systems across states. The report carried out a special box item complimenting Kerala's model of containment and highlighted the role of local self-governments. Devolution of funds to the empowerment of local self-governments in Kerala paid rich dividends in effectively containing this pandemic. Going forward, it is important that states invest in better provision of public services, improving the urban infrastructure and participation of local bodies for the immediate recovery and future resilience. The report also covered a section on the impact of COVID-19 on reverse migration. It is observed by the study that major proportion of migrants moved back to their native states during April-June 2020. Demand for MGNREGA and work generated under MGNREGA across states registered a highest number during May and June, 2020 indicating how the lockdown had an impact on reverse migration. In the last part, the report discusses the impact of COVID on output, exports, remittances, overseas employment and the various issues faced by the MSMEs during the pandemic and the subsequent government response. The speakers highlighted the data as well as methodological limitations of economic activity index, based on which the report highlights signs of recovery. Thus, the economic recovery argument seems not tenable.

4. Financing Development Under Fiscal Federalism-I,

Date: 4 December, 2020 , 11:00am
Welcome: Prof K J Joseph, Director, GIFT
Chair: Prof M Govinda Rao, Former Director NIPFP and Honorary Fellow, GIFT
Speakers:

1.Professor Sushil Khanna, IIM, Kolkata
2.Professor Sebastian Morris, IIM, Ahmedabad
3.Professor Pulin B Nayak, Former Director, Delhi School of Economics
4.Professor C P Chandrasekhar , JNU
Discussant: Professor D Narayana, Former Director, GIFT
Seminar Co ordinator: Smt Anitha Kumary L , Associate Professor, GIFT

5. Financing Development Under Fiscal Federalism-II,

Date: 11 December 2020, 4:00 pm
Welcome: Prof K J Joseph, Director, GIFT
Chair: Professor Prabhat Patnaik , Emeritus Professor, JNU & Honorary Professor, GIFT
Speakers:
1.Prof Jayati Ghosh, JNU, New Delhi
2.Prof Partha Mukhopadhyay, CPR, New Delhi
3.Prof K Gayithri, ISEC, Bangalore
4.Prof A Damodaran, IIM, Bangalore
Discussant: Prof Lakhwinder Singh Gill, Punjabi University, Patiala
Seminar Co ordinator: Smt Anitha Kumary L , Associate professor, GIFT

6. Webinar Series jointly with INDIALICS (India chapter of Globelics)

INDIALICS Web lecture 5- Frugality, Informality And Resilience: Towards A 'Good Enough' Innovation system,

Date: 28 November, 2020 5:00 pm
Welcome: Prof K J Joseph, Director, GIFT
Chair person: Dr Angathevar Baskaran, Department of Development Studies, University of Malaya, Kaula Lumpur, Malaysia
Speaker: Saradindu Bhaduri, Associate Professor, JNU
Discussants: Dr Ruchi Sharma, School of Humanities and Social Sciences, IIT, Indore & Dr Sheikh Fayaz Ahmad, School of Management, Zhejiang University, China
Vote of Thanks : Professor Lakhwinder Singh Gill, Punjabi University, Patiala
Link: https://www.gift.res.in/index.php/workshop/detail/23/Indialics-Webinar-Series

B.Teaching and training programmes

1.Training on Direct Selling Guidelines

Training Programme on Direct Selling Guidelines was conducted on 25 thNovember 2020 at GIFT Campus. The participants of the training are the officers of the Commissionerate of Civil Supplies and the Department of Consumer Affairs , Government of Kerala .Prof K J Joseph, Director, GIFT delivered the inaugural address in the presence of all the Faculty members of GIFT . The training is intended to build an in-depth awareness about the Guidelines formulated by the Government of India and the Government of Kerala for compliance by all Direct Selling / Multi level Marketing (MLM) companies . Main contents of the programme was: (1) Direct Selling Guidelines,2016 (Central Guidelines) , (2) the Monitoring Mechanism (Kerala Guidelines) and (3) the verification techniques of registration documents filed by the companies through the On line portal of the Department of Consumer Affairs . The classes were imparted by Dr Thomas Joseph Thoomkuzhy who was one among the 3 members committee constituted by the Govt. of Kerala for drafting the Monitoring Mechanism of Direct Selling Guidelines and also the Subject Expert in the 9 members Monitoring Authority constituted by the Government of Kerala.

2.PGDGST program Third Batch

Admission for the third batch of the Post Graduate Diploma in Goods and Service Tax (PGDGST) is closed .120 hours training program started through onlinemode for the 325 students. 17 more students joined. Total strength of students is 342.

First 18 hours online training programme for the third batch is completed. Second set of training of 36 hours started on 30 October on online mode. Additional number of classes is arranged for the newly joined students.

Co ordinators - Dr N Ramalingam and L Anitha Kumary

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

C. New faculty in GIFT

Dr Kiran Kumar Kakarlapudi

Dr. Kiran Kumar Kakarlapudi joined as Assistant Professor at Gulati Institute of Finance and Taxation (GIFT), Thiruvananthapuram. He holds a PhD degree in Economics from Centre for Development Studies (JNU). His research broadly focuses on applied development economics with an emphasis on finance and inclusion. He also researches on issues relating to innovation both at micro and macro level, and labour market impacts of innovation and technology. Prior to joining GIFT, he has been a consultant at United Nations Economic and Social Commission for Asia and the Pacific (UN-ESCAP) South and South-West Asia (SSWA) based in New Delhi.

Dr Renjith P S

Dr. Renjith P S joined as an Assistant professor at GIFT. He holds Ph.D. in Economics from the Madras School of Economics, Chennai. His Ph D work research dealt with on 'Issues of Sub-national Debt'.His primary research focuses on Public Finance and Applied Econometrics; specifically, on expenditure and debt policies of the national and sub-national governments. Dr Renjith's work has featured on several Scopus-indexed journals including The Journal of Applied Economic Research, Journal of Asia Pacific Economy, and Public Finance and Management Margin: He has also presented his research in a number of national and international conferences and served as a resource person in various workshops and training.

Prior to joining GIFT, Dr Renjith was an Assistant Professor in Economics at Christ (Deemed to be) University), Bengaluru. He has held a research position at academic institutions such as Centre for Development Studies, Thiruvananthapuram and Madras School of Economics, Chennai.

https://www.gift.res.in/faculty/faculty_details

D. Publications

1.Kerala Tax Reporter (KTR)

October issue of KTR published Online and offline.

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

2.Innovation and Development

A Routledge journal from GIFT,Volume 10,No. 3 published, Editor in chief, K J Joseph.

For details please visithttps://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 Shency Mathew to update you on important developments in the national economy. Latest issue 12-18 December, 2020.

https://www.gift.res.in/index.php/publish/publish_list/14/Weekly-Updates-on-Indian-Economy

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 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. Dr T M Thomas Isaac, Minister of Finance and Coir, Government of Kerala, is the Chairperson of the Institute.

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