Kerala's Second Great Fiscal Crisis: Nature, Magnitude and Causes

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Introduction

Kerala State Experienced an unprecedented and acute fiscal crisis during the period 1998-2001. The white paper on 2001 on State finances gives a clear picture about nature and magnitude of the crisis. After 15 years, another white paper was published in 2016, which says that Kerala has been facing an acute fiscal crisis. This crisis may be considered as the second largest fiscal crisis in Kerala. This paper examines the nature, magnitude and causes of the crisis. In order to explain the crisis, we present the following hypothesis: "Kerala's fiscal crisis is a perennial problem having two sides, viz. a slump in mobilization of State resources such as taxes and non-taxes and uncontrolled and high increase in non-plan revenue expenditure (NPRE). The slump in resource mobilization can be attributed to lack of periodical revision of rate of taxes and non-taxes, fall in the growth rate of tax revenue, poor collection of sales tax and VAT, inflated plan outlays, accumulation of arrears, inefficient and poor collection of taxes and non-tax items, etc. The failure to curtail NPRE on items like salaries and pensions, private aided educational institutions, unnecessary establishments, excess staff, other wasteful administrative expenditure, etc. has led to high increase in NPRE."

White Papers on State Finances

Three white papers published on State finances in 2001, 2011 and 2016 present the nature and magnitude of the fiscal crisis experienced in the State. The White Paper of 2001 on State finances presents a clear picture about the unprecedented and acute fiscal crisis faced by Kerala during the period 1998-2001. On the one hand, there was huge growth in revenue expenditure due to unsustainable salary and pension bill built up over time, commitments on debt servicing, liberal support given by using State funds to cover losses of public sector undertakings, fixing plan size with total disregard to resource availability, wasteful expenditure on many fronts, borrowing to meet the additional liability arising out of pay and pension revision of 1997, financial liability due to implementation of Plus Two School scheme, etc. On the other hand, the State own tax and non-tax resources stagnated due to narrow tax base of the State with heavy dependence on sales tax, non-repayment of loans by public sector undertakings and agencies, seasonality of revenue inflow with minimum inflow during the first quarter, falling trend in resource transfer from Central Government, the slow growth of the economy affecting revenue collection, etc. (GoK 2001). In order to face the crisis, the State Government effected a cut in expenditure in plan, social sector and capital items, grants in-aid to local governments, and increased public borrowing.

The white Paper of 2011 on State finances presented the critical fiscal situation that prevailed in the State and the rapid rise in public debt making Kerala a debt stressed State (GoK 2011). The White Paper on State Finances published by the Left Front Government which assumed office in May 2016 says that Kerala is facing an acute fiscal crisis. The situation is so grave that after meeting the day-to-day expenditure on administration and other routine activities hardly any resources is left for meeting plan and capital expenditure. It is pointed out that in the case of a large number of schemes announced in the annual plans between 2013 and 2016, the actual expenditure was only 60 to 70 per cent of the budgeted outlay. The upper limit of the borrowing permitted by the Central Government is just sufficient to meet the day-to-day expenditure of the State Government. Budgets placed before the State legislature were unrealistic and not supported by adequate resources to meet the expenditure. The State does not have resources to meet the pending immediate and short-term liabilities worth more than Rs 10,000 crore (GoK 2016(a)). The resource crunch is so severe that the State has lost its capacity to mobilise funds through borrowing to finance development plans and is forced to seek resources outside the budget. The crisis may be considered as the second largest fiscal crisis in Kerala.

From the white papers and other studies on State finances, we may draw the following broad conclusions about the unstable fiscal situation that prevailed in Kerala since early 1980's. On the one hand, the slump in resource mobilization, slow growth in revenue collection of State taxes, non-tax revenue, decline in central transfers, the mounting losses of public sector undertakings and inadequate resources to meet unrealistic and inflated plan outlays have contributed to high fiscal deficit and unstable fiscal situation. On the other hand, the high rate of growth of NPRE on salaries, pension, interest, grant-in-aid to private educational institutions, administration, subsidies, etc. have contributed to high level of revenue and fiscal deficits.

Magnitude of the Fiscal Crisis

The indicators viz. revenue deficit, fiscal deficit and debt - Gross State Domestic Product (GSDP) ratio are used to examine the magnitude of the crisis. The revenue deficit is the difference between revenue receipts and revenue expenditure. Table 1 gives the trends in revenue deficit for a period of ten years. Two percent revenue deficit GSDP ratio indicate a crisis situation of finances. And the period between 2011-12 and 2014-15 witnessed very high fiscal deficit.

Table 1

Trends in revenue deficit

Year	Revenue deficit (Rs Crore)	Revenue deficit as % of revenue expenditure	Revenue deficit as % of GSDP	RD as per KFR Act (%)
2005-06	3129	17.0	2.3	-
2006-07	2638	12.7	1.7	-
2007-08	3785	15.2	2.1	-
2008-09	3712	13.1	1.8	-
2009-10	5023	16.1	2.2	-
2010-11	3674	10.6	1.3	-
2011-12	8035	17.4	2.6	1.4
2012-13	9352	17.5	2.7	0.9
2013-14	11309	18.7	2.9	0.5
2014-15	13796	19.2	3.1	0.0

Source: (i) CAG 2012; CAG 2016(a) (ii) GoK 2011; GoK 2016(b)

The ratio also remained at high levels compared to the fiscal target stipulated in the Kerala Fiscal Responsibility Act. Another measure, the revenue deficit as percentage of revenue expenditure also indicates an increasing trend. This suggests that the State failed to curtail the persistent rise in revenue deficit, indicating deterioration in State finances since 2011-12.

The gross fiscal deficit (GFD), denoting the gap between total receipts (excluding borrowing) and total expenditure in the consolidated fund, indicates the borrowing required to meet the deficit. Table 2 gives the trends in Gross Fiscal Deficit for a period of 10 years. The GFD as percentage of GSDP was more than four percent since 2011-12, indicating very high level of fiscal deficit. GFD accounts for nearly one fourth of the total expenditure of the State during the above four years. The GFD was much higher than the fiscal deficit target stipulated in the KFR Act. The high level of fiscal deficit and the spending of entire borrowings have created a situation of extreme paucity of funds for capital expenditure like construction of roads, bridges, major infrastructure projects, etc. This has created a grave crisis and the State was forced to seek borrowing outside the budget through special purpose vehicles for development purposes.

Table 2

Trends in Gross fiscal deficit (GFD)

Year	GFD (Rs crore)	GFD as % of total expenditure	GFD as % of GSDP	GFD Target as per KFR Act (%)
2005-06	4182	21.4	3.1	-
2006-07	3822	17.3	2.5	-
2007-08	6100	22.4	3.5	-
2008-09	6346	20.5	3.1	-
2009-10	7872	23.1	3.4	-
2010-11	7731	19.9	2.9	-
2011-12	12815	25.2	4.1	3.5
2012-13	15002	25.3	4.3	3.5
2013-14	16944	25.5	4.3	3.0
2014-15	18642	24.2	4.1	3.0

Source: Same as Table 1

Decomposition of fiscal deficit indicates the utilization pattern of the amount raised to cover the deficit. Of the total amount raised, the major share was spent to cover the revenue deficit (Table 3). This shows that the borrowing was largely spent for covering revenue deficit. A disturbing development was the steady increase in the share of revenue deficit since 2010-11. It reached a peak of 74 percent in 2014-15. Another development was the decline in the share of borrowed funds for capital expenditure. Loans and advances given from the borrowed funds also registered a decline. It registered the lowest level in 2014-15.

Table 3

Decomposition of fiscal deficit (Percent)

Year	Revenue deficit	Net capital expenditure	Net loans and advances	Total
2005-06	74.8	19.6	5.6	100
2006-07	69.0	23.6	7.4	100
2007-08	62.0	24.1	13.9	100
2008-09	58.5	26.6	14.9	100
2009-10	63.8	25.5	10.7	100
2010-11	47.5	43.2	9.3	100
2011-12	62.7	29.9	7.4	100
2012-13	62.3	30.6	7.1	100
2013-14	66.7	25.2	8.0	100
2014-15	74.0	22.7	3.3	100

Source: CAG 2012; CAG 2016(a)

We may also examine the financing the fiscal deficit. Table 4 gives the financing of fiscal deficit. Market borrowing is a major item of financing fiscal deficit. There has been an increase in its share since 2005-06. During 2012-13 it reached to 70.4 percent. The second major item is small savings, provident fund etc. Its share registered a decline since 2008-09. The other item namely loans from government of India, loans from financial institutions, deposits and advances and other items account for a very small share.

Table 4

Financing of fiscal deficit (Percent)

Year	Total fiscal deficit	Market borrowings (net)	Loans from govt of India	Loans from financial institutions	Small savings PF etc	Deposits and advances	Others	Withdrawal of cash balances
2005-06	100	34.8	0.1	-2.6	1.2	-0.7	74.6	-7.4
2006-07	100	46.7	-1.2	8.8	-8.1	11.2	64.1	-21.6
2007-08	100	59.6	2.6	5.1	21.7	8.0	1.9	1.1
2008-09	100	75.3	7.5	1.8	40.8	2.1	-1.4	-26.1
2009-10	100	59.8	3.8	-0.2	36.2	5.5	3.2	-8.4
2010-11	100	61.7	0.7	4.5	32.2	6.0	3.5	-8.7
2011-12	100	58.4	0.2	-0.1	29.9	-0.4	1.8	9.9
2012-13	100	70.4	1.5	-0.8	24.5	7.6	2.6	-6.0

Source: Same as Table 1

We may also examine the trend in public debt, growth rate of debt, debt – GSDP ratio and the target as per KFR Act. Table 5 gives the trends in public debt for 10 years.

Table 5

Trends in public debt

Year	Public debt (Rs Crore)	Rate of growth (%)	Debt/GSDP (%)	Target as per KFR Act (Debt-GSDP Ratio)
2005-06	45929	9.7	33.5	-
2006-07	49875	8.6	32.4	-
2007-08	55410	11.1	31.6	-
2008-09	63270	14.2	31.5	-
2009-10	70969	12.2	30.8	-
2010-11	82420	16.1	31.2	-
2011-12	93132	13.0	29.8	32.2
2012-13	108477	16.5	31.2	31.7
2013-14	124081	14.4	31.3	30.7
2014-15	141947	14.4	31.4	29.8

Source: Same as Table 1

The public debt or outstanding fiscal liabilities comprises of internal debt of the State, loans and advances from Government of India and public account liabilities. The rate of growth of public debt was at a lower rate between 2005-06 and 2009-10, but it registered a higher rate since then. Except the years 2013-14 and 2014-15, the State was able to meet the KFR target on debt-GSDP ratio. But the debt has created huge liability for repayment during the immediate future. An aspect is that the debt maturity profile of the State shows that 44.1 per cent of the debt has to be repaid within seven years. As the non-debt receipts of the State were insufficient, some portion of the borrowed funds was used for bridging the revenue gap. During 2014-15, total borrowed funds under public debt was Rs 18509 crore. After providing for interest and repayment of principal, the net availability was only Rs 5365 crore. Similarly, the accumulation in public fund comprising small savings, provident fund, reserve fund, deposit account, etc. was Rs

46979 crore during 2014-15. Under this sector, the net availability of funds after disbursement with interest was only Rs 2745 crore (CAG 2016 (a)). This indicates that the State is moving towards a debt trap.

Trends in Total Receipts

Revenue and capital are the two streams of receipts that constitute the resources of the State Government in the consolidated fund. Revenue receipts consist of tax revenue, non-tax revenue, State's share of union taxes and duties and grants-in-aid from the Government of India (GoI). Capital receipts comprise of non-debt capital receipts such as miscellaneous capital receipts, recoveries of loans and advances, and public debt resources from internal sources (market loans, borrowings from other financial institutions/commercial banks) and loans and advances from GoI. The funds available in the public accounts, which are outside the consolidated fund, can also be utilized by the Government to finance its deficit. Of the three items of receipts of the State, the share of non-debt capital receipts comprising miscellaneous capital and recoveries of loans and advances is negligible. Table 6 gives the trends in the total receipts in the consolidated fund.

Table 6

Total receipts in the consolidated fund* (Rs crore)

Year	Total revenue receipts	Non-debt capital receipts	Public debt receipts	Total receipts (2+3+4)	Percentage of debt receipts to total receipts	Total receipts (Rate of growth) (%)
2005-06	15295	52	5823	21170	27.5	4.8
2006-07	18187	68	5336	23591	22.6	11.4
2007-08	21107	53	5644	26804	21.1	13.6
2008-09	24512	45	6921	31478	22.0	17.4
2009-10	26109	87	6616	32812	20.2	4.2
2010-11	30991	69	7189	38249	18.8	16.6
2011-12	38010	71	9799	47880	20.5	25.2
2012-13	44137	89	13261	57487	23.1	20.1
2013-14	49177	123	14461	63761	22.7	10.9
2014-15	57950	152	18509	76611	24.2	20.2

*****Excluding public account receipts

Source: Report of the CAG on State Finances for the years 2011 to 2015; White Paper on State Finances 2011 and 2016;Revised Budget 2016-17 at a glance

The share of debt receipts to total receipts was 27.5 percent in 2005-06. It registered a decline in the subsequent years. But the share of debt receipts registered an increase since 2011-12. Nearly one fourth of the receipts is from public debt in 2014-15.

The trend in the growth of revenue receipts and its components for a period of 10 years is given in table 7. Though there has been an increase in the total amount, there is not much change in revenue receipts GSDP ratio. The ratio registered an increase in 2007-08, but witnessed a fall in the later years. This indicates a decline in the revenue mobilization effort of the State.

Table 7

Total revenue receipts (Rs Crore)

Year	Own taxes	Non-tax revenue	Central tax transfer	Grant-in-aid	Total revenue receipts	Revenue receipts/ GSDP (%)
2005-06	9779	937	2518	2061	15295	12.9
2006-07	11942	938	3212	2095	18187	13.7
2007-08	13669	1210	4052	2176	21107	14.2
2008-09	15990	1559	4276	2687	24512	12.1
2009-10	17625	1852	4399	2233	26109	11.3
2010-11	21722	1931	5142	2196	30991	11.5
2011-12	25719	2592	5990	3709	38010	12.1
2012-13	30077	4198	6841	3021	44137	12.1
2013-14	31995	5575	7469	4138	49177	12.4
2014-15	35232	7284	7926	7508	57950	12.8

Source: Same as Table 1

Table 8

Trends in Growth Rate of Revenue Receipts (in %)

Year	Own taxes	Non-tax revenue	Central tax transfer	Grant-in-aid	Total revenue receipts
2005-06	-	-	-	-	-
2006-07	22.1	0.1	27.5	1.6	18.9
2007-08	14.4	28.9	26.1	3.8	16.1
2008-09	16.9	28.8	5.5	23.4	16.1
2009-10	10.2	18.7	2.8	-16.9	6.5
2010-11	23.2	4.2	16.8	-1.6	18.7
2011-12	18.4	34.2	16.4	68.9	22.6
2012-13	16.9	61.9	14.2	-18.5	16.1
2013-14	6.4	32.8	9.2	37.0	11.4
2014-15	10.1	30.7	6.1	81.4	17.8

Source: Based on Table 7

The annual growth rate of the individual item and total revenue receipts will give an idea about the growth trends in revenue receipts (Table 8). Decline in annual growth rate of own taxes, which accounts for 61 percent of the revenue receipts was the important reason for the slowdown in revenue receipts. The annual growth of own taxes registered a steep decline since 2010-11. The transfer of the share of central taxes witnessed a steep fall in 2013-14 and 2014-15. But there was a substantial increase in the share of grants-in-aid during the above two years. Non-tax revenue witnessed an increase since 2011-12

State Tax and Non-Tax Revenue

The fiscal policy pursued by the successive governments in the State has been giving low priority for timely revision of State taxes due to political factors. Frequent elections at one or two years interval in State legislature, local governments or parliament prompt the political leaders in power to postpone revision of taxes. The revision of taxes will also invite strong protests and agitations from opposition political parties. We have to examine mobilization of State own tax revenue (SOTR) in this context. State tax comprises of sales tax and value added tax (VAT), stamps and registration, excise, taxes on vehicles and other taxes. The other taxes comprise of land revenue, taxes and duties on electricity, agricultural income, taxes on immovable property other than agricultural land, luxury tax and entertainment tax. The amount collected from other taxes account for less than two per cent of the total State own tax revenue.

Sales tax and VAT was the major item accounting for 78 per cent of the total State tax revenue. The system of value added taxation was introduced in the State with effect from 1 April 2005. There was a steep fall in the growth rate of sales tax and VAT since 2012-13. The trends in yearly revenue and annual growth in revenue of State own tax revenue for 10 years is given in Table 9 and 10. Two major reasons are attributed to the fall. One is the recessionary situation prevailing in the State's economy between 2013 and 2015 due to global as well as domestic factors. The steep fall in the price of rubber due to price fall in international market, price fall of other commercial crops, stagnation of construction and real estate sectors, fall in oil prices in the Gulf and its adverse impact on Keralite migrant workers have created a recessionary situation affecting sales tax and

VAT collection. The recession in construction and real estate has affected the sale of construction items which earn large amount of sales tax and VAT. Among the 21 items of commodities earning the largest revenue of sales tax and VAT, seven items viz. cement, electrical goods, iron and steel, paint, timber, tiles and sanitary ware, belonged to construction sector (KPERC Fourth Report).

Table 9

Components of State own tax revenue (SOTR) (Rs Crore)

Year	Sales tax and VAT	Stamps and registration	State excise	Taxes on vehicles	Other taxes	Grand total
2005-06	7038	1101	841	629	170	9779
2006-07	8563	1520	953	708	198	11942
2007-08	9372	2028	1169	853	247	13669
2008-09	11377	2003	1398	937	275	15990
2009-10	12771	1896	1515	1131	312	17625
2010-11	15833	2552	1700	1331	306	21722
2011-12	18939	2987	1883	1587	323	25719
2012-13	22511	2938	2314	1925	389	30077
2013-14	24885	2593	1942	2161	414	31995
2014-15	27908	2659	1777	2365	523	35232

Source: Same as Table 1

Table 10

Trend in Growth Rate of Components of SOTR (in %)

Year	Sales tax and VAT	Stamps and registration	State excise	Taxes on vehicles	Other taxes	Grand total
2005-06	-	-	-	-	-	-
2006-07	21.6	38.0	13.3	12.5	16.4	22.1
2007-08	9.4	33.4	22.6	20.4	24.7	14.4
2008-09	21.3	-1.2	19.5	9.8	11.3	16.9
2009-10	12.2	-5.3	8.3	20.7	13.4	10.2
2010-11	23.9	34.6	12.2	17.6	-1.9	23.2
2011-12	19.6	17.0	10.7	19.2	5.5	18.4

2012-13	18.8	-1.6	22.8	21.3	20.4	16.9
2013-14	10.5	-11.7	-16.1	12.3	6.4	6.4
2014-15	12.1	2.5	-8.5	9.4	26.3	10.1

Source: Same as Table 9

The factors which contributed to the fall in growth rate in SOTR were the underperformance of tax collection machinery, lack of sincere effort by the State Government to mobilise tax revenue, inefficient and poor collection of the tax. The Comptroller and Audit General (CAG) of India had conducted performance audit on VAT of the State for 2014-15 and has pointed out the following. (i) Failure to bring all eligible dealers under tax net and consequent escape of majority from VAT liability. Though Economic Census 2013 reported that there were 13.41 lakh establishments, only 2.20 lakh dealers were registered for VAT in the State; (ii) The system of scrutiny of returns is not properly defined in the Act or in any guidelines issued resulting in poor coverage of scrutiny; (iii) Lack of co-ordination with other departments, in terms of collection of data useful for the completion of assessment, resulted in non or short levy; (iv) There was no system in place for analysis and utilization of data available in the Kerala Value Added Tax Information System (KVATIS); (v) Internal control mechanism existing in the Department was not sufficient (CAG 2016 (b)). The White Paper on State Finances of 2016 pointed out the following factors for the poor revenue mobilization of commercial taxes. Underperformance of tax collection machinery, huge amounts of stays issued by the government, little progress and initiative to expedite the disposal of cases in appeals and stays, non-realisation of additional resource mobilization targeted in the budget, concessions offered to benefit certain group of taxpayers and failure to implement technological support.

Receipts from stamp duty and registration fee is the second major item of own tax revenue of the State (Table 9 and 10). Due to the recession in real estate and construction sectors, there had been a negative growth in this item of revenue during 2012-13 and 2013-14. Taxes on vehicles was the third major item of State own tax revenue which was not much affected by the recession. State excise is the fourth major item of State own tax revenue which was adversely affected by the recession. In the case of other taxes, there was a steep fall in the growth rate for the year 2013-14.

We may conclude the discussion about the trend, pattern and structure of SOTR with the following observations. There had been a steep fall in the growth rate of SOTR since 2013-14. The recessionary situation that prevailed in the economy is a major cause for this. The underperformance of tax collection machinery, lack of sincere effort on revenue mobilization, inefficient and poor collection of tax also contributed to this. There occurred a change in the structure of SOTR since 2010-11. While there has been an increase in the share of sales tax and VAT, taxes on vehicles and other taxes on the one hand, the share of duty on stamp and registration and State excise witnessed a decrease on the other.

Non-Tax Revenue

Non-tax revenue comprises of interest receipts of the loans issued by the Government, dividends and profits of public sector undertakings of State Government, income from lotteries, forestry and wildlife department and other non-tax receipts. The other non-tax receipts include fees, user charges, fines, etc. collected by various departments, public educational and health institutions and other governmental agencies. Non-tax revenue accounts for about 13 per cent of the total revenue receipts of the State. The yearly amount of item wise non-tax revenue received and annual growth rate are given in Table 11 and 12.

Table 11

Composition of non-tax revenue (Rs. in crore)

Year	Interest receipts	Dividends and profits	State lotteries	Forestry and wild life	Other non tax receipts	Grand total
2005-06	46	18	_	190	683	937
2006-07	45	30	143	175	547	940
2007-08	70	29	194	155	770	1218
2008-09	51	35	420	191	862	1559
2009-10	153	27	624	273	775	1852
2010-11	172	75	571	274	839	1931
2011-12	136	67	1283	221	885	2592
2012-13	172	48	2674	237	1067	4198
2013-14	149	101	3796	330	1199	5575
2014-15	102	74	5445	300	1363	7284

Source: Same as Table 1

Table 12

Trends in Growth Rate of Non-Tax Revenue (in %)

Year	Interest receipts	Dividends and profits	State lotteries	Forestry and wild life	Other non tax receipts	Grand total
2005-06	-	-	-	-	-	-
2006-07	-2.2	66.7	-	-7.9	-19.9	0.3
2007-08	55.6	-3.3	35.7	-11.4	40.8	29.6
2008-09	-27.1	20.7	116.5	23.2	11.9	28.0
2009-10	200.0	-22.9	48.6	42.9	-10.1	18.8
2010-11	12.4	177.8	-8.5	0.4	8.3	4.3
2011-12	-20.9	-10.7	124.7	-19.3	5.5	34.2
2012-13	26.5	-28.4	108.4	7.2	20.6	62.0
2013-14	-13.4	110.4	42.0	39.2	12.4	32.8
2014-15	-31.5	-26.7	43.4	-9.1	13.7	30.7

Source: Same as Table 11

Among the items, income from State lotteries and other non-tax receipts are the major items in terms of revenue earnings. Though there is much scope for increasing the revenue from this source by periodical revision of rates, strengthening collection machinery and prompt collection of arrears, the successive governments in the State had not taken much steps in this regard. A small revision in fees and user charges invite agitation from the opposition political parties. Due to this political economy, majority of fees and user charges levied by government departments remained very low or without revision for decades. The revenue from State lotteries is put as the item which give the largest amount of non-tax revenue (Table 11). This is not correct. The total earnings from the sale of lottery ticket is given as the revenue. Once we deduct the cost of conducting lotteries, prize amount, commission given to agents etc. the net earnings will be 22 percent of the total sales of tickets (2014-15).

There had been a negative growth rate in the interest receipts received for five years. The dividends and profits of the State public sector undertakings also witnessed a negative growth rate for five years. The change in the structure of non-tax revenue between 2010-11 and 2014-15 is given in Table 13.

Table 13

Change in structure of Non-Tax Revenue (Rs in crore)

Item	2010-11		2014-15	
	Amount	Composition (in%)	Amount	Composition (in %)
Miscellaneous general services	741.74	38.42	5600.18	76.89
Forestry and wildlife	274.10	14.20	300.40	4.12
Education, sports, art and culture	150.83	7.81	246.41	3.38
Other administrative services	133.67	6.92	226.26	3.11
Medical and public health	63.46	3.29	139.33	1.91
Co-operation	59.11	3.06	121.41	1.67
Interest receipts	171.47	8.88	102.15	1.40
Non-ferrous mining and metallurgical industries	45.79	2.37	79.53	1.09
Dividends and profits	75.46	3.91	74.18	1.02
Others	215.16	11.14	393.84	5.41
Total	**1930.79**	**100**	**7283.69**	**100**

Source: Finance Accounts 2014-15 Vol. I; Government of Kerala; Page No. 10-11 & Finance Accounts 2010-11 Volume I; Government of Kerala; Page No 5-6

According to the Report of the CAG of India for 2015, of the total public sector undertakings, 50 earned profit of Rs 498 crore, 53 incurred loss of Rs 890 crore and four had no profit or loss for the year 2014-15 (CAG 2016(c)). The successive governments in Kerala have been promoting the inefficient public sector undertakings by providing loans and other support from State budget. Though revenue from forest was the second major source of non-tax revenue in the last decade, it became the third item during this decade. The Kerala Public Expenditure Review Committee (KPERC) which examined the fall in revenue from forests identified the following factors, viz. non-revision of the forest land leased out to public sector undertakings since 1977, theft of timber and other forest products from forest land, discontinuation of rotation farming, low rate given to dragging of timber by elephant, lack of introduction of technology to replace dragging by elephant and the malpractices connected with the auction of timber and irregular conduct of timber auctions (KPERC Second Report) . Though there is considerable scope for increasing the rate of fees, fine and user charges for general, social and economic services provided by various departments, the Government is not prepared to make periodical revisions. The KPERC which examined the non-tax revenue of 30 Government departments came to the conclusion that the rate of fees, fines and user charges levied are very low and needs periodical revision. Thus the above evidences suggest that the successive governments had not taken steps to mobilise resources from non-tax revenue through periodical revision of fees, fines, user charges, etc.

Transfer of Tax Share from Central Government

As per the recommendations of Union Finance Commission, a share of central taxes are to be transferred to the State. Table 14 gives an item wise tax transfer from Centre to Kerala State in 2010-11 and 2014-15. Corporation tax accounts for about 35 percent of the total share of central taxes. Tax on income other than corporation tax is the second major item accounting for 25 percent of the total share of taxes. The other important taxes from which State receive a share are customs, union excise duties, and service tax. Among the Central taxes, the item which registered the largest increase between 2010-11 and 2014-15 was service tax.

Table 14

Transfer of Tax share from Centre (Rs in crore)

Item	2010-11		2014-15		Growth (2010-11 to 2014-15) (in %)
	Amount	Share (in %)	Amount	Share (in %)	
Corporation tax	2010	39.09	2768	34.92	37.72
Tax on income other than corporation tax	1062	20.65	1976	24.93	86.11
Taxes on wealth	4	0.08	7	0.09	81.31
Customs	899	17.48	1282	16.17	42.58
Union excise duties	654	12.72	724	9.13	10.67
Service tax	513	9.98	1169	14.75	127.92
Other taxes on income and expenditure	--	--	0.1	0.01	--
Total	**5142**	**100**	**7926**	**100**	**54.15**

Source: Finance Accounts 2010-11 Vol. I and 2014-15 Vol.I; Government of Kerala; Page No. 10-11 & Finance Accounts 2010-11 Volume I; Government of Kerala; Page No 5-6

Arrears of Revenue

Accumulation of arrears of tax and non-tax is an important issue in revenue mobilization. The amount of arrears, amount of arrears for more than five years are given in Table 15.

Table 15

Amount of Tax and Non-Tax Arrears outstanding (Rs crore)

Year (as on March)	Total amount of arrears	Amount of arrears for more than five years	Amount of arrears for more than five years (Per cent)
2011	5358	1679	31.3
2012	10273	3768	36.7
2013	12244	4389	35.8
2014	7530*	415**	5.5
2015	10436	1872	17.9

*A*rrears* of only six departments

**Excluding items such as tax on sales, trade, land revenue, fees for Government audit

Source: Reports of CAG on revenue receipts for the years 2011 to 2015

It is disturbing to note that the amount of arrears register a continuous increase between 2011 and 2015. A good part of the arrears remain as arrears for more than five years. Between 2011 and 2013, the share of arrears for more than five years range between 31 and 36 percent. But the share registered a decline in 2015. Inefficiency in revenue collection machinery, laxity on the part of successive government to take prompt action on collection of arrears every year, indifference of government departments and public undertakings to pay their dues, stays given by government and courts are the major reasons for this.

An attempt is also made to examine the amount of arrears outstanding on various heads of revenue. The amount of arrears outstanding in various heads of revenue for the years 2011 and 2015 are given in Table 16.

Table 16

Amount of Arrears outstanding as on (Rs crore)

	Head of Revenue	31 March 2011	Composition (%)	31 March 2015	Composition (%)
1	Tax on sales, trade, etc.	4962	92.6	6398	61.3
2	Land revenue	-	-	2057	19.7
3	Tax on vehicles	-	-	1279	12.3
4	Forestry and wildlife	185	3.5	412	3.9
5	Excise	-	-	194	1.9
6	Fees for Government audit	115	2.1	36	0.3
7	Printing and stationery	13	0.2	58	0.6
8	Taxes on agricultural income	-	-	-	-
9	Police	82	1.5	-	-
10	Electrical inspectorate	-	-	-	-
11	Others	1	0.0	2	0.0
	Total	5358	100	10436	100

Source: Reports of CAG on revenue receipts for the years 2011 to 2015

Of the total arrears in March 2015, 61 percent was taxes on sales and VAT, 20 percent land revenue, 12 percent tax on vehicle, 4 percent on forestry and wild life, 2 percent excise and the rest other items.

We may also examine the category of persons, institutions etc, who have to pay the arrear of tax. Of the total arrears of sales tax and VAT (Rs 6398 crore), 57 per cent was pending due from individuals, private firms, private companies, etc., 37 per cent from public sector undertakings of Government of India, 3 per cent from public sector undertakings of Government of Kerala and 2 per cent from other State Governments. It is reported that due to the stays issued by High Court, other judicial authorities and Government, Commercial Taxes Department was not able to precede recoveries involving an amount of Rs 1267 crore, accounting for 20 per cent of total arrears

The other items having sizeable outstanding arrears are land revenue, tax on vehicles, income from forests and excise duty. Of the amount of Rs 2057 crore outstanding as land revenue, nearly 96 per cent comes under various stays by government, court and appellate authorities. Of the total amount of Rs 1279 crore of arrears of taxes on vehicles, 77 per cent is pending due from Kerala State Road Transport Corporation and 23 per cent from individuals, private firms, private companies, etc. The Forest Department has to collect an arrears of Rs 412 crore as value of timber, teak stumps, lease rent, penal interest, reauction loss, centage charge, etc., of which 95 per cent are to be paid by public sector undertakings of Government of Kerala and other States. Thus we can conclude that the practice of giving indiscriminate stays on collection, the laxity on the part of successive governments to take prompt action on collection of arrears every year, taking action at slow pace in revenue recovery proceedings and cases pending before courts and other judicial authorities have led to poor recovery of arrears.

Trends in Total Expenditure

Expenditure is classified as revenue and capital. Revenue expenditure is incurred to meet expenses for day to day running of the government. Capital expenditure is used to create permanent assets, or to enhance the utility of such assets or to reduce permanent liabilities. Expenditure under revenue and capital is further classified into two categories, viz. (1) Plan and non-plan and (2) General, social and economic services. The general services include administration of justice, police, jail, public works, pension, etc. The social services include education, health and family welfare, water supply, welfare of SC/ST, etc. The economic services include agriculture, rural development, irrigation, cooperation, energy, industries, transport, etc.

The trend in the total expenditure and the parameters of expenditure is given in Table 17.

Table 17

Total expenditure - parameters

Year	Total expenditure(TE) (Rs crore)	Rate of growth (%)	TE/GSDP (%)	Revenue receipts/TE (%)	Buoyancy of TE with respect to GSDP
2005-06	19528	8.2	16.4	78.3	0.6
2006-07	22077	13.1	14.4	82.4	1.1
2007-08	27260	23.5	15.6	77.4	1.7
2008-09	30904	13.4	15.2	79.3	0.8
2009-10	34068	10.2	14.7	76.6	0.7
2010-11	38791	13.9	14.4	79.9	1.0
2011-12	50896	31.2	16.1	74.7	1.7
2012-13	59228	16.4	16.3	74.5	1.5
2013-14	66244	11.8	16.7	74.2	0.8
2014-15	76744	15.9	17.0	75.5	1.1

Source: Same as Table 1

During the period between 2005-06 and 2009-10, the annual average growth was 14 percent. But during the subsequent five years to it increased to 18 percent. The spurt in the growth in total expenditure in every five years is associated with the salary and pension revision. The total expenditure-GSDP ratio witnessed a higher increase in the second period compared to earlier period. A disturbing development was the increase in the revenue gap. Between 2011-12 and 2014-15, the annual gap in revenue was about 25%. This indicates that the government was forced to borrow a large amount to cover the gap in revenue deficit. The buoyancy of total expenditure with respect to GSDP, denoting rate of growth of total expenditure / rate of growth of GSDP, was more than one for most of the years indicating a higher growth in expenditure compared to GSDP. Thus the data shown in Table 17 suggest an increasing trend in total expenditure, revenue gap and deficit financing.

Table 18

Total Expenditure: Share of Revenue and Capital Expenditure (%)

Year	Revenue Expenditure	Capital Expenditure	Disbursement of loans and advances	Total
2000-01				100
2001-02				100
2002-03	94.0	6.0*	-	100
2003-04	88.9	11.1*	-	100
2004-05	95.1	4.9*	-	100
2005-06	94.3	5.7*	-	100
2006-07	94.3	4.1	1.6	100
2007-08	91.3	5.4	3.3	100
2008-09	91.3	5.5	3.2	100
2009-10	91.4	6.0	2.6	100
2010-11	89.4	8.7	2.0	100
2011-12	90.5	7.6	2.0	100
2012-13	90.3	7.8	1.9	100
2013-14	91.3	6.5	2.2	100
2014-15	93.5	5.5	1.0	100

*Includes disbursement of loans and advances

Source: Same as Table 1

The total expenditure may be split in to revenue, capital and disbursement of loans and advances (Table 18). An unhealthy development that had taken place with respect to the capital expenditure was the decline in its share. The share of capital expenditure decreased from 8.7 percent in 2010-11 to 5.5 percent in 2014-15. The share of disbursement of loans and advances also registered a decline. This indicates that more and more expenditure is diverted to revenue at the cost of capital expenditure and disbursement of loans. In other words the worsening fiscal situation compel the State government to effect a cut in capital expenditure and disbursement of loans.

Revenue Expenditure

We may examine the trends in revenue expenditure, share of RE to total expenditure and the share of Non-Plan Revenue Expenditure (NPRE) to revenue expenditure (Table 19).

Table 19

Revenue expenditure- parameters

Year	Revenue expenditure (RE) (Rs Crore)	Growth rate of RE (%)	RE/Total expenditure (%)	Non plan revenue expenditure/RE (%)	Buoyancy of RE with respect to GSDP
2005-06	18424	7.3	94.3	82.5	0.5
2006-07	20825	13.0	94.3	88.9	1.0
2007-08	24892	19.5	91.3	90.9	1.4
2008-09	28224	13.4	91.3	88.6	0.8
2009-10	31132	10.3	91.4	86.6	0.7
2010-11	34665	11.3	89.4	87.9	0.8
2011-12	46045	32.8	90.5	88.4	1.8
2012-13	53489	16.2	90.3	87.2	1.4
2013-14	60486	13.1	91.3	88.3	0.9
2014-15	71746	18.6	93.5	85.7	1.3

Source: Same as Table 1

During the period between 2005-06 and 2009-10, the average annual growth of revenue expenditure was 12.7 percent. But during the subsequent five years it increased to 18.4

percent. The spurt in the growth of revenue expenditure in certain years were associated with the salary and pension revision. The data on revenue expenditure suggests a steady increase in revenue expenditure. Of the revenue expenditure nearly 86 to 88 percent was spent on non-plan revenue expenditure. The buoyancy of revenue expenditure with respect to GSDP suggests that the revenue expenditure is on the higher side, showing an unhealthy trend in expenditure in the majority of the years. On the whole, the parameters presented in the table do not give a healthy change in the trend in revenue expenditure.

Non-Plan Revenue Expenditure (NPRE)

The NPRE denotes the expenditure incurred for meeting the day to day expenditure like salaries, pension, interest, subsidies, establishment, administration, grants-in-aid, etc. This is the expenditure incurred for non-developmental items. The NPRE, rate of growth, NPRE/GSDP ratio, NPRE as percent of total expenditure, revenue receipts are shown in Table 20.

Table 20

Non-Plan Revenue Expenditure (NPRE)

Year	NPRE (Rs crore)	Rate of Growth (per cent)	NPRE/GSDP Ratio	NPRE as per cent of total expenditure	NPRE as per cent of revenue receipts
2005-06	15201	8.1	11.1	78.0	99.4
2006-07	18516	21.8	12.0	83.9	101.8
2007-08	22615	22.1	12.9	83.0	107.1
2008-09	25012	11.0	12.3	80.9	102.0
2009-10	26953	7.8	11.6	79.1	103.2
2010-11	30469	13.0	11.6	78.5	98.3
2011-12	40718	33.6	13.0	80.0	107.1
2012-13	46640	14.5	13.4	78.7	105.7
2013-14	53412	14.5	13.5	80.6	108.6
2014-15	61462	15.1	13.6	80.1	106.1

Source: Same as Table 1

The spurt in the growth in NPRE during the year 2006-07, 2007-08 and 2011-12 were due to the financial commitment created due to implementation of pay and pension revisions. During the ten years, the share of NPRE ranged between 78 and 83 percent of the total expenditure. A highly disturbing development has been the very high proportion of it to revenue receipts. During the ten years under study, NPRE exceeds the revenue receipts in eight years. It indicates that the entire revenue receipts are not sufficient to meet the NPRE. In other words the State has been borrowing money to meet NPRE or the day today expenditure. This is an indicator of the precarious fiscal situation that has been prevailing in the State.

Rapid rise in NPRE is the root cause of the fiscal crisis in the State. Instead of curtailing the NPRE, the successive governments in the State have been following a policy to promote its growth. Without considering resource availability, capital requirement or recurring expenditure in future, a large number of new public institutions, projects, private aided educational institutions etc. were started and populist schemes of benefit distribution were implemented. Though the State cannot afford revision of salaries and pensions once in five years, the successive governments revised it in every five years. Efforts were not made to abolish unnecessary establishments, institutions, public sector undertakings making huge losses on a sustained basis, schemes which do not produce any social returns, reduce excess staff and curtail wasteful administrative expenditure. Here nobody is bothered about the huge financial liability of excessive wasteful expenditure and its negative consequences on infrastructure development, public services, public utilities and the overall development of the State. The successive governments promoted the growth of it mainly to satisfy powerful vested interest groups, trade unions and social and communal organisations due to political interests. This political economy is a basic factor which prevents the State from following a healthy fiscal policy of controlling the excessive growth in socially undesirable NPRE leading to sustained instability of State finances. Among the items of expenditure, the two major items which account for nearly half of the revenue expenditure are salaries and pensions. The State Government is paying salaries and pensions at the same rate from Treasury for government staff and those belonging to private aided educational institutions like schools, arts and science colleges and other educational institutions. Of the total staff of

5.06 lakh in March 2014, 72 per cent are government staff and 28 per cent in private aided educational institutions. Similarly, government is paying monthly pensions to 4.69 lakh pensioners in March 2013 consisting of retired staff of government and private aided educational institutions. The salaries and pensions are increased once in five years based on the recommendations of State Pay Commissions. This creates huge additional financial burden to the State Government. Table 21 gives the expenditure on salary and pensions between 1990-91 and 2015-16.

Table 21

Salary and Pension Expenditure (Rs crore)

				Growth (%)		
Year	**Salaries and wages**	**Pension**	**Total**	**Salaries and wages**	**Pension**	**Total**
1990-91	1683	293	1976	-	-	-
1995-96	2230	717	2947	-	-	-
2000-01	4451	1929	6380	-	-	-
2001-02	4164	1838	6002	-6.4	-4.7	-5.9
2002-03	4250	2283	6533	2.1	24.2	8.8
2003-04	5120	2409	7529	20.5	5.5	15.2
2004-05	5410	2601	8011	5.7	8.0	6.4
2005-06	5678	2861	8539	5.0	10.0	6.6
2006-07	6638	3295	9933	16.9	15.2	16.3
2007-08	7757	4925	12682	16.9	49.5	27.7
2008-09	9146	4686	13832	17.9	-4.9	9.1
2009-10	9894	4706	14600	8.2	0.4	5.6
2010-11	11178	5767	16945	13.0	22.5	16.1
2011-12	16229	8700	24929	45.2	50.9	47.1
2012-13	17505	8867	26372	7.9	1.9	5.8
2013-14	19554	9971	29525	11.7	12.5	12.0
2014-15	21621	11253	32874	10.6	12.9	11.3
2015-16	23526	13126	36652	8.8	16.6	11.5

Source: Same as Table 1

There had been a spurt in the growth of the item when it was revised every five years. The abnormal increase in the expenditure during the years 2003-04, 2006-07, 2007-08 and 2011-12 are due to salary and pension revisions. The annual average growth in salaries and pension between 1990-91 and 2015-16 are given in Table 22.

Table 22

Annual Average Rate of Growth (%)

Period	Salaries and wages	Pension	Total
1990-91 to 1995-96	7.0	19.8	9.3
1995-96 to 2000-01	15.5	23.2	17.5
2000-01 to 2005-06	5.4	8.6	6.2
2005-06 to 2010-11	14.6	16.5	15.0
2010-11 to 2015-16	16.8	19.0	17.5

This shows that the annual average rate of growth of salaries and pension was 9.3% during 1990-91 and 1995-96. But it registered a high increase during the second half of 1990's. The rate of growth remained at high level of 17.5 percent during the period between 2010-11 and 2015-16.

One of the major reasons for the acute fiscal crisis in 2000-01 was due to pay and pension revisions. As the Local Governments, universities, semi-government institutions and public sector undertakings are following the salary pattern of the State government, they will also be forced to revise it once in five years. Due to the salary and pension revision once in five years, Local Governments, universities, semi-government institutions and public sector undertakings also began to experienced acute fiscal problems and crisis.

We may also examine the share of salary and pension expenditure to total revenue receipts, revenue expenditure and total expenditure (Table 23).

Table 23

Salary and Pension Expenditure – Parameters

Year	Total (Salary + Pension Expenditure)	Total as % of revenue receipts	Total as % of revenue expenditure	Total as % of total expenditure
2000-01	6380	73.1	53.7	50.1
2001-02	6002	66.3	51.5	48.5
2002-03	6533	61.4	44.3	41.6
2003-04	7529	63.7	48.6	43.2
2004-05	8011	59.3	46.7	44.4
2005-06	8539	55.8	46.3	43.7
2006-07	9933	54.6	47.7	45.0
2007-08	12682	60.1	50.9	46.5
2008-09	13832	56.4	49.0	44.6
2009-10	14600	55.9	46.9	42.9
2010-11	16945	54.7	48.9	43.7
2011-12	24929	65.6	54.1	49.0
2012-13	26372	59.8	49.3	44.5
2013-14	29525	60.0	48.8	44.6
2014-15	32874	56.7	45.8	42.8
2015-16	36652	51.6	44.8	41.2

Source: Same as Table 1

During the year 2000-01, when the State faced acute and unprecedented fiscal crisis, salary expenditure accounted for 73 percent of revenue receipts, 54 percent of revenue expenditure and 50 percent of the total expenditure. When the salary and pension revised, and the financial liability was spread to two years viz. 2006-07 and 2007-08, it accounted for 46.5 percent of the total expenditure. In the next salary revision effected in 2011-12, it accounts for 49 percent of the total expenditure. During 2015-16, prior to the implementation of salary and pension, it accounted for 42 percent of the total expenditure.

The State Government implemented another pay and pension revision from April 2016 as per the recommendations of 10^{th} State Pay Commission. Though the pay commission revised the scales of pay for a period of ten years, the State government implemented the same scale for five years. The pay commission hiked the salary scales suggesting its implementation for a period of ten years. But the higher scales of pay meant for 10 years was implemented for five years creating very huge financial burden for the State in future. It is estimated that the annual additional financial commitment for the revision of pay and pensions will be C 8300 crore per year. It is unlikely that the State can mobilise this amount through additional resource mobilization and borrowing. In this circumstances it is certain that the State may head towards another fiscal crisis in the immediate future.

Similarly, efforts are not made to curtail the wasteful revenue expenditure on many items. The KPERC had found the following items of wasteful expenditure: (i) It is found that 33,061 temporary excess staff are retained in non-functional establishments created for implementing projects, investigation of irrigation and public works projects, land acquisition, etc. in March 2014; (ii) The Committee found that in 191 schools comprising 69 government and 122 aided schools, the total student strength in all standards was less than 10 and the government is spending an amount of Rs 21 crore every year to pay salaries to the teachers; (iii) It is found that 3531 schools where salaries of the staff are paid by government are uneconomic based on the norm of student strength of less than 15 students per standard in 2013-14. Instead of redeploying the surplus staff in these uneconomic schools, Government has also given permission to fill vacancies arising due to death, resignation, promotion and retirement of staff in the schools; (iv) Though nearly half of the total staff and salary expenditure of the government belonged to public education sector consisting of government and private aided, the successive governments followed a policy of starting new educational institutions in public sector involving huge financial commitment instead of promoting private investment in the sector; (v) In spite of the implementation of e-governance in most of the government departments, steps were not taken to reduce the staff strength fixed based on the earlier staff pattern, resulting in existence of large number of surplus staff (KPERC Third Report).

From the budgetary resources, the Government is supporting a large number of loss making commercial public sector undertakings which are not providing much social returns. Similarly, a lot of wasteful expenditure is incurred for distribution of subsidies for items like conducting festival markets, widespread misuse of government vehicles, etc. Three examples will give an idea about the extent of wasteful expenditure that prevails in many areas of administration. 1). While the Madhya Pradesh Public Service Commission has three members including chairman. The Kerala Public Service Commission has 21 full time members in 2016. 2). A minister in Central Government had 15 personal staff, but in Kerala, a minister had 32 staff on an average in March 2016. 3). In a small State like Kerala, has 114 government Departments. A good number of the Departments were created for accommodating more staff at higher level.

An attempt is made to present a purpose wise analysis of total expenditure coming under the consolidated fund. Table 24 gives a purpose wise total expenditure for 2010-11 and 2014-15.

Table 24

Total Expenditure in Consolidated Fund: Purpose wise

	Purpose	**2010-11**		**2014-15**		**Growth (%)**
		Total Amount (Rs crore)	**Share (%)**	**Total Amount (Rs crore)**	**Share (%)**	
1	Salaries	11074.17	29.1	21410.75	28.2	93.3
2	Pension	5805.65	15.3	11309.71	14.9	94.8
3	Interest	5700.71	15.0	9804.32	12.9	72.0
4	Grant-in-aid	5348.80	14.1	12555.15	16.5	134.7
5	Other charges	912.83	2.4	1828.03	2.4	100.3
6	Subsidies	626.83	1.6	1252.52	1.6	99.8
7	Major works	446.16	1.2	997.66	1.3	123.6
8	Scholarships and stipends	436.24	1.1	582.29	0.8	33.5
9	Contributions	188.47	0.5	89.19	0.1	-52.7
10	Office expenses	148.02	0.4	181.52	0.2	22.6
11	Wages	140.63	0.4	278.12	0.4	97.8
12	Materials and supplies	89.71	0.2	112.58	0.1	25.5
13	Machinery and equipment	80.23	0.2	65.13	0.1	-18.8
14	Travel expenses	68.77	0.2	118.41	0.2	72.2
15	POL	44.32	0.1	77.60	0.1	75.1
16	Others	6981.20	18.4	15521.1	20.4	122.3
17	Recoveries of overpayment	-64.24	-0.2	-183.06	-0.2	185.0
	Total	38028.50*	100.0	76001.02*	100.0	99.9

*Excluding loans and advances

Source: CAG (2011): Finance Accounts 2010-11, Vol. I; CAG (2015): Finance Accounts 2014- 15, Vol.I

The four major items of expenditure of the State are salaries, pensions, interest and grant-in-aid (teaching grants and others) given to private aided educational institutions. These four items account for 72.5% of the total expenditure in 2014-15. Except interest, the spurt in the growth of expenditure has been mainly due to the pressure of the vested interest groups. On the other hand the share of expenditure for major works (1.3%), materials and supplies (0.1%) machinery and equipment (0.1%) are megre. This suggests that the actual expenditure (other than establishment) for public works such as road, buildings, irrigations, public services like hospital infrastructure, equipments, medicines, are megre. A lot of unnecessary establishments, Departments, Semi government institutions, public sector undertakings were created mainly to give jobs in the public sector. Unless we break the vicious circle of unnecessary public establishment institutions, excess number of staffs, retaining of loss making public sector undertakings, higher pay and pensions and diversion of nearly half of total expenditure (salaries, pension, teaching grants etc.) we cannot solve the fiscal crisis in Kerala.

Capital Expenditure

The above pattern of NPRE has resulted in a situation where the State finds it extremely difficult to find resources for capital and plan expenditure. A review of the capital expenditure indicates that there has been a negative growth rate in capital expenditure during the years 2013-14 and 2014-15 (Table 25).

Table 25

Capital and Plan Expenditure

Year	Capital Expenditure (Rs crore)	Growth rate (%)	Plan Expenditure (Revenue + Capital) (Rs crore)	Growth rate (%)
2000-01	577	-	3303	-
2005-06	817	-	4231	-
2010-11	3364	-	10025	-
2011-12	3853	14.54	11758	17.29
2012-13	4603	19.47	14737	25.34
2013-14	4294	-6.71	14901	1.11
2014-15	4255	-0.91	14252	-4.36

Source: Same as Table 1

A major consequence of the fiscal crisis has been decline in the spending on capital on general, social and economic services. And this has created serious constraints in expanding the capital stock for the services.

We have made an analysis of the item wise capital expenditure for general, social and economic services for the years 2010-11 and 2014-15. Table 26 gives the item wise capital expenditure for 2010-11.

Table 26
Capital Expenditure in the consolidated fund 2010-11: By Function

	Itemwise	Amount (Rs crore)	Share (%)
I	**General services**		
1	Public works	107.54	3.2
2	Other administrative services	11.01	0.3
3	**Sub-Total**	**118.55**	**3.5**
II	**Social services**		
4	General education	85.59	2.5
5	Medical and public health	98.79	2.9
6	Water supply and sanitation	113.36	3.4
7	Housing	88.94	2.6
8	Welfare of Scheduled Caste, Scheduled Tribe and Other Backward Classes	72.37	2.2
9	Other social services	20.19	0.6
10	**Sub-Total**	**479.24**	**14.2**
III	**Economic services**		
11	Fisheries	83.98	2.5
12	Cooperation	211.05	6.3
13	Other agricultural programmes	57.62	1.7
14	Other rural development programmes	22.49	0.7
15	Major irrigation	50.59	1.5
16	Medium irrigation	109.76	3.3
17	Minor irrigation	27.19	0.8
18	Flood control and drainage	104.76	3.1
19	Village and small industries	20.01	0.6
20	Telecommunication and electronics industries	192.33	5.7
21	Consumer industries	35.78	1.1
22	Other outlays on industries and minerals	116.17	3.5
23	Ports and lighthouses	152.13	4.5
24	Civil aviation	49.07	1.5
25	Roads and bridges	1408.12	41.9
26	Road transport	43.37	1.3
27	Other transport services	45.63	1.4
	Science and technology		
28	Other scientific research	1.07	0.0
29	Tourism	34.61	1.0
30	Other general economic services	0.17	0.0
31	**Sub-Total**	**2765.90**	**82.2**
	Total capital expenditure in consolidated fund	**3363.69**	**100.0**

Source: Same as Table 24

Of the total expenditure, 3.5 percent was spent for general services, 14.2 percent for social services and 82.2 percent for economic services. The roads and bridges was the major single item which account for 42 percent of the capital expenditure. Under economic services, the major items to which capital expenditure were incurred are cooperation, telecommunication and electronic industries, port and light houses, industries and minerals, medium irrigation etc. Under social services the major item on which capital expenditure were incurred are water supply and sanitation, medical and public health, general education, housing etc. A detailed analysis of the spending on capital shows that the expenditure on many core items are very megre. Diversion of large amount funds for non-capital items had resulted in acute shortage of funds for capital spending. The situation has not changed much in 2014-15 (table 27).

Table 27
Capital Expenditure in the consolidated fund 2014-15: By Function

	Itemwise	Amount (Rs crore)	Share (%)
I	**General services**		
1	Police	29.82	0.7
2	Public works	101.68	2.4
3	Other administrative services	3.16	0.1
4	**Sub-Total**	**134.66**	**3.2**
II	**Social services**		
5	General education	307.33	7.2
6	Medical and public health	193.19	4.5
7	Water supply and sanitation	74.55	1.8
8	Urban development	38.20	0.9
9	Welfare of SC, ST, OBC and minorities	40.22	0.9
10	Social security and welfare	50.30	1.2
11	Other social services	171.47	4.0
12	**Sub-Total**	**875.26**	**20.6**
III	**Economic services**		
13	Soil and water conservation	43.59	1.0
14	Fisheries	124.27	2.9
15	Forestry and wildlife	42.52	1.0
16	Food, storage and warehousing	35.87	0.8
17	Cooperation	133.45	3.1
18	Other agricultural programmes	18.73	0.4
19	Other rural development programmes	218.21	5.1
20	Major irrigation	36.05	0.8
21	Medium irrigation	23.67	0.6
22	Minor irrigation	92.00	2.2
23	Flood control and drainage	118.52	2.8
24	New and renewable energy	0.86	0.0
25	Village and small industries	20.84	0.5
26	Telecommunication and electronics industries	178.84	4.2
27	Consumer industries	37.10	0.9
28	Other outlays on industries and minerals	23.44	0.6
29	Ports and lighthouses	48.45	1.1
30	Roads and bridges	1477.26	34.7
31	Road transport	76.89	1.8
32	Other transport services	302.11	7.1
	Science, technology and environment		
33	Other scientific research	0.30	0.0
34	Tourism	134.17	3.2
35	Other general economic services	57.53	1.4
36	**Sub-Total**	**3244.67**	**76.3**
	Total capital expenditure	**4254.59**	**100.0**

Source: Same as Table 24

Thus the economic consequence of fiscal crisis is the lack of resources for capital expenditure. Fiscal problems and shortage of funds had led to a cut in capital expenditure, which is a pre requisite for economic and social development. A State like Kerala cannot move forward in economic and social fronts without more capital expenditure.

Conclusion

The above analysis may be concluded with the following observations. The State has been facing an acute fiscal crisis and heading towards a fiscal crisis trap. The revenue and fiscal deficits are at very high levels. The reliance on borrowing to cover fiscal deficit is diminishing as the net availability of borrowing after adjusting payment of interest and repayment of principal is meagre. This has led to a situation where the State is forced to seek funds outside the budget for capital, plan and development projects. The causes of the current crisis are similar to that prevailed earlier. On the revenue side, slump in resource mobilization, lack of periodical revision of rate of taxes and non-taxes, fall in the growth of tax revenue, underperformance of the Commercial Taxes Department in collection of sales tax and VAT, non-realisation of additional resource mobilization targeted in the budget, inflated plan outlays, fall in dividends and profits from public sector undertakings, accumulation of arrears of revenue and inefficient and poor collection of taxes and non-tax items have contributed to the crisis. The recessionary situation that prevailed in the State economy in recent years also contributed to the decline in the growth of tax revenue.

Rapid rise in NPRE and the failure of successive governments to curtail the expenditure is the root cause of the present crisis as well as earlier crises. Though the State does not have resources to meet the additional expenditure required for salaries and pension revision once in five years, the successive governments effect revisions to satisfy the powerful trade unions of government employees which are allied with political parties. The diversion of huge resources to meet the expenditure connected with arrears of pay and revision of scales of pay destabilizes the finances of the State. Similarly, a large number of new public institutions, projects, private aided educational institutions were started and populist schemes of benefit distribution were implemented without considering the resource availability and future financial requirments due to political considerations. Efforts are not made to abolish unnecessary establishments, institutions, public sector undertakings making huge losses on a sustained basis, schools that do not have sufficient number of students, schemes which do not produce any social returns and curtail excess staff and wasteful administrative expenditure. Thus, for formulating measures to address fiscal crisis, one has to give emphasis on two fronts, viz. greater mobilization of State own resources and curtailment of NPRE.

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