

Persistent rise in Public Expenditure of Kerala : An Analysis

Jerry Alwin

International Seminar

Department of Economics

University of Kerala

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Objectives

- Examine fiscal policies pursued in Kerala with regard to public expenditure
- Discuss the trend, pattern and reasons for persistent rise of the public expenditure
- Data sources are Budget documents of Government of Kerala, Reports of the Comptroller and Auditor General of India (CAG), RBI data on state finances etc.

Hypothesis

- The unsound fiscal policies pursued by successive governments neglecting the own resource mobilisation on the one hand and excessive increase in non-plan revenue expenditure and poor fiscal management on the other, have contributed to persistent fiscal crisis.
- This led to a vicious circle of persistent low revenue receipts, higher non-plan revenue expenditure (NPRE) increase in borrowing to meet NPRE and unmanageable level of revenue and fiscal deficits

I. Fiscal crisis in 2016 (White Paper, June 2016)

- The State has been facing an acute fiscal crisis
- Entire borrowing permitted by central government is just sufficient to meet the day to day expenditure
- No funds left for capital expenditure
- Inflated annual plans- not based on resources availability
- Fall in plan expenditure (actual plan expenditure 60-70%)
- Schemes in the budget had no resources to finance them

Two reasons for the crisis :

- 1) Failure on expenditure control and
- 2) Poor resource mobilisation

Prediction of White Paper 2016

- If the same fiscal situation continues, state would be in a fiscal anarchy in 2017-18.
- Development and growth of the state would come to a halt
- By 2021, the revenue deficit would exceed 3.25% of GSDP and gross fiscal deficit 6.25% of GSDP
- Will Result in default of payments on salaries, pensions and loan repayment obligations by 2021
- The state will move to fiscal collapse by 2021

Fiscal Situation Worsens Since 2015-16

- Available evidences suggests that the fiscal situation worsens since 2015-16
- The CAG report says that the fiscal crisis become worse in 2016-17 (Table 1,2 & 3)
- There has been an increase in revenue deficit, fiscal deficit and debt GDP ratio.
- During 2017-18 government imposed severe restrictions on treasury payments except salary & pension during the major part of the year
- The government withdraw an amount of Rs 12,000 crore deposited by government departments and 1200 LGs in treasury saving bank accounts.

- Expenditure control on non-plan revenue expenditure and additional treasury restrictions were announced in March 2018.
- In addition to the existing treasury restrictions, new restrictions were imposed in December 2018.
- Stringent treasury restrictions implemented since 15th February 2019
- For passing a bill in the treasury the upper ceiling limit is fixed as Rs 1 lakh (except the bills of salaries and pensions)
- Two severe floods in August 2018 & 2019 and the economic recessions badly affected revenue receipts.

Table 1
Trends in Revenue Deficit (RD)

Year	Revenue deficit (Rs Crore)	RD as % of revenue expenditure	GSDP* (Rs crore)	RD as % of GSDP	RD as per KFR Act (%)
2000-01	3147	26.5		4.3	
2005-06	3129	17.0		2.3	
2010-11	3674	10.6	324513	1.13	
2011-12	8035	17.4	364048	2.21	1.4
2012-13	9352	17.5	412313	2.27	0.9
2013-14	11309	18.7	465041	2.43	0.5
2014-15	13796	19.2	512564	2.69	0.0
2015-16	9657	12.3	561994	1.72	0.0
2016-17	15484	17.0	616357	2.51	0.0
2017-18	16928	16.9	686764	2.46	0.0

Note: *The GSDP figures given in budget in brief 2019-20 issued for calculation of all GSDP fiscal indicators in the paper

Source: CAG (2016), Report of CAG on state finances for the year ended March 2015 and CAG (2018), Report for the year ended March 2017 and budget in brief 2019-2020.

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 (%)
2000-01	3878	31.1	5.3	
2005-06	4182	21.4	3.1	
2010-11	7731	19.9	2.38	
2011-12	12815	25.2	3.52	3.5
2012-13	15002	25.3	3.64	3.5
2013-14	16944	25.5	3.64	3.0
2014-15	18642	24.2	3.64	3.0
2015-16	17818	20.5	3.17	3.0
2016-17	26448	25.8	4.29	3.0
2017-18	26837	24.3	3.91	3.0

Source: Same as Table 1

Table 3
Trends in public debt

Year	Public debt (Rs Crore)	Rate of growth (%)	Debt/GSDP (%)	Target as per KFR Act (Debt-GSDP Ratio)
2000-01	23919	-	32.9	
2005-06	45929	9.7	33.5	
2010-11	78673	10.9	24.24	
2011-12	89418	13.7	24.56	32.2
2012-13	103561	15.8	25.12	31.7
2013-14	119009	14.9	25.59	30.7
2014-15	135440	13.8	26.42	29.8
2015-16	157370	16.2	28.00	31.3
2016-17	186453	18.5	30.25	30.8
2017-18	210762	13.03	30.69	30.4

Source: Same as Table 1

II. Fiscal Policy on Resource Mobilization

- Fiscal policy pursued by successive governments in Kerala had given low priority for achieving healthy and stable fiscal situation due to political factors.
- They are lack of timely revision of taxes and non-taxes, poor collection, laxity in collection of arrears, fixing inflated plan outlays and fiscal extravagance.
- Failure to achieve resources mobilisation targeted in the budget
- Fixing inflated plan outlays without considering resource
- Lack of serious steps to strengthen the tax administration, increase efficiency in collection (e-governance), lack of serious steps to collect the arrears of tax & non-tax revenue

Table 4
Trends in Total Receipts in the Consolidated Fund*
(Rs crore)

Year	Total revenue receipts	Non-debt capital receipts	Public debt receipts	Total receipts	Share of public debt receipts to total receipts
2000-01	8731	117	2156	11004	19.6
2005-06	15295	52	5823	21170	27.5
2010-11	30991	69	7189	38249	18.8
2011-12	38010	71	9799	47880	20.5
2012-13	44137	89	13261	57487	23.1
2013-14	49177	123	14461	63761	22.7
2014-15	57950	152	18509	76611	24.2
2015-16	69033	181	19658	88872	22.1
2016-17	75612	322	23858	99792	23.9
2017-18	83020	380	30234	113634	26.6

*Excluding public account receipts: *Source:* Same as Table 1

Trends in Revenue Receipts

- There has been a steep decline in growth rate of own tax revenue since 2011-12 (Table 5)
- But there has been an increase in growth rate of central tax transfer
- The growth rate of revenue receipts was lower in 2016-17 and 2017-18
- The share of own taxes revenue receipts witness a steady fall
- The share of central tax transfer and grants-in-aid witnessed an increase
- Of the total revenue, the state's share is 69% and centre 31% in 2017-18 (Table 6)
- The structure of total revenue receipts is given in the Table 6

Table 5
Total Revenue Receipts

Year	Own taxes	Non-tax revenue	Central tax transfer	Grant-in-aid	Total revenue receipts
	Amount Rs crore				
2010-11	21722	1931	5142	2196	30991
2011-12	25719	2592	5990	3709	38010
2012-13	30077	4198	6841	3021	44137
2013-14	31995	5575	7469	4138	49177
2014-15	35232	7284	7926	7508	57950
2015-16	38995	8426	12691	8921	69033
2016-17	42177	9700	15225	8510	75612
2017-18	46459	11199	16833	8528	83020
	Growth in %				
2011-12	18.4	34.2	16.5	68.9	22.6
2012-13	16.9	62.0	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
2015-16	10.7	15.7	60.1	18.8	19.1
2016-17	8.2	15.1	19.9	-4.6	9.5
2017-18	10.1	15.4	10.6	0.2	9.8

Source: Same as Table 1

Table 6
Percentage share of Total revenue receipts

Year	Own taxes	Non-tax revenue	Central tax transfer	Grant-in-aid	Total revenue receipts
2010-11	70.09	6.23	16.59	7.08	100
2011-12	67.66	6.81	15.75	9.75	100
2012-13	68.14	9.51	15.49	6.84	100
2013-14	65.06	11.33	15.18	8.41	100
2014-15	60.79	12.56	13.67	12.95	100
2015-16	56.49	12.21	18.38	12.92	100
2016-17	55.78	12.83	20.14	11.25	100
2017-18	55.96	13.49	20.28	10.27	100

Source: Same as Table 1

III. Fiscal policies on Expenditure

- State sponsored and funded development strategy in all sectors since the formation of the state.
- The policy was to achieve development in all sectors through public investment
- Low priority was given to private investment till 1991 especially in non-agricultural sectors
- A large number of regulatory measures were implemented till 1991
- Salaries and pensions were revised once in five years and the same pattern was followed in autonomous bodies, universities, public sector undertakings and semi government organisations.

- Fiscal extravagance to satisfy the powerful vested interest groups-trade unions in public sector, private aided institutions, bureaucracy, social organisations, other vested interest groups etc.
- Unnecessary public sector undertakings were started in tourism, hotels, housing, trade production of consumer goods etc.
- Expansion of public sector employment without considering future liability.
- Promoted public educational institutions, giving liberal grants-in-aid to private institutions (public expenditure)
- This led to rapid growth in NPRE, borrowing to meet the NPRE and pushed the state in to persistent fiscal crisis

Total Expenditure (TE)

- Total Expenditure is classified as revenue and capital
- The growth rate was 31.2% in 2011-12. This was mainly due to the pay revision (Table 7).
- During last five years the annual growth rate of total expenditure ranged between 17.6 & 11.8 except 2017-18
- The total expenditure-GSDP ratio in the last three years was about 16%
- The resource gap between revenue receipts and TE was about 25% for six years (out of 8 years)
- This means that nearly one fourth of the expenditure has been met through borrowing

Table 7
Total expenditure – Basic Parameters

Year	Total expenditure(TE) (Rs crore)	Rate of growth (%)	TE/ GSDP* (%)	Revenue receipts/TE (%)
2010-11	38791	-	11.9	79.9
2011-12	50896	31.2	13.9	74.7
2012-13	59228	16.4	14.4	74.5
2013-14	66244	11.8	14.2	74.2
2014-15	76744	15.9	14.9	75.5
2015-16	87032	13.4	15.5	79.3
2016-17	102382	17.6	16.6	73.8
2017-18	110238	7.7	16.1	75.3

* GSDP figures given in the table 1 is used to estimate TE/GSDP ratio

Source: Same as Table 1

Revenue Expenditure (RE)

- RE accounts for about 89 to 93% of TE (Table 8)
- Annual Growth rate of RE range between 10 & 33 %
- Pay revisions ones in five years is the major factor which determine the growth of RE
- During 2011-12 the growth rate in RE was 32.8% mainly due to pay revision
- Only a small share of TE is spend for Capital Expenditure
- To find resources for RE, a cut in Capital Expenditure were effected
- The fall in RE in 2017-18 is due to severe restrictions imposed on treasury payments for major part of the year.

Table 8
Revenue Expenditure – Parameters (Rs in crore)

Year	Revenue expenditure (RE)	Growth rate of RE (%)	RE to total expenditure (%)	RE/GSDP Ratio (%)
2010-11	34665	-	89.4	10.7
2011-12	46045	32.8	90.5	12.6
2012-13	53489	16.2	90.3	12.9
2013-14	60486	13.1	91.3	13.0
2014-15	71746	18.6	93.5	13.9
2015-16	78690	9.7	90.4	14.0
2016-17	91096	15.7	88.9	14.8
2017-18	99948	9.7	90.7	14.6

Source: Same as Table 1

Non Plan Revenue Expenditure (NPRE)

- The NPRE is to meet items like salaries, pension, interest, subsidies, establishment, administration, grants-in-aid, etc.
- NPRE accounts for 76-81% of total expenditure (Table 9)
- NPRE as percent of revenue receipts was more than 100% in seven years except 2015-16
- This suggest that the entire revenue receipts is not sufficient to meet NPRE
- For meeting NPRE, government resort to continuous borrowing.
- The major factor which influence NPRE is salary, pension and DA revisions
- Rapid rise in NPRE is the root cause of the fiscal crisis

Table 9
Non Plan Revenue Expenditure (NPRE)

Year	NPRE (Rs in crore)	Rate of Growth (%)	NPRE/GSDP Ratio (%)	NPRE as % of TE	NPRE as % of revenue receipts
2010-11	30469	-	9.4	78.5	98.3
2011-12	40718	33.6	11.2	80.0	107.1
2012-13	46640	14.5	11.3	78.7	105.7
2013-14	53412	14.5	11.5	80.6	108.6
2014-15	61462	15.1	11.9	80.1	106.1
2015-16	66611	8.4	14.4	76.5	96.5
2016-17	77604	16.5	12.6	75.8	102.6
2017-18	83767	7.9	12.2	76.0	100.9

Source: Same as Table 1

Salary and Pension Expenditure

- Kerala has a total staff strength of 5.15 lakh of staff including private aided staff (Table 10)
- A major cause of the fiscal crisis has been the revision of salary and pensions once in five years
- Between 1997 and 2014, four pay revisions were implemented
- Revision of salary results in an increase in expenditure of about 45 per cent in 2011-12 (Table 11)
- The revision of pension results in 50 per cent increase in expenditure in 2011-12 (Table 12)

- It accounts for 46 to 54 percent of the revenue expenditure
- It accounts for major share of NPRE
- Starting new private aided institutions and courses involving huge financial commitment.
- Funds to support uneconomic Government and private aided schools and excess teachers
- Due to lack of norms for utilisation of Government vehicles for personal purposes, widespread misutilisation is taking place
- The LDF government has created nearly 20,000 new posts during the last 3 years

Table 10
Total Staff: Different Categories

	Category	Number in March 2012	Number in January 2019	Growth rate (%) (2012-2019)
1	State Government	485757	496196	2.1
2	Consolidated Pay	592	934	57.8
3	All India Services	197	288	46.2
4	UGC	13544	15380	13.6
5	AICTE	1877	2230	18.8
6	Judicial	525	551	4.9
7	Others	183	60	-67.2
	Total	502675	515639	2.6

Source: GoK (2019), Appendix 1 to detailed budget estimates of 2019-20, Details of Staff (and previous issues)

Table 11
Salary Expenditure

Year	Salary Expenditure (Rs in crore)	Growth (%)	Share of total expenditure (%)	Share of revenue expenditure (%)
2010-11	11178	-	28.8	32.2
2011-12	16229	45.1	31.8	35.2
2012-13	17505	7.8	29.5	32.7
2013-14	19554	11.7	29.5	32.3
2014-15	21621	10.5	28.1	30.1
2015-16	23757	9.9	27.3	30.2
2016-17	28373	19.4	27.7	31.1
2017-18	32349	14.0	32.4	32.4

Source: Same as Table 1

Table 12
Pension Expenditure

Year	Pension Expenditure (Rs in crore)	Growth (%)	Share of total expenditure (%)	Share of revenue expenditure (%)
2010-11	5767	-	14.8	16.6
2011-12	8700	50.8	17.1	18.9
2012-13	8867	1.9	14.9	16.6
2013-14	9971	12.4	15.1	16.5
2014-15	11253	12.8	14.6	15.7
2015-16	13063	16.1	15.0	16.6
2016-17	15277	16.9	14.9	16.7
2017-18	19938	30.5	18.1	19.9

Source: Same as Table 1

Interest Payments

- Interest on public debt is a major item of revenue expenditure
- There has been an increase in interest payments since 2011-12 (Table 13)
- Interest accounts for 13 to 16 percent of revenue expenditure.
- During the year 2017-18, this was a spurt in growth rate (25%)
- This indicate increased borrowing to meet NPRE

Table 13
Expenditure on interest

Year	Interest (Rs in crore)	Growth rate (%)	Interest as % of revenue expenditure
2010-11	5690	-	16.41
2011-12	6294	10.6	13.67
2012-13	7205	14.5	13.47
2013-14	8265	14.7	13.66
2014-15	9770	18.2	13.62
2015-16	11111	13.7	14.1
2016-17	12117	9.1	13.3
2017-18	15120	24.8	15.1

Source: Same as Table 1

Revenue Expenditure : General, Social and Economic Services

- General service consists of administration of justice, land revenue, interest payments, police, pension and other general services
- Social service consists of public education, health, water supply, urban development, welfare of SC/ST etc, labour and labour welfare, social welfare etc.
- Economic service consists of agriculture and allied, rural development, irrigation, energy, industry, transport, science and technology etc.

Trends in Revenue Expenditure : General, Social and Economic Service

- There has been an increase of general and social services except 2017-18 (Table 14)
- But the spending on economic service registered a steady decline.
- There has been a negative growth in 2016-17
- The growth in expenditure was only 6.5% in 2017-18
- Due to fiscal crisis there has been a cut in economic services

Table 14
Revenue expenditure : general, social and economic services

Year	General Services	Social Services	Economic Services	Grants-in-aid	Total
	Amount (Rs crore)				
2010-11	15418	12111	4358	2778	34665
2011-12	20300	16224	6132	3389	46045
2012-13	22787	18878	7808	4016	53489
2013-14	26605	20980	7929	4972	60486
2014-15	31433	23718	10197	6398	71746
2015-16	36085	27603	11099	3903	78690
2016-17	41195	33765	10655	5481	91096
2017-18	45524	35876	11351	7197	99948
	Growth Rate (%)				
2011-12	31.7	33.9	40.7	22.0	32.8
2012-13	12.2	16.3	27.3	18.5	16.2
2013-14	16.7	11.1	1.5	23.8	13.1
2014-15	18.1	13.1	28.6	28.7	18.6
2015-16	14.8	16.4	8.8	-39.0	9.7
2016-17	14.2	22.3	-4.0	40.4	15.8
2017-18	10.5	6.3	6.5	31.3	9.7

Source: Same as Table 1

Trends in Capital expenditure : General, Social and Economic services

- The spending on general and social services witness wide variation
- There has been a negative growth in economic services (Table 15)
- Of the seven years, 3 years witnessed a negative growth
- There has been a negative growth in capital expenditure during 3 years
- This indicate that there has been a cut in capital expenditure
- The structure of revenue and capital expenditure is given in table 16

Table 15
Capital expenditure : general, social and economic services

Year	General Services	Social Services	Economic Services	Total
	Amount (Rs crore)			
2010-11	119	479	2766	3364
2011-12	162	595	3096	3853
2012-13	147	562	3894	4603
2013-14	148	617	3529	4294
2014-15	135	875	3245	4255
2015-16	257	1035	6208	7500
2016-17	211	1293	8622	10126
2017-18	268	1406	7075	8749
	Growth Rate (%)			
2011-12	36.1	24.2	11.9	14.5
2012-13	-9.3	-5.5	25.8	45.4
2013-14	0.7	9.8	-9.4	-6.7
2014-15	8.8	41.8	-8.0	-0.9
2015-16	90.4	18.3	91.3	76.3
2016-17	-17.9	24.9	38.9	35.0
2017-18	27.0	8.7	-17.9	-13.6

Source: Same as Table 1

Table 16
Structure of Revenue and Capital Expenditure (% share)

Year	General Services	Social Services	Economic Services	Grants-in-aid	Total
	Revenue Expenditure (%)				
2010-11	44.5	34.9	12.6	8.0	100
2017-18	45.5	35.9	11.4	7.2	100
	Capital Expenditure (%)				
2010-11	3.5	14.2	82.2	NA	100
2017-18	3.1	16.1	80.8	NA	100

Plan Expenditure

- Plan expenditure (revenue) accounts for 12 to 16 percent of total revenue expenditure (Table 17)
- There has been a decline in its growth rate in plan expenditure since 2014-15
- During 2017-18, the growth in plan expenditure was 19.9 percent
- Plan expenditure (capital) account for 75 to 91 percent of capital expenditure (Table 18)
- The growth rate in capital expenditure is not steady.
- During 2017-18, there has been a negative growth in capital expenditure.

Table 17
Revenue Expenditure : Plan + Non-plan

Year	Plan (Rs crore)	Non-plan (Rs crore)	Total revenue expenditure (Rs crore)	Growth rate of plan expenditure (%)	Share of plan to total revenue expenditure (%)
2010-11	4196	30469	34665	-	12.1
2011-12	5327	40718	46045	26.9	11.6
2012-13	6849	46640	53489	28.6	12.8
2013-14	7074	53412	60486	3.3	11.7
2014-15	10282	61464	71746	45.3	14.3
2015-16	12079	66611	78690	17.5	15.4
2016-17	13492	77604	91096	11.7	14.8
2017-18	16182	83767	99948	19.9	16.2

Source: Same as Table 1

Table 18
Capital Expenditure : Plan + Non-plan

Year	Plan (Rs crore)	Non-plan (Rs crore)	Total capital expenditure (Rs crore)	Growth rate of plan expenditure(%)	Share of plan to total capital expenditure (%)
2010-11	2766	598	3364	-	82.2
2011-12	3398	455	3853	22.8	88.2
2012-13	3466	1137	4603	2.0	75.3
2013-14	3497	797	4294	0.9	81.4
2014-15	3881	374	4255	10.9	91.2
2015-16	6518	982	7500	67.9	86.9
2016-17	8946	1180	10126	37.3	88.3
2017-18	7994	755	8749	-10.6	91.4

Source: Same as Table 1

Conclusions

- Kerala's fiscal crisis is a basic, structural and persistent problem
- It is not a temporary or short term problem
- Fiscal policies pursued have given low priority for own resource mobilisation and improving fiscal management
- Excessive increase in NPRE is the root cause of the fiscal crisis
- The entire revenue receipts is not sufficient to meet the NPRE.
- For meeting NPRE government resorts to continuous borrowing
- Major items of NPRE are salary, pension and teaching grants
- There is a spurt in the growth of interest (25% in 2017-18)
- Decline in capital expenditure is a serious issue (in three years there is negative growth).
- The fiscal crisis has been adversely affecting annual plan expenditure in recent years

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