Chapter 9

State Finances in Kerala

R. RAMALINGOM AIYAR AND K. N. KURUP

The state of Kerala, situated at the southernmost tip of the Indian subcontinent, occupies a unique position in many respects. With 1.19 percent of the total land area in India, the state has to support 3.7 percent of the country's population. It was the most densely populated state in India according to the 1981 census and second after West Bengal in the 1991 census. The state's population density was 747 persons per sq km in 1991. Kerala had the highest economic growth rate in the country until 1971, but it has fallen behind the national average since then. The state's population as per the 1991 census provisional figures was 290.11 lakhs, with a sex ratio of 1040 women for every 1000 men, indeed a unique feature in India.

Life expectancy at birth in Kerala was 67 years for men and 70 years for women in 1988, as against the all-India levels of 55 and 54 years respectively. The infant mortality rate in Kerala dropped to 24 per 1000 live births in 1988, whereas the all-India rate was as high as 94. The state achieved a 50 percent reduction in its birth rate and a 65 percent reduction in the death rate during the last three decades. The birth rate was 19.9 per thousand and the death rate 6.0 per thousand in 1988.

Kerala has the highest literacy rate of any state, 81.56 percent in 1981 and 90.59 percent in 1991, as against 52.11 percent for the country as a whole in the latter year. Out of the 14 districts in the state, four have the distinction of having achieved total literacy in 1991.

Table 9.1 shows selected indicators of development. The state's achievements are quite good under electrification of villages, road length per 100 sq km area, school enrollment of children in the age groups 6-11 and 11-14, hospital beds per lakh of population, bank offices per lakh of population, population below the poverty line, etc.

This chapter is divided into nine parts, covering the following topics: (1) an overview, (2) the overall revenue budget, (3) revenue receipts, (4) the state's own tax revenue, (5) nontax revenue, (6) revenue expenditure, (7) wage bill, (8) revenue transfers from the central government, and (9) externally aided projects. A comparative analysis of certain important aspects of Kerala's state finances with that of the other southern states and with the all-states average also is attempted, depending on the availability of data.

AN OVERVIEW

The development experience of Kerala presents certain paradoxical features. Kerala's per-capita income growth has been rather poor and persistently below the national average. At the same time the physical quality of life, as indicated by lower infant mortality, low death rates, high life expectancy, and the higher literacy rate attained by the state, is way ahead of all other regions in the country. Thus a state with relatively low per-capita income has levels of some social indicators that are in line with the performance of developed countries. An inevitable consequence of the high literacy rate is high incidence of unemployment, which curiously is accompanied by relatively high wage rates. The dependence of its population to a very great extent on small agriculture (more than 80 percent of the holdings are less than 0.2 hectare in size) and the absence of a well developed industrial sector have made Kerala a problem state, however, especially on the fiscal side.

At the core of this development paradox is the structural profile of the state's economy, with its fragile base and low growth of commodity producing sectors. The average annual rate of growth of state income from the primary sector was -0.43 percent, compared to the all-India rate of growth of 4.5 percent during the period from 1961-62 to 1988-89. Similarly, the annual rate of growth of state income in the secondary sector was only 3.5 percent, compared with the all-India figure of 6.9 percent. Growth in the secondary sector was largely accounted for by construction and power rather than by manufacturing, the share of which in state domestic product (SDP) is only 15.4 percent at present. As against an annual growth rate of 10.6 percent for all manufacturing in India as a whole (at 1980-81 prices), the growth rate achieved by Kerala was only a meager 1.7 percent p.a. between 1980-81 and 1987-88. The slow and lopsided growth of SDP has been a major factor limiting the expansion of productive employment opportunities, leading to a rise in the incidence of unemployment. The state's capacity to generate adequate budgetary resources for accelerating economic development also has been adversely affected by the pattern of growth. The share of the tertiary sector in state income has risen significantly during the past three decades, which is somewhat in line with the all-India pattern. But the fact is that such a sectoral transformation is not based on industrialization acting as a springboard to stimulate growth in the tertiary sector. Clearly the process of development that has taken place is not conducive to sustaining Kerala's achievements in the social aspects of development.

The sluggish growth of the economy has created a vicious circle, as it coincided with a marked slowdown in plan activities, with per-capita plan investment remaining much below the national average. The growth in plan outlays, both in absolute terms and in per-capita terms, has been grossly inadequate to support the required level of economic growth. This disparity has been more pronounced in the past two decades. The comparative position of per-capita plan outlays is shown in Table 9.2. Lately, however, the state has shown a remarkable recovery in plan investment and particularly a change in its direction, with a view to narrowing the gap between the state's per-capita plan investment and the national average on the one hand and accelerating the pace of economic growth on the other, largely through prudent management of the finances of the State.

Kerala's inability to raise its per-capita plan outlay squarely rests on its failure to generate adequate budgetary saving. Kerala's overall budgetary position for selected years is shown below:

	1957-58	*1974-75*	*1975-76*	*1976-77*	*1980-81*	*1985-86*	*1986 87*	*1987-88*	*1988-89*	*1989-90*
Budgetary surplus (+) or deficit (-)	+8.4	+12 0	-15.0	-14.0	-67.0	+122.0	-169.0	-6.0	+14.0	-55.0
Ratio to SDP (percent)	+2.6	+0.6	-0.7	-0.6	-1.9	+1.8	-2.3	-0.1	+0.0	-0.1

The state's budgetary deficit as a share of SDP reached a peak of -2.3 percent in 1986-87. The magnitude of this deficit was especially serious, as that financial year had commenced with a large opening surplus primarily due to large transfers during the previous year to cover the deficit carried over from 1984-85. The overall budgetary position from 1974-75 to 1989-90 is presented in Table 9.3. The revenue account of Kerala showed a deficit for ten years out of 16 years during this period, as against five years each for Karnataka and Tamil Nadu and six years for all states taken together. The revenue account positions of the southern states, Maharashtra, and the average for all states are shown in Table 9.4. In 1989-90, Kerala accounted for 2.1 percent of the total revenue deficit of Rs. 2,633 crores in 18 states. During 1990-91 and 1991-92, however, the revenue account of Kerala is expected to show larger deficits of Rs. 321 crores and Rs. 400 crores respectively.

Kerala's capital budget, on the other hand, showed a surplus in a number of years (see Table 9.5). During the period from 1974-75 to 1989-90, Kerala had a capital surplus in eight years and a deficit in an equal number of years. But since 1980-81, there has been a deficit on capital account only in four years and a surplus in six years. In contrast, Karnataka had a deficit on capital account in 14 years, Tamil Nadu in seven years, Andhra Pradesh in 12 years, and the all-states average in 12 years of the 16-year period from 1974-75. Thus Kerala and Tamil Nadu financed their revenue deficits partly or fully from surpluses on capital account in a larger number of years than the other two southern states and also all states together. Kerala's failure to achieve surpluses on revenue account had an adverse impact on the growth of per-capita plan outlay. This was above the all-states average during the Third and Fourth Five Year Plans, but since then Kerala has fallen behind, and the gap compared with the all-states average has steadily widened (see Table 9.6), reaching Rs. 299 in the Seventh Plan (29.1 percent).

REVENUE ACCOUNT

The fact that the revenue budget of Kerala was in the red for most of the years covered by this study shows the inherent weakness of the state's finances. The magnitude of the revenue deficit grew in size during the Seventh Five Year Plan period and in the subsequent two years, largely as a result of rapid growth of revenue expenditure. While the trend growth of revenue receipts in Kerala, including the yield from additional resources raised during the 16-year period 1974-90, has been estimated at 14.0 percent, growth of revenue expenditure was 15.1 percent. During 1980-90 the gap between expenditure and revenue growth was more striking (15.5 percent versus 13.7 percent). Such a trend, however, was also evident, though to a lesser degree, in the other southern states, Maharashtra, West Bengal, and the all-states average. Though conceptually, a surplus was expected to be generated within the nonplan revenue account, Kerala resorted to heavy doses of deficit financing to meet its nonplan revenue expenditures, more than other states.

Revenue deficits emerged in Kerala and Tamil Nadu for two years during the Fifth Plan period. While Tamil Nadu ceased to have a revenue deficit from 1978-79 until 1987-88, Kerala had deficits during three years of the Sixth Plan and all five years of the Seventh Plan. Except for one year, there has been a continuous revenue deficit from 1983-84 to 1989-90 in the case of Andhra Pradesh, and in Karnataka except for two years. Revenue deficits emerged for all states taken as a group for the first time in 1987-88, and they continued in 1988-89 and 1989-90.

Among the southern states, the revenue deficit has been more serious for Kerala, as can be seen from the ratios of revenue deficits to total revenue expenditure (in percentage terms):

	1985-86	*1986-77*	*1987-88*	*1988-89*	*1989-90*
Kerala	-5.05	-9.12	-10.89	-7.96	-10.88
Karnataka	-4.00	+3.58	- 4.12	-0.96	-3.44
Tamil Nadu	+7.71	+3.75	-8.39	-8.47	-6.97
Andhra Pradesh	-2.16	+5.76	+1.08	-1.65	-3.13

Except in 1988-89, the ratio of the revenue deficit to total revenue expenditure during the Seventh Plan period was highest in Kerala. In 1987-88 and 1989-90, revenue deficits financed as much as 11 percent of revenue expenditure. In 1990-91 the ratio of revenue deficit was expected to increase further to 11.4 percent.

Revenue deficits in Kerala were compounded by deficits on capital account in eight out of the 16 years covered in this paper. Deficits on both revenue and capital account occurred in five years; deficits on revenue account and surpluses on capital account in another five years, surpluses on revenue account and deficits on capital account during three years. The position in Kerala along with that of other states is shown in Tables 9.4 and 9.5. Clearly, a major part of the revenue deficit was financed by surpluses generated on capital account, and in three years surpluses on revenue account could be generated to finance capital expenditure. The other southern states generated revenue account surpluses in most years to finance the deficit on capital account. Given the fundamental fiscal situation faced by the state, Kerala has perforce had to adopt the unhealthy practice of meeting revenue expenditure needs with borrowed funds. The increasing reliance on borrowed funds will further complicate the future debt servicing liability of the state, thereby leading to greater strain on the budget.

Thus Kerala has been facing a sort of fiscal crisis in most years, especially during the 1980s. The reasons for such a situation can be understood only by a detailed examination of the receipts and expenditure patterns of the Government.

REVENUE RECEIPTS

Receipts on revenue account comprise (1) the state's own tax and nontax revenue, and (2) central government transfers on revenue account through shared taxes and grants for plan and nonplan purposes. Time series data for Kerala's total revenue receipts as well as for all states during the period from 1974-75 to 1989-90 are presented in Table 9.7.

Kerala's aggregate revenue receipts rose from Rs. 288 crores in 1974-75 to Rs. 2077 crores in 1989-90, that is, by about 7.2 times, while revenue receipts for all states rose by 8.5 times. The index of Kerala's revenue receipts, which remained more or less at the same level as that of the all-states average until the early 1980s, started to fall behind from 1982-83 onward, and the gap has further widened since then. It is interesting to note that the index suffered a steep fall in 1982-83 but recovered in subsequent years, except perhaps in 1987-88. (These two years were affected by severe droughts.) Tamil Nadu has recorded more or less the same rate of increase in revenue receipts as Kerala, but in other states growth was more rapid.

The pattern of growth in revenue receipts is better understood by examining the trend growth rate, with the help of an exponential model of the following type:

$$Y_t = a\,b^t,$$

where $b=(1+r)$, Y represents revenue receipts, and t represents the time period which varies from 1 to 16. The growth rate r represents the percentage increase per annum. By applying this model, the values shown below are obtained.

States	Estimated values of the coefficient		Growth rate per annum
	Log a	*Log b*	*(b-1)*
Kerala	4.4232	0.0569	13.99
Andhra Pradesh	4.6583	0.0645	16.01
Karnataka	4.5563	0.0614	15.19
Tamil Nadu	4.6315	0.0624	15.45
Maharashtra	4.8872	0.0610	15.07
West Bengal	4.6111	0.0603	14.90
All States	5.7613	0.0624	15.45

The trend rate of growth in revenue receipts at current prices was the lowest in Kerala when compared to the other five states or to the all-states average.

The trend growth rate of Kerala's revenue receipts varied as between the 1970s and the 1980s. It was 15.12 percent p.a. in 1974-79 and dropped to 13.68 percent p.a. in 1980-90. Lower growth appears to have continued in 1990-91 and was also expected in 1991-92. Of course, individual sources of receipts registered varying rates of growth. But the fact that Kerala, with one of the highest tax-income ratios (generally the highest except in certain years when it fell below Tamil Nadu), suffered from declining growth of revenue receipts, must be mainly due to two factors. Its stagnant or declining nontax revenue contributed in a small measure to declining revenue growth, but the drop was largely due to a fall in central revenue transfers, particularly transfers on account of Finance Commission devolutions (discussed later in this chapter).

Another interesting index is that for per-capita revenue receipts, which also declined in recent years relative to the position in other states. Per-capita revenue receipts in 1974-75 were higher in Kerala than in the other southern states but below those of Maharashtra, while in 1980-81, 1985-86 and 1989-90, two other southern states collected more revenue in per-capita terms.

	Per-Capita total revenue receipts (Rs.)				*Increase between 1989-90 and 1974-75 (percent)*
	1974-75	*1980-81*	*1985-86*	*1989-90*	
Kerala	1129	2509	5374	8142	721
Karnataka	1111	2564	5415	9224	830
Tamil Nadu	1071	2637	5434	7923	740
Andhra Pradesh	982	2362	5177	8424	850
Maharashtra	1353	3240	6637	10950	810
All States	949	2405	4914	8097	852

Own Revenue

A state's own revenue comprises own tax revenue and receipts from own nontax sources; it does not include shares in central taxes and grants from the central government. Kerala's per-capita own revenue increased by 295 percent between the Fifth Five Year Plan and Seventh Five Year Plan, compared to 326 percent in Karnataka, 355 percent in Tamil Nadu and 368 percent in Andhra Pradesh (See Table 9.8). During the Fifth Plan period, Kerala's per-capita own revenue was higher than that of Andhra Pradesh and Tamil Nadu. Kerala's position in the Seventh Plan period was the lowest among the southern states, however. Kerala's per-capita own tax revenue was the highest during the Fifth Plan period, but it lost its position in subsequent plan periods, as Tamil Nadu and Karnataka overtook Kerala during the Sixth Plan period and remained ahead during the Seventh Plan period. A similar trend is seen in per-capita own nontax revenue, with Karnataka and Andhra Pradesh overtaking Kerala, which had topped the list during the Fifth Plan period.

The share of Kerala's own tax revenue in its total revenue receipts ranged between 54 percent and 58 percent between 1986-87 and 1989-90, compared to 53 to 57 percent in Karnataka, 60 to 61 percent in Tamil Nadu, 51 to 53 percent in Andhra Pradesh, and 44 to 45 percent for all states. From 1974-75 to 1979-80, the average annual compound growth rate of Kerala's own tax revenue was the highest among the southern states and also among all states. This trend was totally reversed during the 1980s, when Kerala's growth rate was the lowest among the southern states and also lower than the all-states average (see below).

	Average annual growth of own tax revenue (percent)	
	1974-75 to 1987-80	*1980-81 to 1989-90*
Kerala	16.37	15.22
Karnataka	9.29	16.60
Tamil Nadu	14.53	15.53
Andhra Pradesh	16.21	17.04
All States	15.39	15.75

The change in the growth rate for Kerala is accounted for by a decline in the growth rate of sales tax revenue from 16.5 to 15.4 percent per annum, in state excise from 16.8 to 10.5 percent, and in motor vehicles tax from 18.0 to 16.6 percent, as between the 1970s and the 1980s.

Sales Tax

Sales tax, by far the most important source of revenue for Kerala, just as for other states, accounts for more than 60 percent of total own tax revenue and 36 percent of total revenue receipts, compared to 55 percent and 30 percent for Andhra Pradesh and Karnataka and 62 percent and 41 percent respectively for Tamil Nadu. The contribution of sales tax revenue in Kerala has risen slightly from 60 percent in 1974-75 to 62 percent in 1989-90. As against this, the contribution of sales tax to total own tax revenue in Karnataka increased from 47 percent to 56 percent; in Andhra Pradesh from 45 percent to 55 percent; and from 62 percent to 67 percent in Tamil Nadu (Table 9.9).

Among the factors determining the growth of sales tax revenue in a state, the most important is changes in the level of consumption. The following table shows per-capita income and per-capita consumption expenditure for Kerala and for India as a whole in selected years.

	Annual per capita consumption expenditure (Rs.)		*Per capita income (Rs.)*		*Ratio of consumption expenditure to income (percent)*	
	Kerala	*India*	*Kerala*	*India*	*Kerala*	*India*
1965-66	271	365	380	427	71	86
1973-74	701	690	811	870	86	79
1977-78	922	925	1043	1194	88	77
1983-84	1838	1538	1951	2180	94	71

According to NSS consumer expenditure surveys, while Kerala stood seventh among 14 major states in per-capita consumption expenditure in 1970-71, by 1988-89 it ranked second among these states. A recent study on sales taxation in Kerala has revealed that the correlation between percentage changes in sales tax and percentage changes in state domestic product during the last two decades has been negative. The buoyancy and elasticity coefficients according to this study are shown below:

	Buoyancy of sales tax	*Elasticity of sales tax*
1960-61 to 1970-71	1.2598	1.1859
1970-71 to 1980-81	1.6394	1.3267
1980-81 to 1986-87	1.3464	1.0968

It is evident that compared to the 1970s, growth of sales tax revenue during the period from 1980-81 to 1986-87 was sluggish. The same study has also shown that shifting from the multi-point system to a single-point system in the latter half of the 1970s resulted in large-scale tax evasion. To prevent such evasion, in 1987 a few evasion-prone commodities were brought back under a double-point system, which yielded good results. The trade diversion taking place because of relatively high rates of tax on certain high-value items in Kerala caused the state government to take a number of steps to reduce and rationalize tax rates for some commodities during the last three years. This has resulted in higher collection figures. Total sales tax receipts in 1990-91 registered an increase of 17 percent over 1989-90, compared to an increase of 11 percent in 1989-90 over 1988-89.

Such success, however, does not imply that the state has tapped the full revenue mobilization potential of the sales tax. One indication is the accumulated arrears built up over the years, part of it under litigation and part stayed by the government. At the end of 1990-91 sales tax arrears were of the order of Rs. 262 crores. Around 50 percent of this amount consisted of arrears that were uncollectible due to a variety of reasons.

Apart from the fact that there is still scope for better enforcement of tax laws on the part of the state government, certain decisions taken by the central government from time to time are partly responsible for deceleration in the growth in sales tax revenue. The major "exogenous" factors adversely affecting the tax base of Kerala include the following:

(1) Agriculture in Kerala is dominated by export-oriented cash crops such as cashews, coffee, tea, pepper, cardamom, ginger, turmeric, etc. All of these commodities were subjected to purchase taxes when sold either for local consumption or for export. Based on the amendment to the Central Sales Tax Act in 1976, these commodities were exempted from the tax in the case of sales for export. The resulting loss of revenue in 1979 was estimated at Rs. 23 crores, equivalent to 1/8 of total sales tax revenue.

(2) The share of Central Sales Tax collections in total sales tax revenue is very low in Kerala compared to that in many other states, primarily because a smaller part of commodity production in Kerala enters interstate trade than in other major states. In 1988-89 (Revised Estimates), Central Sales Tax collections in Kerala were equivalent to 7.9 percent of total General Sales Tax revenues, compared with 22.3 percent for all states taken together and 17-19 percent in the other southern states.

(3) Kerala accounts for 90 percent of the rubber produced in India. About 80 percent of this is sent to other states through consignment transfers, for which no tax can be levied under existing laws. A favorable decision on the states' longstanding demand for a tax on consignment transfers has yet to be taken, though some progress has been made in this regard.

State Excise Tax

There was a steep decline in the growth of excise revenue between 1974-75 and 1989-90. Around 70 percent of the revenue from excise duties is derived from auctioning of liquor shops. The major reasons for the fall in revenue growth include an inadequate supply of country liquor (supply depends on the state's policy on importing country liquor to meet the gap between demand and locally-produced supply); policy changes imposed by the major supplying states of Tamil Nadu, Karnataka, and Maharashtra; and inadequacy in the availability of molasses. The auctioning system for liquor shops was in vogue for a long time in Kerala. This was changed to a licensing system for a few years in the 1980s. Realizing that this change was resulting in loss of revenue, the government reverted to the auctioning system in 1987-88.

Land Tax

Special mention should be made of a major policy change introduced by the state government with regard to the land tax in 1988-89, resulting in a significant increase in land tax revenues, which almost doubled in 1988-89 compared to 1987-88. Before independence, the government of Travancore State introduced the basic tax on land, which was a unique experiment in the country. All land in the state, irrespective of the category to which it belonged and regardless of tenure, was subjected to levy of basic tax. After 1956 the tax was fixed at a flat rate of Rs. 2 per acre. A revision in the rates could not be attempted until 1988-89 in view of the specific protective provisions relating to this tax in the Ninth Schedule of the Constitution. The Constitutional amendment in 1988-89 enabled the state government to fix higher rates for holdings above 0.1 acre.

Plantation tax is levied on seven major crops, such as coconuts, rubber, coffee, tea, and cardamom. The definition of standard hectare was modified in 1981-82, with the number of yielding trees to form a hectare increased from the earlier level. In the same year the exemption limit was also raised from two hectares to four hectares. These two decisions adversely affected the tax base considerably. In 1987-88 the exemption limit was restored except for coconut and arecanut, but the changed definition was maintained.

Agricultural Income Tax

Agricultural income tax is levied only in seven states in the country. Out of total national collections in 1987-88, Kerala's share was 15 percent, which increased to 24 percent in 1988-89 and to 27 percent in 1989-90. Agricultural income tax in Kerala is levied in accordance with the provisions of the Kerala Agricultural Income Tax Act of 1950, which is modelled on the Central Income Tax Act of 1922. The central statute was replaced by an Act in 1961, which underwent many changes subsequently. In Kerala, though revenue from agricultural income tax in 1957-58 was less than Rs. 2 crores, it accounted for about 14 percent of the state's total own tax collections. By 1980-81 the share had declined to 3.4 percent, and there was a further decline to 2.9 percent in 1985-86 and 1.3 percent in 1989-90.

Mounting arrears have been the main reason for slow growth of collections. In 1989-90 actual receipts from this tax totalled Rs. 16.50 crores, whereas arrears in that year were about Rs. 32 crores, which increased further to Rs. 40 crores as of the end of March 1990. The Agricultural Income Tax Act until recently contained a certain amount of arbitrariness which led to harassment in its operation, with opportunities for large-scale avoidance by manipulating expenses and transactions.

The cumbersome procedures involved in administration of the agricultural income tax, mounting arrears, and declining collections even in absolute terms caused the state government to appoint a committee in 1986 to examine the reasons for the decline in revenue collection and to recommend modifications in the law. The Committee's recommendations for a compounding system of tax collection up to 20 hectares, along with other modifications in the law, are considered to be a major departure from the existing income based assessment system. The recommendations of the Committee have been accepted with very minor modifications and steps are underway to implement them. A substantial increase in receipts is expected from 1991-92 onwards.

Stamps and Registration Fees

Revenue from this source includes receipts from sale of judicial and non-judicial stamps and the registration of documents. The share of revenue from sale of judicial stamps is very small. There was large-scale evasion of registration fees through gross understatement of real estate values. To combat evasion, the state government introduced a novel idea. Through a notification, the government took steps to fix the minimum value of land at varying rates for city, Municipal and Panchayat Areas. This has paid handsome dividends, and revenue from stamps and registration fees shot up from Rs. 67 crores in 1987-88 to Rs. 113 crores in 1989-90, a jump of 69 percent.

Despite the fact that the rate of growth of Kerala's own tax revenue has declined over the years, the state is still one of the highest-taxed states in India. The tax-income ratio went up steadily until 1981-82, then slid down in 1982-83 and 1983-84 but regained ground in 1984-85. During the Seventh Five Year Plan period, the ratio remained consistently above 11 percent and touched 11.8 percent in 1989-90. Table 9.10 shows that only Tamil Nadu had a higher tax effort than Kerala until 1986-87; even it fell behind Kerala in 1987-88. Similarly the elasticity of tax effort was the highest in Kerala during the period 1970-71 to 1985-86. The elasticity of tax effort, defined as incremental receipts from taxes for every one rupee increase in income (SDP) in the period 1970-71 to 1985-86, was 2.58 for Kerala, 2.37 for Karnataka, 2.04 for Tamil Nadu, and 2.30 for Andhra Pradesh.

The major reason for the declining growth rate of revenue is the accumulation of arrears in collections. As of the end of March 1989, total tax arrears amounted to Rs. 537 crores. Sales tax, agricultural income tax, taxes on goods and passengers, and electricity duty accounted for most arrears. Efforts to realize a reasonable portion of these outstanding arrears would substantially strengthen the resource position of the state.

Nontax Revenue

Kerala's nontax revenue growth has decelerated in recent years, particularly since 1982-83. Performance during the Seventh Five Year Plan was still worse. The share of own nontax revenue in own revenue in Kerala declined almost consistently during the period 1974-75 to 1989-90. It stood at 30.9 percent in 1974-75 and fell to 14 percent in 1989-90 (Table 9.11). The decline in this ratio for Karnataka and Andhra Pradesh was of a lower order, whereas Tamil Nadu improved its position in 1986-87, only to decline in 1989-90. The main components generating the decline in the rate of growth of nontax revenue in Kerala are: (1) revenue from forests, (2) interest receipts, (3) profits and dividends from departmental undertakings, (4) irrigation receipts, and (5) fees and fines.

The state's own nontax revenue originates principally from three sources, namely economic services, interest receipts, and miscellaneous general services. There has been a decline in interest receipts in recent years, largely due to defaults by state public undertakings. The decline in revenue from forests is a direct result of the decision by the central government on forest protection measures to preserve forest wealth. According to revenue records, 1,082 lakh hectares, constituting 27.8 percent of the total land area, is under forests in Kerala. There is already large-scale denudation of forests, not only in Kerala but in other states, too. Short-term interests should not be pursued beyond a limit which would be detrimental to the eco-system. Revenue from forests, which accounted for about a quarter of Kerala's own nontax revenues at the beginning of the 1980s, declined to nine percent in 1989-90 and an estimated seven percent in 1990-91.

Interest receipts went up from Rs. 9.8 crores in 1983-84 to a peak level of Rs. 38.34 crores in 1987-88; thereafter they steadily declined and reached a low of Rs. 18 crores in 1989-90. Outstanding loans and advances by the state government as of the end of 1989-90 totalled Rs. 333.30 crores. Thus interest receipts represented only 5.4 percent of outstanding loans and advances, against an effective rate of interest of 10-12 percent paid by the state government, which implies an interest subsidy of over 50 percent.

In an effort to tap sources of nontax revenue, the state government introduced lotteries a long time ago. Kerala has been a pioneer in this field, mobilizing substantial revenue from the lotteries it runs. Revenue from lotteries increased by almost five times between

1982-83 and 1987-88. The state's total own nontax revenue was Rs. 174 crores, of which collections from state lotteries amounted to Rs. 47 crores, or 27 percent. The net collection in that year was Rs. 13 crores, which was expected to double to Rs. 26 crores in 1991-92. Thus the criticism from certain quarters that Kerala is concentrating more and more on taxation and is neglecting to tap nontax sources is not very correct. But it is conceded that there are still some grey areas such as education, irrigation, health, etc., where collections have been stagnating for the last two decades. There is tremendous scope for raising additional resources from these sources.

School education, up to the 10th standard, is free in Kerala for all classes of people. With a view to spreading literacy, school education was made free in the early 1950s. (In many other states, this facility is confined only to girl students.) Subsequently direct payment of salaries and pensions to teaching and non-teaching staff of aided schools and colleges was introduced. This no doubt created a heavy financial liability for the government over the years. The budgeted revenue expenditure on education for 1991-92 was Rs. 797 crores. Revenue collected from this sector by way of fees and other charges was expected to be only about Rs. 22 crores in 1991-92, which would cover only 2.8 percent of the total cost. Tuition and other fees charged at higher education levels are at old rates fixed as early as the 1960s. The state has already achieved the national goal of making its citizenry literate; according to the 1991 census the literacy rate has reached 90.5 percent. A total literacy program is being implemented in the state. Since education is the one activity that uniformly touches the sentiments of all classes of people, a decision to impose new fees or raise existing rates of fees, even for higher education, may not be an easy task. Nevertheless, a change is absolutely necessary, for which public acceptance will have to be mobilized.

Similarly, charges levied for health care services are very low, and in many cases free services are provided. Total revenue from health was likely to be only Rs. 12.80 crores in 1991-92, against a budgeted revenue expenditure of Rs. 317 crores; hence receipts meet only four percent of expenditure. Here again, all classes of people enjoy the benefits of free or low-cost health services. Just as in the case of education, a correction is overdue, and free service has to be confined to deserving classes of people.

The state government had invested a total of Rs. 889 crores on irrigation projects by the end of the Seventh Five Year Plan. This figure is in historical prices; if corrected for price changes it would be much higher in 1990-91 prices. Many ongoing major and medium projects are spillovers from as early as the Third Five Year Plan. In 1991-92, as in previous years, irrigation revenues were likely to be around Rs. 2.50 crores. Undue delays in completion of projects and the lackadaisical approach in collecting water charges have a serious impact on state finances. Collections at present are negligible considering the magnitude of investments.

Yet another source of nontax revenue is drinking water charges. A decision on revision of drinking water rates is long overdue. This matter again is sensitive, which acts as an obstacle in going ahead with rate revisions.

In all of these areas, quality improvements of a considerable magnitude are required. Given the constraints on resources, rates of charges should be revised, the sooner the better, to reasonable levels, which would provide the funds needed for proper maintenance and required quality improvements.

State Public Sector Enterprises

The sluggish growth of Kerala's revenue is traceable to a considerable extent to the poor performance of state public enterprises. Poor returns on past investments have contributed to the erosion in revenues, both tax and nontax. While the poor performance of public enterprises affects nontax revenue receipts directly when these undertakings fail to pay interest or dividends, tax revenues are affected when tax arrears accumulate. For example, electricity duty arrears at the end of March 1989 were Rs. 171 crores.

The total investment made by the state government in public enterprises up to the end of March 1990 was Rs. 377 crores. In addition, state government loans totalling Rs. 497 crores were outstanding as of that date. Thus a grand total of Rs. 874 crores has been invested by the state government in its public enterprises. Dividends received by the state government in 1989-90 were Rs. 1.33 crores, yielding a negligible return of 0.35 percent on equity investment. Even though the investment in state public enterprises has increased substantially over the years, the rate of return has not shown any sign of increase, as shown below:

	Investment (Rs. crores)	*Return (Rs. crores)*	*Rate of Return (percent)*
1980-81	181.91	0.634	0.35
1981-82	208.00	0.827	0.40
1982-83	231.43	0.904	0.39
1983-84	257.50	0.468	0.18
1984-85	279.55	0.644	0.23
1985-86	214.80	0.189	0.09
1986-87	264.56	0.676	0.26
1987-88	288.73	0.645	0.22
1988-89	327.34	1.742	0.53
1989-90	376.57	1.330	0.35

Source: Reports of the Comptroller and Auditor General.

The poor performance of Kerala state public enterprises is better understood by assessing their overall performance indicators. At the end of March 1990, accumulated losses of state government companies and statutory corporations reached a staggering total of Rs. 514 crores. As many as 36 enterprises had negative net worth, totalling around Rs. 203 crores. The Kerala State Electricity Board and the Kerala State Road Transport Corporation together provide the largest employment in the state, and they have generally not been able to make a contribution to state plan financing.

The paid-up capital of the Kerala State Road Transport Corporation (KSRTC) at the end of March 1989 was Rs. 62 crores, including Rs. 44 crores from the state government and Rs. 18 crores from the central government. In addition, loans outstanding were Rs. 44 crores (Rs. 28 crores from the state government). KSRTC has 40 percent of its fleet overaged and a staff-bus ratio of around nine; both of these ratios are higher than those in almost all other road transport undertakings in the country. Low fleet utilization and low staff productivity have contributed to heavy losses over the years. The accumulated loss at the end of 1988-89, the latest year for which audited figures are available, was Rs. 124 crores, even after the writing off of Rs. 84 crores by the state government from dues payable to it.

In terms of investment, the Kerala State Electricity Board (KSEB) ranks first among state public enterprises in Kerala. At the end of 1987-1988, outstanding loans from the state government amounted to Rs. 322 crores. Loans from other sources totalled another Rs. 342

crores. Unaudited figures show that loans outstanding from the state government at the end of 1989-90 stood at Rs. 402 crores. KSEB was expected to make a positive contribution of Rs. 96 crores to the Seventh Five Year Plan but instead ended up making a negative contribution of Rs. 41 crores (at 1984-85 prices). The rate of return on capital invested declined from 8.3 percent in 1985-86 to 0.3 percent in 1987-88. One of the main reasons for low returns has been high transmission and distribution losses in the neighborhood of 28 percent. The operating loss in 1989-90 was Rs. 10 crores. It must, however, be pointed out that there has been a considerable improvement compared with 1988-89, when the operating loss was as high as Rs. 57 crores. The tariff revision made in 1988-89 (its full impact was felt only from 1989-90) and the steps taken to reduce transmission and distribution losses have helped to further improve the situation. KSEB was expected to make a positive contribution to the state plan during 1991-92.

Central Transfers

A major component of state nontax revenues consists of grants from the central government for various purposes, such as grants for state plan schemes, centrally sponsored and central plan schemes, and grants based on Finance Commission Awards. The index of aggregate revenue transfers from the center to Kerala, taking the 1974-75 level as 100, started declining relative to the position in other states toward the end of the Fifth Five Year Plan period; the gap between the two indexes was almost 400 points by the end of the Seventh Plan. Grants from the center for central plan schemes and centrally sponsored schemes during the period from 1974-75 to 1989-90 fluctuated widely and did not show a definite trend. The four recent Finance Commissions including the Ninth Finance Commission (1989-90) allotted a grant of Rs. 2,029 crores to the states for upgradation of various social and administrative services. Out of this, Kerala received just Rs. 30 crores. Similarly, the Eighth and Ninth Finance Commissions provided Rs. 604 crores for solving various special problems, of which Kerala received nothing.

The Eighth Finance Commission assumed a nonplan surplus of Rs. 624 crores for Kerala during the period 1984-89. Instead, the state had a deficit of Rs. 341 crores, even after additional resource mobilization for meeting nonplan expenditure needs. (It may be noted that the yield from fresh resource mobilization was not included in the calculation of nonplan revenue balance by the Finance Commission.)

The Ninth Finance Commission calculated a negligible nonplan surplus of Rs. 2.29 crores for Kerala in 1990-95. Going by past experience, Kerala is likely to end up with a very large nonplan deficit. The normative estimates of expenditure have not made adequate provisions for certain items, particularly in social and community services. The Finance Commission has assessed that Kerala is likely to generate a nonplan deficit of Rs. 124.79 crores in 1990-91 and deficits of a lower magnitude in the two subsequent years but will end up with a surplus of Rs. 2.29 crores at the end of 1994-95. Combining the estimated revenue deficit on plan account, Kerala according to the Commission's assessment is likely to generate a deficit of Rs. 823.71 crores by 1994-95. The Commission has recommended a grant of Rs. 412.54 crores to cover part of this deficit. The total grant-in-aid recommended by the Ninth Finance Commission (NFC) for the five year period 1990-95 to all states amounted to Rs. 15,017 crores, of which Kerala's share is only Rs. 412.54 crores, just 2.7 percent.

Undoubtedly, Kerala is treated harshly by the NFC in artificially assessing a surplus of Rs. 2.29 crores during 1990-95 and leaving the state to cover a very large overall revenue gap of Rs. 411.17 crores during the five year period. Deficits in 1990-91 and 1991-92 are estimated at Rs. 219.46 crores and Rs. 177.48 crores respectively. A government runs its affairs on a year to year basis and not over quinquennial periods. To assume that a state like Kerala with a weak resource base will wipe out such large deficits of around Rs. 200 crores each in the first two years of the five year period and generate revenue surpluses in the last two years is rather unrealistic. Moreover, any unforeseen event, such as the outbreak of war in the Gulf region during the previous financial year and the price spiral experienced thereafter, would certainly upset the budget of any government, no matter how sound its financial position is. The financial position of a state like Kerala would deteriorate further in such a situation.

Kerala was a beneficiary in terms of per-capita central transfers compared to the other southern states and to the all-states average during the Fifth Plan period. However, the all-states average was higher than the figure for Kerala during both Sixth and Seventh Five Year Plans. Per-capita central revenue transfers in Kerala during the Seventh Plan were Rs. 219, compared to Rs. 263 for all states and Rs. 221 in Andhra Pradesh, while Karnataka and Tamil Nadu received lower per-capita central transfers than Kerala (Table 9.12). Kerala's central transfers to cover revenue expenditures were consistently less than the all-states average in all sixteen years under study. From 1987-88 onward, Kerala's dependence on this source was even less than that of Tamil Nadu (see Table 9.13).

The fact that Kerala has made above-average efforts in mobilizing resources and that it is not able to balance its revenue budget, instead generating large revenue deficits during the past few years, indicates that the state has been spending more than what can be financed by its own resources and central revenue transfers. The studies conducted by NIPFP on behalf of the Eighth Finance Commission and the NFC in its normative assessment have established that Kerala, along with Andhra Pradesh and Tamil Nadu, is an overtaxed state. NFC's assessment showed that the trend ate of growth of Kerala's tax revenue is higher than the normative estimates it has made. Therefore, the reasons for the financial difficulties being faced by the State will have to be sought on the expenditure side of the budget.

REVENUE EXPENDITURE

Growth of revenue expenditure, constituting mainly committed liabilities from past plans, has been quite phenomenal not only for Kerala but for other states, especialy in the 1980s. Aggregate revenue expenditure for Kerala and all states during the period from 1974-75 to 1989-90 is shown in Table 9.14. In most years the growth of the index in the case of Kerala was much less than that of the index for all states.

The trend rate of growth of revenue expenditure in Kerala and in other states (calculated in the same way as in the case of revenue receipts) is shown below:

State	*Values of coefficients*		*Growth rate*
	Log a	*Log b*	*% per annum*
Kerala	4.3920	0.0610	15.08
Andhra Pradesh	4.5750	0.0706	17.66
Karnataka	4.4828	0.0674	16.78
Tamil Nadu	4.6079	0.0644	15.98
Maharashtra	4.8191	0.0668	16.62
West Bengal	4.6094	0.0630	15.61
All states	5.6949	0.0679	16.92

The growth of revenue expenditure at current prices was the lowest in Kerala (15.1 percent p.a.) among the southern states; it was also below the all-states average. But when compared with the growth rate of revenue receipts (14.0 percent p.a.), the gap was larger in Kerala than in other states, causing more strain on its financial position. The comparative position during the 1980s was still worse, as revenue expenditure rose by 15.5 percent p.a. while the trend growth rate of revenue receipts was only 13.7 percent p.a. This large gap, larger than in other states, has been mainly responsible for the fiscal crisis faced by Kerala.

The revenue expenditure of Kerala increased by 7.9 times between 1974-75 and 1989-90, compared to 9.7 times in Karnataka, 7.8 times in Tamil Nadu, 10.8 times in Andhra Pradesh, and 9.8 times for all states. Even though the increase was smaller in Kerala than in the other states, the base level of expenditure for Kerala was relatively higher, considering the size of its budget and the state's population. It is, however, interesting to note that Kerala's share in the total revenue expenditure of all states has declined from 4.8 percent in 1974-75 to 3.8 percent in 1989-90.

Of Kerala's total revenue expenditure in 1989-90. as much as 44 percent was on social and community services, education and health alone accounting for 34 percent. Another 13 percent was interest payments (constituting 36 percent of total nondevelopment expenditure). The composition of revenue expenditure at a more disaggregated level is discussed later.

The ratio of revenue expenditure to state domestic product (SDP) was by far the highest in Kerala among the southern states. It went up from 17.7 percent in 1984-85 to 22.5 percent in 1985-86, and then continued more or less at that level up to 1989-90. The relevant figures are furnished in Table 9.15.

Per-capita revenue expenditure in Kerala is the highest among the southern states and higher than the all-states average. This is mainly due to higher per-capita nonplan expenditure. The ratio of plan expenditure to nonplan expenditure for the past three Five Year Plans together was 1:5.75 in Kerala, compared to 1:3.79 in Karnataka, 1:3.12 in Tamil Nadu, 1:3.65 in Andhra Pradesh, and 1:3.89 for all states. Similarly, the share of nonplan expenditure in total revenue expenditure at 84.6 percent was the highest in Kerala, compared with the all-states average of 78.9 percent (Table 9.16). The factor responsible for the higher share of nonplan expenditure in Kerala is primarily the emphasis given in the past on developing social and community services by the state. Though the share of nonplan expenditure on social services in total revenue expenditure has been uniformly high in all states, in Kerala it has been the highest in India.

It averaged 49.8 percent in Kerala, compared to 42.7 percent in Karnataka, 40.4 percent in Tamil Nadu, 38.8 percent in Andhra Pradesh, and 23.4 percent for all states, during the past three Five Year Plans.

Nonplan expenditure in Kerala went up from Rs. 266 crores in 1974-75 to Rs. 1,876 crores in 1989-90, representing an increase of seven times. The increase in the index of nonplan expenditure in Kerala has been lower than that of the all-states average, however. (Using a 1974-75 base, the value of the index for Kerala in 1989-90 was 705, whereas for all states it was 863.) But during 1986-87 Kerala's index came very close to the all-states' average (539 and 542 respectively).

The trend rate of growth of nonplan revenue expenditure in Kerala, selected other states, and the all-states average is shown below.

State	*Values of coefficients*		*Growth rate*
	Log a	*Log b*	*% per annum*
Kerala	4.3370	0.0593	14.63
Andhra Pradesh	4.5193	0.0664	16.53
Karnataka	4.4221	0.0637	15.81
Tamil Nadu	4.5478	0.0595	14.69
Maharashtra	4.7828	0.0631	15.64
West Bengal	4.5228	0.0627	15.53
All States	5.6357	0.0644	15.91

As the last column shows, growth has been the lowest in Kerala. This is no consolation, however, as the state has been struggling to cover its nonplan revenue gap.

The nonplan component of expenditure on social services in Kerala is considerably higher because of the higher share of education, which has the largest nonplan component among social services. The average percentage share of nonplan revenue expenditure during the past three Five Year Plans was 33 percent, compared to 23.7 percent for all states, whereas it varied between 23 and 27 percent in the other southern states.

The higher share of expenditure on education in Kerala is in a way a legacy of the past. Thanks to the progressive policies followed by the princely states of Travancore and Cochin in introducing free primary education and the efforts made by Christian Missionaries and other caste and community organizations, education became widespread in the far-flung areas of the state. The bulk of the material resources for education initially came from nongovernmental sources. In addition to setting up private schools and colleges, people also contributed land, buildings, and furniture for starting government schools. Subsequent democratically elected governments undertook to pay from the state budget the salaries and allowances of teaching and non-teaching staff of aided private schools and colleges. This further boosted the demand for educational institutions in the private sector. Per-capita expenditure on education in Kerala was Rs. 233 in 1989-90, while in 1988-89 it was Rs. 220, compared with the all-states average of Rs. 163.

A number of new schools were started during the plan periods, above and beyond those called for in the plans initially drawn up. Consequently, actual plan expenditures on education increased by several times over initial plan outlays in some years. In the past when school education was not free, around 75 percent of the total expenditure of educational institutions was financed by the government. Tuition fees from students and funds from private endowments accounted for the remainder. Presently, with school education up to the 10th standard being free (now extended to plus two in schools and pre-degree in colleges), and with private institutions also getting most of their financing through grants-in-aid from the state government, only a negligible part of the institutional costs of education is financed by private sources.

The High Level Committee on Education and Employment set up by the Government of Kerala in 1984 observed that the educational edifice built up in the state was basically unsound and beyond the capacity of the state to maintain. The annual per-pupil cost of education had risen rapidly from Rs. 95 in 1972-73, to Rs. 334 in 1982-83 at the primary stage and from Rs. 194 to Rs. 581 at the secondary stage. The Committee felt that the state could ill afford to sustain this edifice at the expense of the other productive sectors of the economy. For 1989-90, the cost of education per pupil works out to Rs. 805 at the primary stage and Rs. 1,269 at the secondary stage.

The wage bill for school teachers in the 1980s included salaries for a section of teachers who had put in two years of service in private aided schools, even though those teachers remained outside of active service due to declines in enrollment, through a special order of the Government. At one time the number of such teachers swelled to over 5000, and the expenditure on them was close to Rs. 10 crores per year. These orders, however, were rescinded in 1984, and the "protected teachers", as they were called, were adjusted against future vacancies and now are almost non-existent.

More than 90 percent of the expenditure on education is on salaries, wages, and other personnel-related items, leaving very little for equipment, materials, and supplies. It is likely that this proportion will go up in coming years. This means that resources devoted to qualitative improvements have risen much less than the total. The proportion of plan expenditure to total expenditure in education has been less than 2 percent, indicating a very limited effort toward creating new facilities.

The last few years have witnessed major changes in educational policies of the government, with a view to providing adequate facilities for higher education in the state. The system of private registration for university examination under Art and Commerce subjects was introduced in the mid-1970s. Since then there has been a rapid growth of private coaching institutions called parallel colleges, which offer regular courses in subjects for which private registration is permitted. The proportion of privately registered candidates appearing for university examinations is currently as high as 45 percent. It is estimated that nearly a lakh of persons are employed in the parallel colleges. But for this development public expenditure on university education would have increased considerably during the eighties.

Health

Just as in the case of education, a major component of Kerala's revenue expenditure is on health. Revenue expenditure on Health and Family Welfare increased from Rs. 32 crores in 1974-75 to Rs. 194 crores in 1989-90, an increase of 6.1 times. It constituted about 14 percent of total nonplan developmental revenue expenditure in 1989-90. Out of the total revenue expenditure of Rs. 194 crores on health, Rs. 127 crores was accounted for by nonplan expenditure. It must be reiterated, to the credit of the state government, that its achievements in terms of reductions in infant mortality and death rates and birth rates and raising life expectancy are comparable with those of some of the developed countries. The health infrastructure in the state in the government sector consists of 2,106 medical care institutions covering western and Indian systems of medicines. Per-capita government expenditure on health care activities in the state is around Rs. 80. Despite the fact that such a large part of the cake is spent on this service, there is great scope for quality improvement in the health care delivery system, which calls for more resources for this sector.

Nonplan Developmental Expenditure

An analysis of developmental and non-developmental expenditures on revenue account reveals that the average share of developmental expenditure for the period from 1974-75 to 1989-90 was higher in Kerala than for all states (78 percent versus 70 percent). The reason for this is that according to the present accounting division between plan and nonplan, continuing expenditures of state plan schemes, central plan schemes, and centrally sponsored schemes, after the plan period is over, become nonplan committed expenditure. Plan schemes with higher revenue components, especially those with higher salary components, will contribute to higher nonplan expenditure after the end of the plan period. Expenditures on social and community services generally have a larger revenue component than those on economic services. Since Kerala had given higher priority to social and community services in the earlier plans, past expenditures on them got accumulated in the nonplan account. Similarly, since Kerala gave lower priority to economic services in the past, the nonplan component of these services is less. The larger share of the revenue component of total expenditure normally leads to higher shares of compensation for employees in government consumption expenditure.

The high developmental content of nonplan revenue expenditure and the still higher nonplan content of development expenditure makes expenditure control in Kerala difficult. Any across-the-board cuts can render some expenditures unproductive or even wasteful, because such cuts reduce only the funds available for works and not staff salaries and office expenses.

Wage Bill

The total government wage bill in Kerala constituted around 55 percent of total revenue expenditure and around 60 percent of total revenue receipts in 1989-90. In 1980-81 the respective shares were 55 and 57. The state government is the single largest employer in Kerala, in the absence of a well developed private sector; it accounts for a little less than half of total employment in the organized sector. At present there are about 500,000 employees drawing pay from the state government, of which about 150,000 are in government-aided educational institutions. Teachers in educational institutions form the biggest single group in government employment, 60 percent of whom are in aided institutions. The growth in total state government employment during the period from 1980 to 1988 was about 25 percent. The growth in aided institutions was lower at 16 percent, which indicates that the number of state government employees other than teachers has been increasing faster, by about 33 percent between 1980 and 1988.

Employment in government (including local bodies) is relatively high in Kerala at about 17 per thousand population. The wage bill of government employees during 1990-91 was expected to be Rs. 1,623 crores. Out of this, Rs. 1,222 crores was toward the salary of government employees and the remainder toward teaching grants to aided private educational institutions (which represent salary and other allowances for the staff of aided educational institutions). These figures appear disproportionately high because a portion of the arrears related to the pay revision between July 1988 and November 1989 was included in the total wage bill of 1989-90, with the balance of arrears included in the amounts provided for 1990-91.

Growth of state government expenditure on salaries since 1980-81 is shown below.

Year	*Salaries (Rs.crores)*	*Total revenue expenditure (Rs. crores)*	*Total revenue receipts (Rs. crores)*	*Salary as percentage of revenue expenditure*	*Salary as percentage of revenue receipts*
1980-81	362	668	640	54	57
1981-82	321	754	850	43	38
1982-83	378	783	810	48	47
1983-84	447	992	934	45	48
1984-85	495	1139	1125	43	44
1985-86	624	1445	1344	43	44
1986-87	728	1655	1502	44	48
1987-88	792	1781	1586	44	50
1988-89	910	2061	1897	44	48
1989-90	1342	2298	2048	58	66
1990-91 (RE)	1623	2825	2504	57	65

The wage bill started rising at a faster rate from 1985-86 onward, the year from which the pay revisions recommended by the state's Fourth Pay Commission were implemented (though the reference date was July 1983). Since then one more pay commission (the Fifth) was constituted, whose recommendations have been implemented from 1989-90, with arrears from July 1988 impounded in Provident Fund accounts. Even though a Pay Commission sits once every five years, and the revisions recommended by the Fifth in the series have been implemented, the fact remains that Kerala's pay structure is still lower than the central government's and that of most other state governments.

We have seen that nonplan expenditure in Kerala has increased faster than in the other southern states or in all states. Both developmental and nondevelopmental nonplan expenditure have shown a tendency of higher growth, especially in the 1980s. The share of non-developmental expenditure in total revenue expenditure in Kerala is the highest among the southern states; it increased from 27.2 percent during the Fifth Five Year Plan to 33.8 percent during the Seventh Plan, compared to 29.6 percent and 30.4 percent respectively for all states. It is interesting to note that the share declined in Tamil Nadu and Andhra Pradesh, while the rate of increase in Karnataka was less than that in Kerala (see Table 9.17). Almost the entire expenditure on this account is nonplan.

Though one would consider that it is the nondevelopmental expenditure that should be subjected to scrutiny and control, the scope for such control in Kerala is limited, as in most states, because two main components of such expenditure -- debt servicing and pension payments -- are contractual in nature and cannot be reduced in the short run. Interest charges in Kerala accounted for 12.8 percent of total revenue expenditure in 1989-90, an estimated 12.3 percent in 1990-91, and a budgeted 13.6 percent for 1991-92.

Debt service expenditure has grown substantially and witnessed a spurt in the mid-1980s. The share of debt servicing in nonplan expenditure in Kerala rose from 11.1 percent during the Fifth Plan to 26.6 percent during the Seventh Plan. Only Karnataka among the other southern states has a higher share than Kerala. It is, however, noteworthy that the debt service liability of Kerala is less than that of most other states (Table 9.18). The problem became more acute during the Seventh Plan period, mainly because of the bunching of short-term and medium-term loans taken by the state during the Sixth Plan and first two years of the Seventh Plan.

Kerala, like most of the other major states, has had to set aside a relatively large share of its nonplan budget for debt servicing, both repayment of loans and payment of interest. During the Seventh Five Year Plan period, interest payments by Kerala accounted for over 13 percent of total nonplan revenue expenditure, slightly less than the all-states average of 15 percent. But the repayment obligations of the state during the Seventh Plan period comprised as much as 95 percent of its nonplan capital outlay, indicating the dangerous aspect that the provision set apart for other nonplan capital expenditure on assets created was negligible. Against this, the all-states average was only 69 percent. Similarly, repayment of loans as a percentage of total debt servicing in Kerala reached a high of 49 percent, as against 37 percent for all states during the Seventh Plan period. Furthermore, total debt service as a percentage to total nonplan expenditure for Kerala was 23.4 percent, compared to 21.6 percent for all states.

There has been a spurt in the debt servicing expenditures of the state government since 1983-84. Its heavy dependence since then on short-term borrowings, including overdrafts from the Reserve Bank of India, medium-term loans to clear overdraft liabilities, utilization of borrowed funds for meeting nonplan and plan revenue expenditure, and drawing of advance plan assistance to finance the annual plans, all contributed to bunching of these obligations during this period. The major share of liabilities has been for loans from the central government. The magnitude of such obligations to the central government in recent years has been such that the net inflow of central assistance for the state plan during 1989-90 was a negative Rs. 5.07 crores. The total outstanding debt of Kerala as of the end of 1989-90 represented 3.3 percent of state domestic product.

Kerala's situation of having to borrow in order to square its revenue account is not unique. And when a state government feels obliged also to have a plan of minimum size, it very soon starts facing a liquidity problem. This problem normally arises because of a mismatch in the timing of the inflow and outflow of cash. The problem gets compounded by the bunching of loan liabilities. But states like Kerala have had to face a liquidity problem permanently because cash outflow almost always exceeded the inflow throughout the year. States could meet this problem as long as the Reserve Bank of India was willing to accommodate them through overdrafts. That is how the states accumulated large and continuing overdrafts from the beginning of the Sixth Five Year Plan. This necessitated extension by the central government of special medium-term loan assistance to the states aggregating to Rs. 1,743 crores in 1982-83, Rs. 499 crores in 1983-84, Rs. 352 crores in 1984-85, and another Rs. 1,743 crores in 1985-86, to clear accumulated overdrafts. The amount of special loan assistance drawn by Kerala during these years amounted to Rs. 378 crores, 8.7 percent of the total (more than twice Kerala's population share or its share of central budgetary transfers). With the Reserve Bank of India becoming much more strict on the extension of overdraft facilities in recent years, the liquidity problems of states like Kerala have become extremely serious. In such circumstances the funding of plan schemes got interrupted often, and their execution suffered in the process. Is it any wonder, therefore, that state plan schemes face continuing problems of cost and time overruns? Externally funded schemes are no exception.

Since the mid-1980s, the share of pension payments to state government employees in Kerala's nonplan revenue expenditure has been rising rather rapidly. It increased from 5.0 percent during the Fifth Plan to 13 percent during the Seventh Plan. The share of pension payments in Kerala is the highest in India. Among the southern states, the next highest share of 9.3 percent was in Karnataka, the all-states average being 4.9 percent. The higher share of pension payments in Kerala is explained by the extension of pension benefits to staff of aided private schools and colleges. It is estimated that over 200,000 pensioners are receiving pensions at present. The annual number of retirements is in the range of 14,000 to 15,000. Annual spending on pensions in recent years is shown below:

Items (Rs. crores)	*1989-90 (Actual)*	*1990-91 (Revised Estimates)*	*1991-92 (Budget Estimates)*
Pensions to government staff	89.91	124.90	134.00
Pensions to employees of aided institutions	27.61	31.00	33.00
Family pensions	17.57	30.00	30.00
Commutation value of pensions	47.80	65.21	70.22
Gratuity	23.61	32.03	33.03
Miscellaneous	3.08	4.10	4.13
Total	209.58	286.34	304.38
Percentage of total revenue expenditure	8.1	10.1	9.8

(In the above figures the amount payable on account of the outstanding accumulated balance under the employees provident fund, roughly Rs. 25 crores per annum, is not included.)

The major reasons for the higher pension commitment to government employees in Kerala are the following: (1) The retirement age in Kerala is 55 years, compared to 58 years in all other state governments and in the central government. (2) Due to the low death rate and high life expectancy, the proportion of pensioners in Kerala is invariably higher than in other states. (3) The age profile of staff in government service and aided institutions also tends to increase the number of pensioners. Considering the high incidence of unemployment, the age of entry into government service was raised to 35 years sometime back. This also adds to the number of pensioners.

Economic Services

Because of the higher share of social and community services in total revenue expenditure, Kerala's share of economic services is less than in other states. It remained at around 20 percent during the past three plan periods, whereas in the other southern states the share varied between 26.6 percent and 33.6 percent. A lower share of expenditure on economic services in Kerala is a consequence of the higher priority given by the state government to social and community services. On plan account, however, there has been a definite change in priorities in favour of economic services in recent years. Their share went up from 49.5 percent to 59.4 percent in the Seventh Plan, which was higher than in all the other states. The percentage share in the subsequent two annual plans of 1990-91 and 1991-92 would be 81 percent and 78 percent respectively. The low priority assigned to economic services in the past hampered Kerala's ability to promote economic growth, which would have increased generation of fiscal resources.

Government Services

The share of expenditure on government service is lowest in Kerala. The average share during the last three Five Year Plans stood at 13.3 percent, compared to 15.4 percent in Andhra Pradesh and 18.0 percent for all states (see Table 9.20). It is important to note, however, that for all the states (including the southern states) there was a declining trend in the share of government service in revenue expenditure. Per capita expenditure on government service was the highest in Kerala among southern states during the Seventh Plan, though less than the all-states average. The per-capita expenditure in Kerala was Rs. 80, compared to the all-states average of Rs. 94. The comparative position during the past three Five Year Plans is shown below.

Per-capita revenue expenditure on government services (Rs.)	*Fifth Plan*	*Sixth Plan*	*Seventh Plan*
Kerala	23.8	40.1	80.0
Karnataka	23.5	37.1	78.0
Tamil Nadu	22.6	41.1	76.0
Andhra Pradesh	21.2	41.2	79.0
All states	24.3	44.3	94.0

During the three five year plan periods the increase in per capita spending on government services in Kerala was more than three times, compared to four times for all states. It is noteworthy that the share of expenditure on organs of state and fiscal services in Kerala is higher than that of the other southern states, which perhaps offers scope for economy.

To recapitulate, trend growth rates of total revenue receipts and total revenue expenditure from 1974-75 to 1989-90 are shown below:

	Total Revenue receipts (percent p.a.)	*Total revenue expenditure (percent p.a.)*
Kerala	13.99	15.08
Andhra Pradesh	16.01	17.66
Karnataka	15.19	16.78
Maharashtra	15.07	16.62
Tamil Nadu	15.45	15.98
West Bengal	14.90	15.61
All States	15.45	16.92

In all states the rate of growth of revenue expenditure far outstripped the growth rate of revenue receipts during the 16-year period. This definitely brought about a deterioration in the current budgets of the states. The difference between the two growth rates was smaller in the case of Kerala than for the all-states average. But the base level of expenditure in 1974-75 was much higher in Kerala than in other states. Per-capita revenue expenditure in Kerala in

1974-75 was Rs. 135, as against Rs. 112 for all states taken together. The state could not maintain its edge in subsequent years, as is shown by the fact that per-capita revenue expenditure for Kerala in 1989-90 was Rs. 892, compared with Rs. 877 for all states. The difference between Kerala and all states declined from 17 percent in 1974-75 to 1.7 percent in 1989-90. In 1975-76 total revenue expenditure outstripped revenue receipts by one percent in the case of Kerala, whereas revenue expenditure for all states together accounted for only 88 percent of revenue receipts. There was an excess of expenditure over receipts for all states taken together only beginning in 1987-88.

Finance Commission Awards

As noted earlier, the pressures on the Kerala budget originated from its revenue account. Within the revenue account there have been deficits in the nonplan account from 1985-86 onwards. The state, however, was supposed to have a surplus according to the Eighth Finance Commission's award. Deficits arose partly because of shortfalls in resources mobilized compared to what was projected by the Finance Commission and partly because of expenditures higher than the level forecast by the Finance Commission. As J.L. Bajaj and Renuka Viswanathan pointed out (in *Economic and Political Weekly*, October 7, 1989), variance from the Finance Commission's forecast was greater for nonplan revenue expenditure than for nonplan revenue. Differences between the revenue surplus/deficit forecast by the Eighth Finance Commission and the actuals reproduced from the article referred to above are given below.

			Difference between Finance Commission estimates and actuals	
States	*Finance Commission Forecast (Rs. crores)*	*Actuals (Rs. crores)*	*Amount (Rs. crores)*	*Percent*
Kerala	476	-446	922	-194
Karnataka	1672	919	753	45
Tamil Nadu	2705	1791	914	34
Andhra Pradesh	1592	1179	413	26

Variance between the Eighth Finance Commission estimates and actual expenditures in Kerala under selected nonplan categories is shown below:

Items (Rs. crores)	Finance Commission Forecast	Actuals	Difference (percent)
Interest payment	434.73	890.79	104.91
Police	216.56	310.11	43.20
Education	1499.50	2148.88	43.31
Medical	338.41	471.21	39.24
Social services and welfare	220.96	314.05	42.13
Irrigation	83.73	101.59	26.33
Buildings including housing	29.86	32.99	10.48
Roads and bridges	173.50	177.42	2.26
Total	2497.25	4447.04	48.57

The assumed surplus by the Finance Commission did not allow for upgradation of emoluments. The Commission assumed only Rs. 66 crores for this purpose for the five year period, while the salary revision commitments made in 1983-84 actually reached Rs. 348 crores. The Commission took 1981-82 as the cut-off point, even while knowing that the State Pay Commission was at work, and did not make suitable provision for the likely needs for upgradation of emoluments.

Another reason why Kerala's finances were upset during the Seventh Plan period was the failure of the Eighth Finance Commission to provide adequately for Dearness Allowance increases for state government employees and pensioners. As against Rs. 356 crores provided for the Finance Commission, the actuals amounted to Rs. 746 crores for the four year period 1985-89.

EXTERNALLY AIDED PROJECTS

Externally aided projects have grown in importance considerably during the Sixth and Seventh Five Year Plans, especially the latter. During the Sixth Five Year Plan about nine percent of the states' total plan outlay of Rs. 47,204 crores was for programs financed by external agencies. This share increased by 2.7 times in absolute terms during the Seventh Plan, reaching about 14 percent of the total approved outlay of Rs. 78,097 crores.

Externally aided projects clearly have helped to enhance the overall plan size of the states. How far this has benefited the states can best be understood by comparing per-capita assistance received for these projects during the Sixth and Seventh Five Year Plans, using rank correlation analysis. The states have been ranked according to per-capita income and per-capita assistance received for externally aided projects. Values of the rank correlation coefficients are shown below.

	Per-capita income		*Per-capita assistance for externally-aided projects*	
	1982-83 (A)	*1987-88 (B)*	*Sixth Plan (C)*	*Seventh Plan (D)*
(A)	-	-	0.23	-
(B)	-	-	-	0.13
(C)	0.23	-	-	0.21
(D)	-	0.13	0.21	-

The rank order correlation coefficient between per-capita income and per-capita assistance for externally-aided projects during the Sixth Plan period was only 0.23. Though this is not negative, since the value is small, it can be inferred that some low-income states did receive relatively higher assistance. During the Seventh Plan a drop in the value of the correlation coefficient to 0.13 indicates that the low-income states improved their position with regard to assistance received for externally-aided projects. This is also confirmed by the low value of the correlation coefficient between per-capita assistance received during the Sixth Five Year Plan and the Seventh Five Year Plan (0.21).

In Kerala, over a quarter of the originally approved plan outlay of Rs. 2,100 crores for the Seventh Plan consisted of spending on projects benefiting from external assistance. The estimated reimbursement of assistance was Rs. 217 crores. Undoubtedly the additional financial assistance that became available through funding by external agencies has contributed to a relatively faster growth in plan outlays.

Generally project assistance by external agencies is limited to 50 percent of total project cost, in a few cases between 50 and 60 percent. Following the outbreak of the war in the Gulf region, the World Bank increased project financing to 80-90 percent of total project cost.

No state government can receive funds directly from external agencies; the assistance is passed on to the state governments through the central government. Until 1987-88 only 70 percent of the assistance received from external agencies was passed on to the states, while 30 percent was retained by the central government. This issue has always been a major irritant in center-state fiscal relations. Following persistent demands from the states, in 1988-89 the Government of India decided to reimburse to the states 100 percent of external assistance for projects in social services, rural development, agriculture, irrigation, etc.

Much assistance by external agencies is on soft terms, with interest generally ranging from 0.75 percent p.a. to 3.5 percent p.a. and part of assistance received as grants. Most loans are repayable over a period of 20 years, including a moratorium of five years. But the terms on which such funds are passed on to the states by the central government are tougher: interest of 10.25 percent p.a. and repayment over 15 years.

At present assistance for externally aided projects is generally released by the Government of India on a quarterly basis, starting from August/September. These releases are made as reimbursements on the basis of expenditures incurred by the state governments and reported to the Government of India. Besides, there is a time gap generally of two months between the reporting of expenditure and release of assistance. The states have to squeeze their budgets on many other items, at times even priority items, to take up execution of these projects, right from the beginning. This causes considerable strain on the liquidity position of the states, especially those with a fragile resource base. The first few months of the financial year are generally lean months insofar as revenue flows are concerned, which makes it all the more difficult for the states to provide funds for such projects. In other words, these projects have to wait until the ways and means position of the states permits fund allocations to them. Therefore, the cash flow to these projects many times will not be at the desired level, thereby causing shortfalls in project implementation. In such a situation, apart from the delays caused by procedural wrangles, state governments' inability to provide counterpart funds causes delays in achieving targets.

For example, 35 water supply and sanitation schemes, including two new projects, are being implemented in Kerala with World Bank and bilateral assistance. In 1991-92 out of a total plan outlay of Rs. 77.5 crores for water suply and sanitation, 88.2 percent was for projects financed by external assistance. Most of these projects were started during 1985-87, and about 30 projects had been scheduled to be completed by 1990-91 The time schedule has slipped for almost all of them, and the revised schedule for completion is 1993-94. Inadequacy in cash flow is the major reason for delays. A system needs to be devised to make ad-hoc releases, just like release of normal central assistance, to ensure timely cash flow to the states so that these projects are not starved of funds.

Implementation delays are also caused by the time taken for getting clearance from appropriate authorities. One of the reasons for the slow progress of the Kerala Power Project, a World Bank-aided scheme, is reported to be the time taken in getting clearance from the Central Electricity Authority for the purchase of certain equipment, such as turbine generators, transformers, etc. Efforts to reduce such delays are important, so that unnecessary cost escalation can be avoided.

For various reasons, the most important of which is the poor liquidity position, implementation of externally aided projects has been poor, and the actual reimbursement for Kerala during the Seventh Plan was only Rs. 134.47 crores, about 38 percent below the target of Rs. 217 crores. Moreover, the former is measured in current prices whereas the latter was set in terms of 1984-85 prices. In real terms the reimbursement amounted to Rs. 108 crores, constituting only 49.8 percent of the original estimate of Rs. 217 crores.

CONCLUSIONS

With respect to per-capita revenue receipts, per-capita own tax revenue, and per-capita own nontax revenue, Kerala performed poorly when compared to the other southern states during the Sixth and Seventh Plan periods. Kerala's average annual growth rate of own tax revenue, which was higher than that of the other southern states between 1974-75 and 1979-80, was the lowest among the southern states and also below the all states average during the 1980s. The period since 1982-83 witnessed a steep decline in the ratio of own nontax revenue to total own revenue for Kerala. User charges collected for services offered by the government have declined as a percentage of expenditure year after year. Time and cost overruns for irrigation projects have deprived the state not only to a large extent of the benefits from such investments on the production front, but also of the resulting revenues. The revenue collected from projects already completed is extremely low (Rs. 2.50 crores per annum on average) compared to the revenue potential.

State public undertakings continue to make large losses. Their accumulated losses as of the end of 1989-90 amounted to Rs. 514 crores. The rate of return is less than one percent of the investment, not to speak of the nonpayment of dues to the state government. In the absence of a well developed private sector, the government had to step in and make direct investments in manufacturing activities. But inefficient management of these units meant that they failed to achieve their avowed goals.

The financial crisis faced by the state government is not due mainly to slow growth of revenue receipts, but rather largely to faster growth of revenue expenditure, particularly nonplan spending. While revenue receipts grew by 13.7 percent p.a. in the 1980s, revenue expenditure rose by 15.5 percent p.a. during the same period. Higher revenue expenditure, particularly nonplan expenditure, in Kerala was primarily due to a higher share of revenue expenditure on education and health in the total. Since the revenue component in plan programs relating to education and health is generally high, the proportion of committed expenditure compared to capital projects is also relatively high, contributing to the high nonplan content.

The high priority bestowed on social services had its fall-out in that economic services received smaller plan allocations in the past, leading to very slow growth in the commodity producing sectors in the state. Even in the case of social services, while paying greater attention to expanding the coverage of education and health care activities, the quality of services, particularly in education, took a back seat.

Government expenditure on pensions in Kerala is the highest in India, accounting for as much as 10 percent of total revenue expenditure. The state government's commitment to pay the salaries and allowances of staff of aided private educational institutions, coupled with high life expectancy, contribute to the higher share of pension expenditure.

The financial problems of the state are to a very large extent the consequence of achieving social goals set by national planners ahead of time. To achieve these goals the state had to spend a large share of its plan funds on these sectors, thereby partly starving economic services. To put it differently, the state is at present facing a success-induced problem. Though the Planning Commission and successive Finance Commissions have taken note of the success of Kerala in the field of social services and have praised the "Kerala Model" as something unique, there is still very inadequate recognition of the fiscal consequences of such priorities. The Finance Commissions, while allocating funds for meeting revenue gaps and for upgradation of social and administrative services, failed to take cognizance of the causative relationship between higher expenditures on social services in Kerala and resulting achievements in this field and the economic fall-out of such an investment pattern. While the Finance Commissions attempted to boost expenditure on social services in states lagging behind by alloting additional funds (even in states with high per-capita incomes), there was no such attempt to support economic services. The relative decline in Kerala's per-capita plan outlays perhaps is related to this omission.

The Planning Commission and the Finance Commissions have taken note of the success achieved by Kerala in social services, only to deny it funds. They have also turned a blind eye to the second-generation problems generated by the success of the state in provision of social services For instance, the problem of unemployment in Kerala is not only more severe than in other states, it is also qualitatively very different in that it is more a problem of the educated unemployed, clearly a result of the spread of education in Kerala. Public health and medical care schemes along with education have lengthened life expectancy, contributing to higher pension costs. Greater longevity combined with increasing unemployment has raised the dependency ratio in the state, and the government is compelled to cover some of these burdens of families by providing old age pensions and pensions for destitutes as well as unemployment allowances. High life expectancy has increased the proportion of old people, whose disease pattern calls for higher expenditure per patient. Notwithstanding the fact that Kerala's priorities in the past have been to attain some important national goals, leaving very little scope for accelerating investment in economic fields, resource allocation from the national kitty has not helped the state to bridge the consequent gap. Indeed, the share of central investment in Kerala has steadily declined over the years from 3.24 percent in 1975 to 1.50 percent in 1990. Maintaining central investment at least at the level of the state's population share is the minimum called for to ensure healthy development.

Kerala's inability to generate adequate budgetary saving seriously constrained its per-capita plan expenditure. The financing of over 11 percent of revenue expenditure by deficits has led the state into a sort of debt trap, further reducing its capacity to generate resources for plan financing. The state had to resort heavily to short-term borrowings during the Sixth Five Year Plan, a reflection of its liquidity problems. But such short-term borrowings further compounded the longer-term fiscal problem. Kerala's per-capita plan outlay, which was above the all-states average during the Third and Fourth Plan periods, started falling below the average subsequently. The gap has widened, so much so that Kerala's per-capita plan outlay during the Seventh Five Year Plan was almost 30 percent less than the all-states average.

Table 9.1

Selected Economic Indicators

	Per capita net SDP at current prices (1987-88)	*Birth rate per 1,000 persons (1986-88)*	*Death rate per 1,000 persons (1986-88)*	*Infant mortality rate per 1,000 births (1986-88)*	*Life expectancy at birth (1976-80)*	*Per capita electricity consumption (kwh)*	*Electrification of villages at end of March 1990*	*Road length per 1,000 sq.km area (thousand km)*
Andhra Pradesh	2333[a]	30	10	81	53	197	100	480
Assam	2335	34	12	103	51	64	95	759
Bihar	1904	37	13	100	40[b]	104	68	483
Gujarat	3636	31	10	98	52	373	100	337
Haryana	3925[a]	34	9	87	55	308	100	568
Karnataka	2802	29	9	74	56	207	100	599
Kerala	2834	21	6	28	66	130	100	2897
Madhya Pradesh	2404	37	14	120	49	187	84	262
Maharashtra	4490	29	9	66	56	347	100	597
Orissa	1983	32	13	124	49	165	65	788
Punjab	5477	29	8	64	61	515	100	960
Rajasthan	2326	35	12	104	52	162	75	243
Tamil Nadu	2980	23	10	77	53	249	100	1108
Uttar Pradesh	2146[a]	37	14	128	46	135	71	551
West Bengal	3193	30	9	70	47[b]	135	69	652
All India	3286	32	11	95	52	201	81	493

[a]Figures relate to 1986-87.
[b]Figures relate to 1961-70.

Table 9.1 (Contd.)

	Railway route mileage for 1,000 sq.km area (km)	*Enrolment children 6-11 group (1987-88) (% to total)*	*Enrolment children 11-14 group (1987-88) (% to total)*	*Hospital beds per lakh of population as on Jan '89*	*Doctors per lakh of population (1986)*	*Motor vehicle per 1,000 population (1987-88)*	*Banking offices per lakh of population as on March 1990*	*Population below poverty line 1983-84*
Andhra Pradesh	18	104	43	63	55	1.32	7.17	36.4
Assam	30	106	53	72	46	0.77	4.64	23.5
Bihar	31	81	34	40	34	0.76	5.43	49.5
Gujarat	28	114	57	150	56	3.33	8.25	24.3
Haryana	34	85	64	61	--	2.64	7.75	15.6
Karnataka	16	105	54	94	72	2.22	9.48	35.0
Kerala	24	108	97	292	61	1.49	9.51	27.8
Madhya Pradesh	13	100	50	43	16	1.32	6.79	46.2
Maharashtra	18	122	69	152	85	2.74	7.41	34.9
Orissa	13	98	40	49	37	0.64	6.29	42.8
Punjab	43	95	62	133	147	4.92	10.87	13.8
Rajasthan	16	80	41	64	34	1.30	6.95	34.3
Tamil Nadu	30	132	84	98	83	1.69	7.66	39.6
Uttar Pradesh	30	75	46	48	28	0.89	6.16	45.3
West Bengal	43	118	65	99	71	0.97	6.15	39.2
All India	20	98	55	91	48	1.70	7.16	37.4

Table 9.2

Per Capita Plan Outlays

(Rs.)

	First Plan 1951-56	Second Plan 1956-61	Third Plan 1961-66	Annual Plans 1966-69	Fourth Plan 1969-74	Fifth Plan 1974-79	1979-80	Sixth Plan 1980-85	Seventh Plan 1985-90
Major States									
Haryana	[a]	[a]	[a]	91	358	481	176	1,324	1,871
Punjab	175	146	212	90	316	531	155	1118	1,685
Gujarat	58	76	108	84	204	376	115	1,034	1,485
Maharashtra	37	57	103	83	199	372	121	941	1,434
Madhya Pradesh	34	48	84	44	114	254	87	697	1,146
Tamil Nadu	28	57	98	71	134	201	63	631	1,063
Orissa	56	54	120	60	113	207	72	549	897
Assam	29	57	103	61	136	190	78	533	850
Andhra Pradesh	33	52	91	58	98	236	79	557	841
Uttar Pradesh	25	32	72	53	132	237	62	505	803
Karnataka	46	62	100	70	128	276	81	584	799

	First Plan 1951-56	*Second Plan 1956-61*	*Third Plan 1961-66*	*Annual Plans 1966-69*	*Fourth Plan 1969-74*	*Fifth Plan 1974-79*	*1979-80*	*Sixth Plan 1980-85*	*Seventh Plan 1985-90*
Kerala	31	49	101	73	156	224	67	587	727
Rajasthan	39	53	97	56	120	237	80	558	718
West Bengal	54	48	80	39	82	200	82	616	653
Bihar	25	40	67	40	85	155	51	442	626
Other States									
Sikkim	[a]	[a]	[a]	[a]	[a]	1,163	596	3,050	5,750
Nagaland	[a]	[a]	280	400	747	1,359	326	2,625	4,000
Meghalaya	[a]	[a]	[a]	[a]	358	705	254	1,679	2,750
Manipur	17	86	100	72	290	646	221	1,600	2,529
Himachal Pradesh	21	64	127	119	328	467	170	1,244	2,100
J & K	39	77	166	152	351	603	197	1,429	1,918
Tripura	21	94	156	82	223	320	133	1,114	1,760
All States	38	51	92	61	142	262	85	670	1,026

[a]Was not a state during this period.

Table 9.3

Overall Budgetary Position, 1974-90

(Rs. crores)

	1974-75	*1975-76*	*1976-77*	*1977-78*	*1978-79*	*1979-80*	*1980-81*	*1981-82*	*1982-83*	*1983-84*	*1984-85*	*1985-86*	*1986-87*	*1987-88*	*1988-89*	*1989-90*
Kerala	12	-15	-14	27	69	22	-67	-61	31	-15	-76	122	-169	-6	14	-55
Karnataka	15	7	23	34	7	-22	-19	45	-41	-8	160	87	-126	85	-117	-175
Tamil Nadu	5	12	3	-23	3	-11	12	103	35	63	-40	90	-5	-67	-150	-149
Andhra Pradesh	74	32	-8	-72	2	-11	-4	-35	42	-111	-127	124	-104	108	-184	-183
Maharashtra	28	42	14	35	7	47	-30	38	59	-37	-59	25	81	77	-143	-8
West Bengal	-20	112	-16	-63	137	-66	-83	-132	-43	21	-78	146	-78	-6	9	326
All States	13	678	155	-69	1132	40	-218	-287	-144	-165	-1272	1707	-314	-286	-938	1346

Table 9.4

Revenue Surpluses and Deficits

(Rs. crores)

	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90
Kerala	0	-3	-3	29	43	58	-26	96	27	-57	-13	-73	-151	-194	-140	-188
Karnataka	48	86	64	65	52	81	59	164	42	73	-143	-84	79	-110	-29	-122
Tamil Nadu	-7	5	1	-23	48	95	128	82	102	52	17	189	104	-283	-309	-288
Andhra Pradesh	96	147	111	69	117	121	103	80	133	-88	-168	-6	-187	37	-72	-146
Maharashtra	56	130	176	163	126	195	121	147	210	71	-211	-316	0	74	-502	-193
West Bengal	8	18	24	-1	-78	-13	-23	-87	-241	-205	-371	83	-186	-115	-221	-198
All States	395	972	1097	1019	1135	1548	1485	1376	888	211	923	659	39	-1088	-2080	-4260

Table 9.5

Capital Account Surpluses and Deficits

(Rs. crores)

	1974-75	*1975-76*	*1976-77*	*1977-78*	*1978-79*	*1979-80*	*1980-81*	*1981-82*	*1982-83*	*1983-84*	*1984-85*	*1985-86*	*1986-87*	*1987-88*	*1988-89*	*1989-90*
Kerala	12	-12	-11	-2	26	-36	-41	-157	4	42	-63	195	-18	188	154	133
Karnataka	-33	-79	-41	-31	-45	-103	-78	-119	-83	-81	-17	171	-205	195	-88	-53
Tamil Nadu	12	7	2	0	-45	-106	-116	21	-67	11	-57	-99	-109	216	159	139
Andhra Pradesh	-22	-115	-119	-141	-115	-132	-107	-115	-91	-23	41	130	83	71	-112	-37
Maharashtra	-28	-88	-162	-128	-119	-148	-151	-109	-151	-108	152	341	81	3	359	185
West Bengal	-28	94	-40	-62	215	-53	-60	-45	198	226	293	63	108	109	230	524
All States	-382	-294	-942	-1088	-3	-1508	-1703	-1662	-1032	-376	-349	1048	-353	802	1142	2314

Table 9.6

Per Capita Plan Outlays

(Rs.)

States	*1st Plan*	*2nd Plan*	*3rd Plan*	*4th Plan*	*5th Plan*	*6th Plan*	*7th Plan*
Kerala	31	49	101	156	224	587	727
Karnataka	46	62	100	128	276	584	799
Tamil Nadu	28	57	98	134	201	631	1063
Andhra Pradesh	33	52	91	98	236	557	841
Maharashtra	37	57	103	199	272	941	1434
All States average	38	51	92	142	262	670	1026

Source: Centre for Monitoring Indian Economy.

Table 9.7

Revenue Receipts

	Amount (Rs. Lakhs)		*Index (1971-75 = 100)*	
	All States	*Kerala*	*All States*	*Kerala*
1974-75	643151	28797	100.00	100.00
1975-76	793816	35155	123.43	122.08
1976-77	903702	38618	140.51	134.10
1977-78	993057	44494	154.40	154.51
1978-79	1164669	52214	181.09	181.32
1979-80	1362931	59162	211.91	205.45
1980-81	1629330	64038	253.34	222.38
1981-82	1845460	85048	286.94	295.34
1982-83	2112554	81017	328.47	281.34
1983-84	2401382	93424	373.38	324.42
1984-85	2742547	112499	426.42	390.66
1985-86	3329414	137117	517.67	476.15
1986-87	3777601	150253	587.36	521.77
1987-88	4400039	158609	684.14	550.78
1988-89	5008592	188749	778.76	655.45
1989-90	5485959	207672	852.98	721.16

Table 9.8

Per Capita Own Revenue

(Rs.)

	Nontax revenue			*Tax revenue*			*Total own revenue*		
	5th Plan	*6th Plan*	*7th Plan*	*5th Plan*	*6th Plan*	*7th Plan*	*5th Plan*	*6th Plan*	*7th Plan*
Kerala	31.5	54.9	68.4	80.5	177.4	374.0	112.0	232.4	442.4
Karnataka	42.3	73.6	120.6	78.1	184.4	392.6	120.4	258.1	513.2
Tamil Nadu	21.8	39.3	65.6	78.0	203.9	388.3	99.8	243.3	453.0
Andhra Pradesh	26.7	53.3	104.1	68.6	158.0	341.7	95.3	211.3	445.7
Maharashtra	48.6	98.2	184.0	114.4	253.3	512.0	163.0	351.4	696.1
West Bengal	16.0	29.0	35.2	62.0	127.3	275.1	77.9	156.3	310.3
All states	27.9	55.6	99.0	62.6	139.8	287.0	90.5	195.4	386.0

Table 9.9

State Tax Revenues

(Rs. crores and percent growth)

	Andhra Pradesh			Karnataka			Kerala			Tamil Nadu		
	1974-75	*1989-90*	*Annual average growth rate*	*1974-75*	*1989-90*	*Annual average growth rate*	*1974-75*	*1989-90*	*Annual average growth rate*	*1974-75*	*1989-90*	*Annual average grpwtj rate*
Sales tax	113.99	1328.39	17.79	93.64	1050.00	17.48	75.32	740.00	16.45	190.75	1577.56	15.12
State Excise	58.11	637.20	17.31	47.54	320.00	13.55	15.55	160. 00	16.81	25.22	280.00	17.41
Motor Vehicle Tax	25.35	168.90	13.46	12.66	170.00	18.91	6.68	79.63	17.97	38.87	176.98	10.63
Stamps and registration fees	15.87	110.91	13.84	12.85	110.00	15.39	11.94	102.00	15.37	25.77	192.78	14.36
Others	38.68	153.83	9.64	332.31	240.45	-2.13	14.51	122.78	15.30	25.39	115.58	10.63
Total own tax revenue	252.00	2399.33	16.21	499.00	1890.45	9.29	124.00	1204.41	16.37	306.00	2342.90	14.53

Table 9.10

Ratio of Tax Revenue to State Domestic Product

(percent)

	1974 -75	*1975 -76*	*1976 -77*	*1977 -78*	*1978 -79*	*1979 -80*	*1980 -81*	*1981 -82*	*1982 -83*	*1983 -84*	*1984 -85*	*1985 -86*	*1986 -87*	*1987 -88*
Kerala	5.9	7.2	7.8	8.5	9.2	9.2	9.4	10.1	9.3	8.9	9.7	11.4	11.1	11.4
Karnataka	6.3	7.7	8.2	7.8	8.4	8.4	8.9	9.7	10.3	9.8	10.3	11.6	10.9	11.9
Tamil Nadu	8.4	8.6	8.0	7.7	8.9	8.0	10.0	10.5	12.3	12.2	11.6	12.2	12.5	11.0
Andhra Pradesh	5.3	7.7	9.0	7.4	7.6	8.0	8.1	7.8	8.4	8.6	10.0	11.2	11.2	10.9
Maharashtra	6.8	7.6	7.9	7.4	8.0	8.1	8.1	8.9	9.7	9.2	9.1	9.7	10.5	10.0
West Bengal	4.3	5.1	5.2	5.3	5.8	5.7	5.8	6.5	6.1	6.0	6.2	6.9	7.0	7.3

Share of Own Nontax Revenue in Total Own Revenue, 1974-90

(percent)

	1974-75	*1975-76*	*1976-77*	*1977-78*	*1978-79*	*1979-80*	*1980-81*	*1981-82*	*1982-83*	*1983-84*	*1984-85*	*1985-86*	*1986-87*	*1987-88*	*1988-89*	*1989-90*
Kerala	30.9	28.2	26.7	27.4	26.6	29.6	22.9	38.3	21.0	19.5	17.7	16.2	16.8	16.9	14.2	14.0
Karnataka	38.7	39.7	36.5	32.8	35.4	30.5	29.8	28.0	28.3	29.4	27.6	24.9	25.6	23.6	21.6	22.9
Tamil Nadu	22.8	21.9	22.4	23.4	21.6	20.0	26.7	14.6	14.2	14.2	14.3	13.4	23.4	14.4	11.2	10.1
Andhra Pradesh	27.7	24.4	28.1	29.6	29.1	28.4	27.7	27.2	24.3	24.3	24.1	21.3	20.7	21.7	26.4	22.8
All States	30.5	30.0	30.6	30.2	30.5	29.7	29.3	27.5	27.0	27.3	26.7	26.2	28.0	25.9	28.1	24.6

Table 9.12

Per-Capita Central Revenue Transfers

(Rs.)

	Plan periods		
	Fifth	*Sixth*	*Seventh*
Kerala	57.37	110.10	219.20
Karnataka	40.88	98.60	202.15
Tamil Nadu	42.66	107.17	211.40
Andhra Pradesh	54.06	110.44	221.03
Maharashtra	42.08	100.35	187.70
West Bengal	48.31	100.44	232.25
All states	53.66	120.31	263.48

Table 9.13

Share of Central Revenue Transfers in State Revenue Expenditure, 1974-90

(percent)

	1974 -75	1975 -76	1976 -77	1977 -78	1978 -79	1979 -80	1980 -81	1981 -82	1982 -83	1983 -84	1984 -85	1985 -86	1986 -87	1987 -88	1988 -89	1989 -90
Kerala	37.85	36.34	33.93	36.30	36.74	33.52	30.39	32.32	32.57	33.17	32.48	34.46	31.72	26.30	30.30	30.30
Karnataka	24.66	28.44	27.27	29.21	26.84	32.07	30.95	31.54	27.52	29.15	25.69	27.65	30.07	26.47	27.36	27.49
Tamil Nadu	23.48	27.60	29.14	29.75	30.64	39.65	35.50	30.74	29.95	30.40	32.31	34.78	31.30	30.64	30.77	29.97
Andhra Pradesh	41.40	43.76	40.68	38.81	42.44	44.14	39.62	36.08	37.89	33.20	30.37	33.98	33.59	33.57	30.43	30.18
Maharashtra	20.28	22.93	21.48	22.72	22.39	26.33	24.52	22.30	22.98	22.67	22.06	18.30	21.47	21.33	19.68	21.51
West Bengal	40.04	39.52	39.03	37.95	36.38	36.54	37.85	35.67	35.51	34.85	31.10	45.71	41.71	42.35	39.99	37.82
All States	37.27	40.45	40.11	40.89	42.11	45.44	43.30	40.91	39.61	36.66	37.45	41.24	39.92	39.78	39.62	37.43

Table 9.14

Total Revenue Expenditure

	Amount (Rs. Lakhs)		*Index (1971-75 = 100)*	
	All States	*Kerala*	*All States*	*Kerala*
1974-75	603685	28766	100.00	100.00
1975-76	696650	35504	115.40	123.42
1976-77	794019	38948	131.53	135.40
1977-78	891144	41589	147.62	144.58
1978-79	1051132	47914	174.12	166.56
1979-80	1208105	53369	200.12	185.53
1980-81	1480781	66760	245.29	232.08
1981-82	1707524	75450	282.85	262.29
1982-83	2023743	78339	335.23	272.33
1983-84	2380329	99244	394.30	345.00
1984-85	2834900	113866	469.60	395.84
1985-86	3263547	144533	540.60	502.44
1986-87	3773657	165477	625.10	575.25
1987-88	4508846	178068	746.89	619.02
1988-89	5216636	202815	864.13	705.05
1989-90	5911984	226553	979.32	787.57

Table 9.15

Ratio of Revenue Expenditure to SDP

(percent)

	1974 -75	*1975 -76*	*1976 -77*	*1977 -78*	*1978 -79*	*1979 -80*	*1980 -81*	*1981 -82*	*1982 -83*	*1983 -84*	*1984 -85*	*1985 -86*	*1986 -87*	*1987 -88*
Kerala	13.8	15.9	16.2	17.9	17.4	16.9	17.7	18.8	16.8	18.2	17.7	22.5	22.6	22.0
Karnataka	11.5	13.9	15.1	14.0	15.9	15.3	16.7	16.1	18.9	18.3	21.4	22.6	20.0	22.3
Tamil Nadu	14.5	15.0	14.6	15.0	15.0	13.9	18.1	17.0	19.2	20.4	19.8	19.3	19.7	22.4
Andhra Pradesh	9.2	12.0	14.4	14.9	15.0	16.6	16.1	15.4	15.7	18.2	21.1	21.6	23.4	23.1
Maharashtra	10.8	12.0	12.0	11.7	13.2	13.2	13.7	14.3	15.4	17.0	18.0	18.3	18.7	17.1
West Bengal	8.7	9.8	9.8	10.7	13.1	12.0	12.5	13.8	15.5	13.5	14.2	13.9	15.5	15.3

Table 9.16

Share of Nonplan Spending in Total Revenue Expenditure

(percent)

	Developmental				*Non-developmental*				*Total*			
	Fifth Plan	*Sixth Plan*	*Seventh Plan*	*Total*	*Fifth Plan*	*Sixth Plan*	*Seventh Plan*	*Total*	*Fifth Plan*	*Sixth Plan*	*Seventh Plan*	*Total*
Kerala	83.2	75.9	77.5	78.0	97.9	97.8	99.7	99.0	87.2	82.1	85.1	84.6
Karnataka	77.8	77.8	71.6	74.0	99.7	104.4	99.5	100.6	84.0	85.5	80.0	81.9
Tamil Nadu	78.3	67.1	67.3	68.7	99.6	99.8	99.3	99.5	84.4	74.9	75.6	76.7
Andhra Pradesh	79.0	71.6	70.0	71.6	99.7	99.8	99.7	99.7	84.5	78.4	77.4	78.6
Maharashtra	83.2	76.7	73.1	75.5	99.7	99.7	99.9	99.8	89.1	84.6	81.5	83.5
West Bengal	72.4	74.5	72.4	73.0	99.8	99.9	99.9	99.9	80.3	81.5	80.6	80.9
All States	77.9	71.6	68.4	70.6	98.8	98.9	98.1	98.4	84.1	79.3	77.5	78.9

Table 9.17

Share of Nondevelopmental Expenditure in Total Revenue Expenditure

(percent)

	Plan				*Non-Plan*				*Total*			
	Fifth Plan	*Sixth Plan*	*Seventh Plan*	*Total*	*Fifth Plan*	*Sixth Plan*	*Seventh Plan*	*Total*	*Fifth Plan*	*Sixth Plan*	*Seventh Plan*	*Total*
Kerala	4.44	3.59	0.74	2.12	30.54	33.31	39.58	36.50	27.18	27.97	33.81	31.20
Karnataka	0.20	2.19	0.87	1.08	32.84	34.63	36.46	35.43	27.79	28.66	29.47	29.02
Tamil Nadu	0.33	0.15	0.79	0.55	32.66	30.93	33.20	32.48	27.81	23.40	25.44	25.19
Andhra Pradesh	0.32	0.22	0.27	0.26	30.68	29.80	31.29	30.80	26.11	23.52	24.36	24.36
Maharashtra	1.20	0.61	0.21	0.41	40.00	40.27	38.16	39.04	35.78	34.20	31.21	32.68
West Bengal	0.25	0.00	0.31	0.31	34.93	32.26	35.64	34.55	28.29	26.49	28.97	28.15
All States	2.31	1.44	2.61	2.27	34.64	34.63	38.34	36.79	29.57	27.86	30.40	29.59

Table 9.18

Share of Debt Servicing in Total Revenue Expenditure

(percent)

	Non-plan			*Total*		
	Fifth Plan	*Sixth Plan*	*Seventh Plan*	*Fifth Plan*	*Sixth Plan*	*Seventh Plan*
Kerala	11.1	10.9	26.6	9.7	9.0	22.6
Karnataka	11.4	15.1	24.6	9.7	11.9	19.3
Tamil Nadu	11.4	10.9	23.0	9.6	8.2	17.5
Andhra Pradesh	10.2	8.4	18.5	8.7	6.6	14.4
All States	13.0	12.2	25.4	11.1	9.8	19.8

Table 9.19

Share of Pensions in Total Expenditure

(percent)

	Non-plan				*Total*			
	Fifth Plan	*Sixth Plan*	*Seventh Plan*	*Total*	*Fifth Plan*	*Sixth Plan*	*Seventh Plan*	*Total*
Kerala	5.03	8.29	13.00	10.50	4.39	6.80	11.07	8.88
Karnataka	5.67	8.49	9.31	8.52	4.78	6.79	7.48	6.70
Tamil Nadu	4.28	4.08	7.60	6.10	3.63	3.08	5.78	4.70
Andhra Pradesh	3.76	5.07	5.34	5.04	3.19	4.00	4.15	3.98
Maharashtra	2.17	3.04	4.58	3.79	1.93	2.57	3.74	3.16
West Bengal	1.89	2.76	3.77	3.20	1.53	2.27	3.06	2.60
All States	2.68	3.53	4.88	4.19	2.26	2.81	3.71	3.32

Table 9.20

Share of Expenditure on Government Services in Total Revenue Expenditure, 1974-90

(percent)

	Plan			*Non-plan*			*Total*		
	Fifth Plan	*Sixth Plan*	*Seventh Plan*	*Fifth Plan*	*Sixth Plan*	*Seventh Plan*	*Fifth Plan*	*Sixth Plan*	*Seventh Plan*
Kerala	4.8	3.5	0.6	14.3	13.6	12.8	13.2	11.8	11.0
Karnataka	0.2	0.1	0.4	16.5	13.5	13.4	14.0	10.7	10.7
Tamil Nadu	0.4	0.2	0.8	17.2	16.0	15.4	14.6	12.1	11.2
Andhra Pradesh	0.5	0.2	0.3	17.4	16.3	14.7	14.8	12.9	11.4
All States	2.2	1.3	2.6	19.4	18.1	16.1	16.8	14.7	14.1