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Review Paper

Fiscal crisis in Kerala, India: An interrogation on state finances

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Abstract

The size and pattern of public finances of a state has great relevance in the economic and social development of that state. At the same time, it has important implications on human development and long term perspectives of an economy. So, an analysis on Kerala in the context of globalisation pressures, growing expenditure, declining revenue and political uncertainty arising out of anti incumbency trends is very relevant. Because, the state has been confronting deteriorating fiscal condition especially after the 80's, which is one of the serious issues that could impede the sustainable growth potential. In the context this paper reexamines the trends in state finances of Kerala, which can bring further understandings on state finances.

Keywords: Public spending, revenue, Fiscal deficit, economic growth.

Introduction

There have been some studies relating the trend and pattern of state finances of Kerala[1]. But most of these studies are analysed using data at current price. Differing from earlier studies this analysis has made converting data[1] to real term using deflator; otherwise due to the effect of inflation it overestimates the extent of real growth of public finance data (Table-1).

Moreover, for the sake of explanation throughout the paper total time period is divided in to three equal spans (phases), first, the years from 1981-82 to 19991-92, then second from 1992-93 to 2002-2003 and third period is between 2003-04 and 2013-14. This paper prepared in such a way analysing first on the expenditure side, then on revenue and finally the overall fiscal condition of the state.

Trends in Expenditure

The overall trend shows that the increase in expenditure is mainly because of continuous increase of revenue expenditure (Figure-1), which created serious imbalances in fiscal sector of the state. The Table-1 describes that the share of revenue expenditure as compared to capital expenditure remained significantly higher in all periods.

As in earlier studies reported, since the state revenue expenditure lagged behind revenue receipts the state has comfortable position during 70s but it reversed in later years. Revenue Expenditure was 77 percent of total expenditure in the first period (1981-1991), means only 23 percent constitute capital expenditure, then in the next period revenue expenditure increased to 87 percent followed by 91 per cent in the third period indicating growing pattern of revenue expenditures.

When categorize revenue expenditure into developmental and non-developmental as in budget classification, it has been observed that non developmental expenditure contributes a significant proportion of the total revenue expenditure of the state government (Figure-2). In the first period around 68 percent of revenue expenditure was spent on developmental expenditures (DE), which has declined to 52 percent in the last stage shows the extent of increase in non developmental expenditures (collection of taxes and duties, interest charges, administrative services, etcetera.), which constitute around 48 percent of the total expenditure in the last period. But, when analyse the growth rate of total revenue expenditure, higher the growth rate of it is particularly on account of the higher growth rate in three major expenditure items are debt services, pension and salaries. Around 58 percent of the total expenditure and 67 percent of the total revenue expenditure is spending only on these three expenditures. It is also noted that the fact that 44 percent of total expenditure spending on government employees for pension and salary where the employees constitutes a small part of total the population.

The committed expenditure consisting of debt charges, expenditure on pension payments and administrative services together formed 27.4 percent of total expenditure in 1991-92, increased to 37.15 percent in 2002-02 and reach at 42.76 in 2013-14. Where, the increase in interest payment is more than three half times as percent of revenue expenditure. In 1980-81 it was 330.98 crore, that is 7.5 percent of revenue expenditure and it has increased to 3612.54 crore as 21 percent in 2004-05. State's undue dependence on short term high cost borrowing and medium term loan to clear overdraft liabilities are caused to this, but shows a reduction in annual average growth rate since 2004 as an impact of debt swap policies of central government

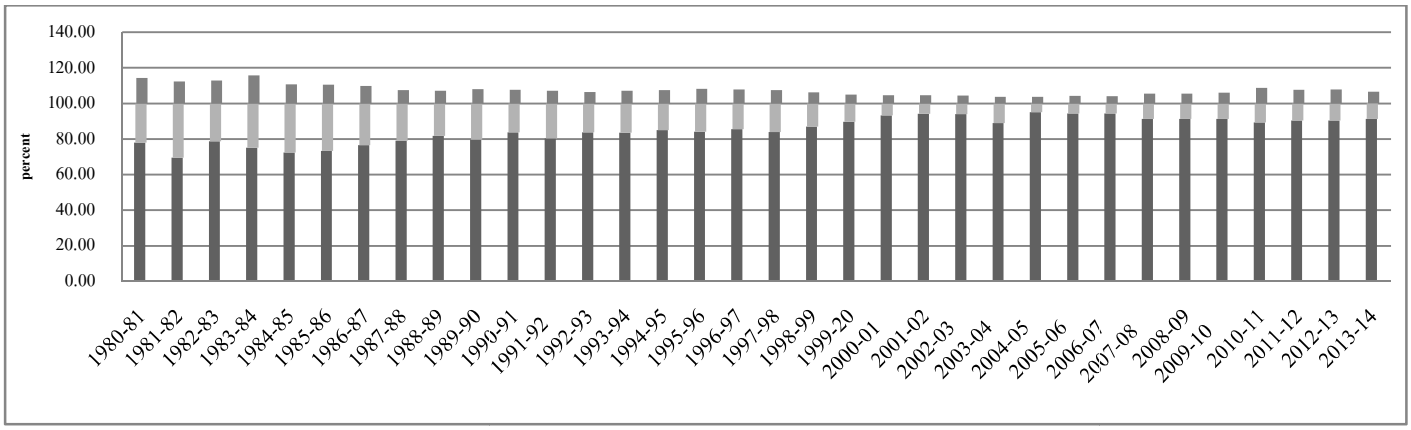
(Figure-3). During the first period it was 10.34 percent of revenue expenditure and 11.07 percent of revenue receipts and then increased to 17.39 percent of revenue expenditure and 20.96 percent of revenue receipt in third period[2].

Despite the growth in higher borrowing, the decline in capital expenditure is one of the most disturbing features of Kerala state finance. Because, cut in capital expenditure as a short term measure for fiscal correction affects long term capital formation (Figure-1 and Table-1). The trend shows that significantly large portion of borrowed fund is being used for the revenue expenditures rather than capital expenditures. As a percentage of state income the capital outlay comprised of direct expenditure on capital projects by the state government as investments made by the state in public sector undertakings, joint ventures, and co-operative and few cases of private sector companies is also on decline but since 2006-07 shows a slight improvement. When the revenue expenditure is taken as a percentage of GSDP, it has grew from12.08 to 13.71 in second and to 14.21 in third periods respectively, while capital expenditure has declined from 3.60 to 2.16 and further to 1.30 in third period. Compared to other states, Kerala shows capital account surplus in most of the years, implies the extent of borrowing than what it spent or invested under capital account[3].

At the same time, the extent of increase in social sector expenditure, which was high even in 1986-87 when the state was facing serious fiscal challenges, but the later trend has shown as more or less same around 31 percent of total expenditure (Table-1). Yet, the share of total expenditure on education and health has shown a decreasing trend. Expenditure on education to total expenditure was around 23 percent till mid 90s decreased to 18 percent in last stage (2003-2014), where pension increased from 6 percent of total expenditure to around sixteen percent respectively. Moreover the expenditures, the total plan expenditure, total expenditure on developmental (both revenue and capital), economic services, capital outlay, irrigation and industry have shown as decreased while total revenue expenditure consisting interest payment, non developmental expenditure are in an increasing trend (Table-1). This trend shows the pattern of growing expenditure. That is the growth in expenditure is mainly due to increase in these expenditure[4].

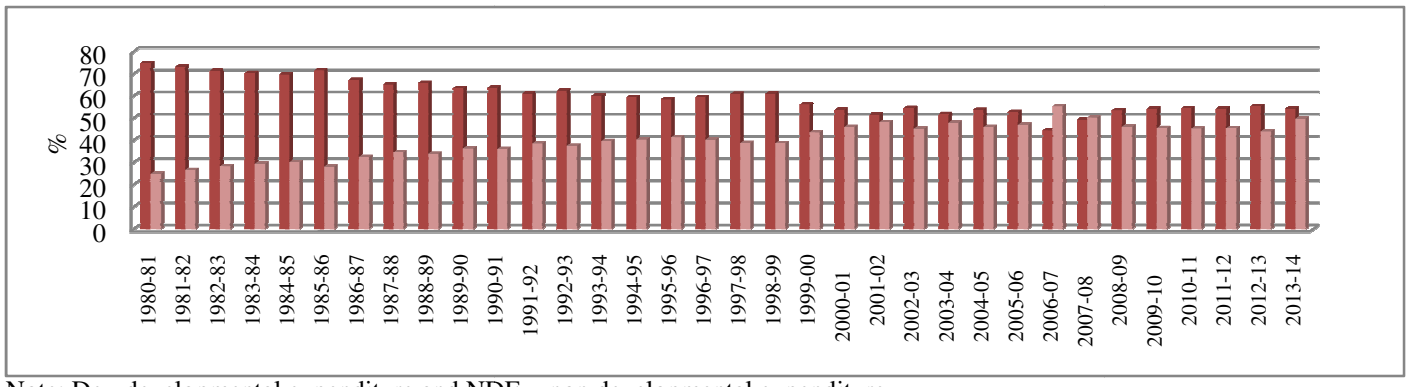
Table-1: Trends in expenditure (in absolute and relative terms)[5].

Growth rate												
PEROID	TE	RE	CE	RDE	SS	ES	EDU	PEN	TDE	ADM	PLE	NPLE
1982-92	5.97	6.42	6.14	4.926	4.089	6.39	4.80	15.1	3.88	7.09	2.62	7.58
1993-03	5.58	6.59	-1.15	5.37	5.96	4.65	3.97	10.80	4.91	5.05	7.83	5.23
2003-13	7.64	7.34	18.14	7.62	7.73	5.92	7.11	8.93	8.02	12.66	4.94	8.81
As ratio of Aggregate expenditure												
1981-91	-	76.97	23.03	52.43	33.39	29.07	23.19	6.39	61.96	28.94	11.91	65.06
1992-02	-	86.40	13.60	50.59	28.45	28.65	20.76	10.87	57.07	28.21	15.59	71.95
2003-13	-	91.65	8.14	48.29	31.45	18.58	17.85	15.17	54.03	18.58	18.50	81.48
Growth rate												
	NDE	PW	HEAL	INTP	ECS-R	SS-R	COUTLY	H&U	COMMU	INDU	IRRI	AGR&H
1982-92	10.16	3.79	4.84	12.67	4.08	7.67	0.72	11.27	6.74	9.59	1.48	2.82
1993-03	8.69	10.38	3.13	11.17	8.39	4.28	1.49	11.24	12.31	-0.71	-1.79	4.25
2003-13	8.52	8.01	7.78	3.67	5.40	8.00	13.16	259.38	4.54	12.25	5.86	11.74
As ratio of Aggregate expenditure												
1981-91	25.13	4.22	8.59	8.38	19.97	32.14	9.92	0.14	8.42	3.06	4.68	5.86
1992-02	36.86	3.86	7.02	15.03	17.68	33.03	6.28	0.06	9.83	2.75	3.17	6.03
2003-13	43.69	5.42	6.33	15.97	13.73	30.65	5.74	0.11	8.58	2.10	1.65	4.71



Note: RE=revenue expenditure, CE=capital expenditure, COUTLY=capital outlay.

Figure-1: Revenue expenditure and capital expenditure (as percentage of total expenditure)[5].



Note: De= developmental expenditure and NDE = non developmental expenditure.

Figure-2: Developmental and non developmental expenditure[5].

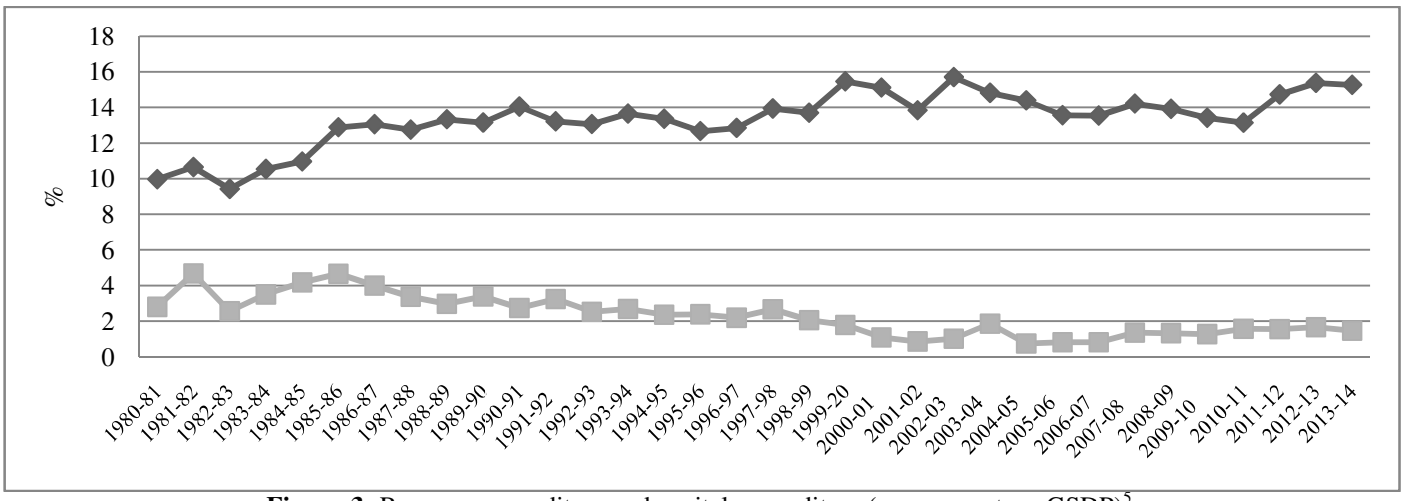


Figure-3: Revenue expenditure and capital expenditure (as a percentage GSDP)[5].

To sum up, the overall trend shows that the high revenue component of development expenditure causes comparatively low expenditure for creation of physical capital. So in expenditure side the emphasis should be given for controlling non plan revenue expenditure and to curb non reasonable revenue expenditure's growth enhancing expenditure for productive channels. The government should direct public spending in such a way as to generate growth and financial stability with equity keeping unproductive revenue expenditure in check, reducing subsidies by effective targeting of the genuinely needy groups and increasing development expenditure by better use of all sources available, increasing revenue without increase in tax rate but curbing tax evasion to improve the quality of public expenditure.

Trends in Revenue Mobilisation

Though Kerala recorded appreciable performance in human development indicators as well as growth in State Domestic Product and per capita income, this is not accompanied by growth in revenue realisation. Balance from revenue shows a secular deterioration reflecting the widening gap between expenditure and revenue.

The structure of state revenues has undergone major changes since 90s. Among major divisions (revenue and capital) 75 percent was from revenue receipts during the first period (between 1982–83 and 1992–93) and remaining was from capital receipts. In total revenue receipts, 54 percentage was contributed from own tax revenue and 12 percent from state's non tax revenue and the remaining constitutes the central transfers. In later periods, the trends show as declined to around 72 percent but the share of own tax revenue in total receipts increased to 62 percent from 54 percent in first period. The disaggregated analysis is also shows a decline in average of growth rates of revenue from all taxes during the second half of nineties (Table-2) due to decrease in growth rate of GSDP. Generally the analysis shows a fluctuation trend to all revenues except sales tax and taxes on vehicles.

In state's own tax revenues (SOTR) more than 73 percent of revenue collection is from sales tax & VAT, followed by10 percent from stamp and registration fee, 8 percent from state excise duty and around 6.5 percent form tax on vehicles with an increasing growth rate in the last period (Table-3). Here to note that, the revenue from excise duty which was around 19 percent of SOTR in the year 1980-81, declined to 11.77 percent in 1992-93 and further to 6 percent in the last phase (2004-2014).

Table-2: Average of annual growth rates of tax revenues and GSDP[2,4,5].

Period	TR	CR	RR	STOR	SNTR	DT	TY	TPOP	GSDP
1980-85	4.83	11.53	3.89	4.65	11.80	2.77	3.57	2.14	-0.16
1985-90	8.79	24.63	5.70	7.23	-1.35	-1.70	-7.49	13.27	3.66
1990-95	6.75	4.88	7.53	7.52	7.49	5.59	5.53	10.67	6.40
1995-00	5.75	16.06	1.87	3.61	-2.47	-7.77	0.73	-7.87	4.83
2000-05	4.16	-2.18	7.86	8.32	6.96	11.00	17.70	17.41	6.44
2005-10	7.59	7.20	8.24	8.60	12.01	15.32	51.81	13.50	8.30
2010-13	9.81	13.81	8.91	8.05	24.00	15.38	-2.74	15.04	6.24
Period	TSC	STAMP	SALE	ELECT	EXCISE	AGR	LAND	VEHIC	GSDP
1980-85	5.019	1.621	4.444	47.926	1.364	4.070	6.862	6.996	-0.158
1985-90	7.096	14.073	7.991	29.690	4.618	-7.490	7.702	4.363	3.656
1990-95	7.330	10.605	8.806	-8.850	6.364	5.526	8.080	11.003	6.398
1995-00	4.897	-9.305	5.836	70.496	2.265	0.731	0.711	5.989	4.830
2000-05	7.657	19.241	8.411	701.088	2.796	17.702	1.962	6.637	6.444
2005-10	8.217	15.329	7.959	33.848	9.295	51.809	-1.042	7.455	8.297
2010-13	10.28	8.242	12.190	-12.965	7.147	-2.740	13.296	9.334	6.240

Note: The table shows average of annual growth rates for the representative periods. It shows all revenues as decreased in the 4th period (1995-2000), growth rate of GSDP is comparatively low. Further, the capital receipt is higher in the periods when the growth rates of GSDP comparatively low [1985-90 and 1995-00]. Another fact is that after 2000, STOR presents an average growth rate around 8.2 percent but SNTR shows as increased due to high variation in annual growth rate.

When the share of state's non tax revenues (NTR) to total own revenue had been coming down steeply over the years (Figure-4) due to decrease in returns from public sector undertakings and cooperatives in the form of dividends and profits and interest receipts which not proportionate to the large volume of loans and investments made available to them by the state governments. While checking the growth rate, the average of annual growth rate per annum shows a declining trend for state own tax revenues where non tax revenue shows an improvement in the last period (Table-4). The average of annual growth rates of the state total tax revenue and non tax revenue as a percentage of state income (GSDP) were 6.25 and 1.39 respectively in the first period, which altered to 7.87 and 0.83 in the last period, this shows the increase of tax revenue with increase in income but not in the case of non tax revenue. But, compared to other southern states Kerala lags behind in growth of own revenue even though it is one among the five at state levels.

Table-3: Ratio of change in tax Revenue to change in income[5].

Period	STAMP	SALE	ELECT	EXCISE	TAGR	TLAND	VEHI
1982-92	1.51	1.68	8.13	2.24	4.76	0.13	1.44
1993-03	0.67	1.44	60.62	0.82	-0.42	0.46	1.54
2004-14	1.64	1.31	0.05	0.94	2.07	0.80	1.07
PERIOD	SOR	RR	SOT	SNT	DT	TOY	TOP
1982-92	0.61	0.32	1.94	-3.45	3.91	4.80	1.39
1993-03	1.18	0.98	1.26	0.66	-0.89	-0.42	0.72
2004-14	1.22	1.16	1.10	2.34	-0.11	2.18	-0.13

Note: Table shows average values for respective periods.

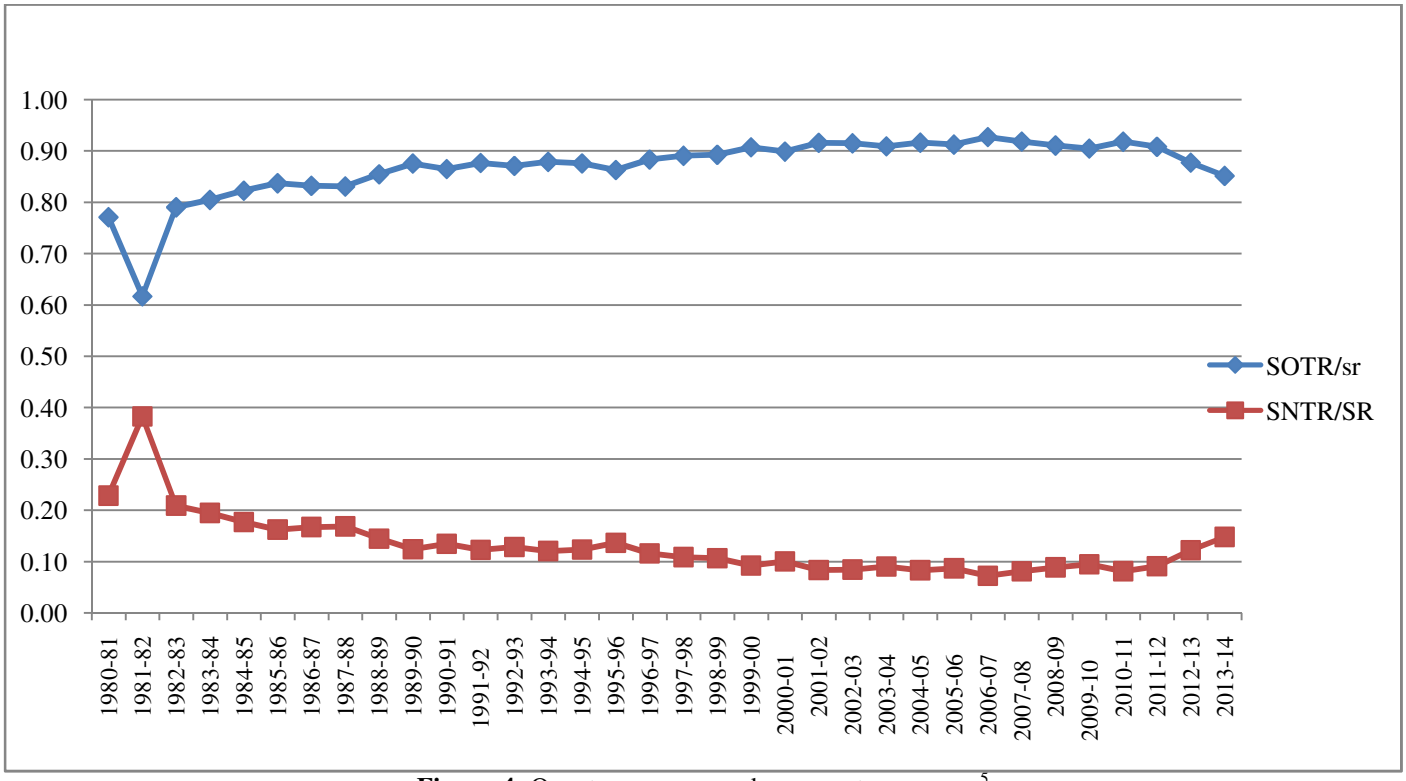


Figure-4: Own tax revenue and own nontax revenue[5].

Table-4: Components of revenues as percentage of total state tax revenue (Average of per period)[2,5].

1982-92	7.87	63.99	3.95	14.90	2.13	0.86	6.04
1993-03	8.04	70.65	1.26	11.57	0.43	0.66	6.75
2004-14	10.80	73.10	0.38	7.99	0.11	0.36	6.40

While analysing the ratio of change to growth rate of income (%ΔT/%ΔSDP), the state tax revenue shows a deceasing trend from 1.93 (first period) to 1.09 (last period). This implies that even if an increase in tax revenue with increase in income, but increase in tax revenue is not much as increase in income. Here notice the fact that in a state like Kerala which receives large flow of remittances, so the relevance of fittingness of tax revenue to GSDP as a simple measure of tax effort is suspect. Beside it implies the extent of tax leakages. According to this rate shows an improvement in non tax revenue in the last period (Table-2). It was negative for the first period (-3.45) but has increased to 2.34 in the last period due to increase in annual growth rates. The disaggregate analysis portrays a jump in some revenues, for instance, revenues from electricity duty, tax on income, state non tax revenue *et cetera* due to high variation in that revenue.

Researchers have already pointed out the reasons of revenue reduction as tax leakages and revenue loss in various revenue generating sectors of the economy owing to under assessment of tax, incorrect computation, exclusion of income from assessment including those of luxury hotels and bars and so on[6]. At the same time, George (2003) points out that populist politics of the state causes to the less revenue realisation[1].

Overall deficit indicators

The deficit indicators, fiscal deficit, revenue deficit and primary deficit give the overall fiscal position of a state. Deficit indicators of Kerala as a ratio to GSDP is shown as declining continuously for the years between 2004-05 to 2009-10, which can be evaluated directly as an impact of Fiscal Responsibility Budget Management Act (FRBM Act) and also due to increase in the base of economy (state income in terms of GSDP). Though the state attained a decline in deficit indicators as a percentage of GSDP, after 2010 the trend shows an increase in key deficit indicators especially in revenue deficit and fiscal deficit due to the decrease in GSDP as an impact of recession on the economy. The Table-5 gives the trends in deficit indicators.

The trend shows that the revenue expenditure as percentage of the GSDP has increased from 10.65 in 1981-81 to 15.26 in 2013-14, while the revenue receipts attained only a minor increment from 12 to 12.40 for the respective years implying the growing burden. While, the expenditure on pension salary and interest payment as a percentage of GSDP (psi) constitute around 9.3 percent of GSDP, where the state's own tax revenue comprises only about 7.5 percent of GSDP. In another way to reveal the compass of the committed expenditure consisting of debt charges, expenditure on pension payments and administrative services together formed 3.35 of the GSDP in the first period and doubled to around 6.07 in the last period whereas revenue receipt to the GSDP constitutes around 11 percent throughout the years which shows the magnitude of growing these expenditures.

The revenue deficit as percentage of fiscal deficit (RD/FD) shows how much revenue expenditure met from fiscal deficit, which was negative in the years between 1982 and 1984, then accelerated to 54.03 percent in the second period and increased to 65.12 percent in the last period, shows the extent of increasing revenue expenditures to total borrowing. The increase in primary Deficit (PD) is due to decrease in interest payment that means allocation of borrowed fund to other purposes (Table-5) and vice versa. But, the primary deficit as a percentage of GSDP shows a decrease of 0.33 percent in the third period from the second period. Instead of the criteria that there should be positive primary revenue balance (PRB/GSDP>0) the trend, the revenue deficit minus interest payments (PRB) shows negative sign for most of the years under study. Furthermore, when compared to other Indian states, the revenue deficit of Kerala is higher than that of other states and only exceptions being the states, West Bengal, Punjab and Jammu Kashmir.

The analysis of these indicators as a percentage of the total revenue receipts will give a better yardstick for evaluating the various indicators of state finance (Table-6). Further it will give the real size of deficit. When it measure as a percentage of revenue receipts it can make an understanding about how much the discrepancy or imbalances. Accordingly as a ratio to the revenue receipts, the total expenditure has been higher by more than 31 per cent in the last period, which was more than 37 percent in previous periods with a slight decrease in revenue deficit and fiscal deficit. The table elucidates a decrease in the extent of growth in indicators in third period compared to the second period.

Another important fact that the trend shows Revenue Deficit in all years after 1982-83, while Capital Surplus in all years after the year 1988-89. What imply from this that revenue expenditure is more than that of revenue receipts, while capital receipts higher than that of capital expenditure. It shows that it borrows more than what it spends or invested or loaned under capital account.

Table-5: Deficit indicators for the period 1981-2014[2,4,5].

Year	FD/ GSDP	RD/ GSDP	PD/ GSDP	PRB/ GSDP	RD/FD	COMMM/ GSDP	SOTR/ GSDP	W/ GSDP	COUTLY/ GSDP	Capital account surplus	COTLY/ FD
1980-81	2.69	0.42	2.00	-0.26	15.57	1.99	5.03	5.60	1.82	-300.25	67.78
1981-82	0.87	-1.36	0.06	-2.16	-155.59	2.28	5.28	6.06	1.88	-1054.97	215.56
1982-83	1.48	-0.32	0.74	-1.06	-21.97	2.25	5.27	6.02	1.55	-132.27	104.53
1983-84	3.18	0.62	2.21	-0.36	19.38	2.69	5.17	6.75	2.21	-55.28	69.54
1984-85	2.24	0.13	1.07	-1.03	6.03	2.89	5.99	6.86	1.61	-451.64	71.91
1985-86	2.88	0.66	1.75	-0.47	22.91	3.14	6.52	7.72	1.84	805.12	63.72
1986-87	3.47	1.20	2.07	-0.20	34.55	3.80	6.42	4.75	1.67	-140.83	47.97
1987-88	3.21	1.40	1.68	-0.13	43.53	3.98	6.62	8.60	1.20	616.12	37.37
1988-89	2.67	1.06	1.08	-0.52	39.81	3.96	6.90	8.75	1.17	513.59	43.76
1989-90	3.46	1.43	1.78	-0.25	41.39	4.16	7.06	10.64	1.33	747.50	38.45
1990-91	3.97	2.10	2.28	0.40	52.82	4.37	6.66	11.52	1.27	1088.19	32.04
1991-92	3.30	1.50	1.31	-0.49	45.33	4.57	6.88	9.06	1.18	668.98	35.63
1994-95	2.92	1.05	0.76	-1.11	36.07	4.76	7.38	9.44	1.18	1454.77	40.22
1995-96	2.83	0.88	0.82	-1.13	30.93	4.65	7.36	8.42	1.23	730.71	43.24
1996-97	2.92	1.22	0.83	-0.88	41.67	4.59	7.38	8.48	1.18	934.04	40.34
1997-98	4.08	1.90	1.91	-0.28	46.52	4.80	7.61	8.46	1.25	1082.31	30.61
1998-99	4.47	3.01	2.32	0.87	67.40	4.83	6.90	8.69	0.97	2024.54	21.63
2001-02	3.88	3.09	0.93	0.14	79.72	6.25	7.03	10.12	0.66	3124.38	17.08
2002-03	5.31	4.39	2.18	1.25	82.54	6.72	7.77	10.54	0.74	4161.09	13.99
2003-04	5.30	3.52	2.11	0.34	66.46	6.70	7.73	10.33	0.61	3704.97	11.55
2004-05	3.73	3.08	0.70	0.05	82.41	6.29	7.52	9.69	0.57	3801.38	15.31
2005-06	3.08	2.30	0.28	-0.49	74.82	5.97	7.20	9.03	0.60	5084.06	19.53
2006-07	2.49	1.72	-0.24	-1.01	69.02	5.94	7.77	9.13	0.59	4188.54	23.62
2007-08	3.48	2.16	1.01	-0.31	62.05	6.40	7.80	9.68	0.84	3331.99	24.17
2008-09	3.13	1.83	0.83	-0.47	58.49	5.71	7.86	9.08	0.84	2633.04	26.71
2009-10	3.39	2.17	1.11	-0.12	63.81	5.57	7.60	8.53	0.89	3875.44	26.16
2012-13	4.31	2.69	2.24	0.62	62.33	6.25	8.65	9.60	1.32	6086.47	30.68
2013-14	4.28	2.85	2.19	0.77	66.74	6.42	8.07	9.48	1.08	6444.63	25.34
1981-92	2.74	0.69	1.47	-0.58	8.28	3.35	6.19	7.77	1.57	236.77	72.48
1992-03	3.73	2.17	1.44	-0.11	54.03	5.11	7.20	9.33	1.03	2121.72	30.43
2004-14	3.66	2.39	1.19	-0.08	65.12	6.08	7.88	9.37	0.90	4234.35	25.15

Table-6: Fiscal Indicators as a ratio to the Revenue Receipts[5].

Year	RR	COMMI	SOTR	SNTR	TE	RE	CE	RDE	Coutly	Outlia	FD	RD
1981-82	4929.97	19.01	43.97	27.28	127.69	88.71	38.98	64.95	15.64	127.92	7.25	-11.29
1982-83	4153.78	23.10	54.06	14.32	122.93	96.69	26.24	69.18	15.86	155.27	15.17	-3.33
1984-85	4606.47	26.72	55.29	11.91	139.73	101.22	38.52	70.63	14.85	165.16	20.65	1.24
1985-86	5408.99	25.72	53.31	10.36	143.60	105.40	38.19	75.58	15.01	163.14	23.56	5.40
1987-88	5047.63	35.01	58.32	11.85	141.92	112.27	29.65	73.32	10.55	178.43	28.25	12.29
1990-91	6569.61	36.60	55.77	8.70	140.50	117.56	22.93	75.02	10.65	207.37	33.25	17.56
1991-92	6526.70	39.02	58.69	8.24	140.42	112.77	27.65	69.04	10.03	206.27	28.15	12.76
1994-95	8497.62	38.64	59.98	8.49	127.70	108.57	19.13	64.62	9.56	198.87	23.77	8.57
1995-96	8471.45	39.40	62.38	9.88	127.63	107.43	20.20	62.91	10.39	197.64	24.02	7.43
1998-99	8773.99	45.15	64.58	7.75	147.36	128.16	19.21	78.36	9.05	240.72	41.83	28.19
1999-00	9276.40	58.03	65.38	6.68	162.39	145.60	16.79	81.95	8.16	273.27	57.11	45.62
2000-01	10048.14	58.50	67.23	7.55	145.76	136.05	9.71	73.26	6.61	294.98	44.42	36.04
2001-02	10220.75	58.18	65.40	6.00	136.71	128.77	7.94	66.56	6.17	320.60	36.10	28.78
2002-03	11551.87	59.34	68.65	6.37	147.64	138.72	8.92	75.82	6.57	317.88	46.95	38.75
2003-04	12251.10	59.34	68.46	6.83	147.49	131.14	16.35	68.23	5.41	332.14	46.88	31.15
2006-07	16753.47	50.22	65.66	5.16	121.39	114.51	6.88	51.04	4.96	287.98	21.02	14.51
2007-08	18570.23	53.14	64.76	5.73	129.15	117.93	11.22	58.43	6.99	276.32	28.90	17.93
2011-12	24429.27	50.63	67.66	6.82	133.90	121.14	12.76	65.96	10.14	245.23	33.71	21.14
2012-13	27009.61	49.27	68.14	9.51	134.19	121.19	13.00	67.27	10.43	246.00	33.99	21.19
2013-14	28071.50	51.76	65.06	11.34	134.71	122.99	8.73	66.94	8.73	252.38	34.46	23.00
1981-92	5305.53	30.19	54.74	12.21	137.83	106.53	31.30	71.80	13.61	169.38	24.44	6.53
1993-03	9066.23	46.51	63.35	7.77	138.61	121.73	16.88	70.42	8.60	240.22	34.46	21.75
2004-13	19756.40	51.46	66.61	7.02	131.26	120.25	10.74	63.43	7.52	281.99	30.93	20.25

Conclusion

This paper gives an overall trend in state finances of Kerala. The continuing discussions on these matters have been pointed to the factors like increase in revenue expenditure or recurring expenditure without revenue mobilization, tax leakages and lack of proper planning and the like. Truly, the necessity to adjust the current fiscal policy is a sign of unsustainable public finance. Any deficit ratio can be impacted through the interaction between revenue expenditures and capital receipts. Either by augmenting revenue sources or curtailing unproductive expenditures or by implementing both deficits reveals the fiscal health of an economy. But, the state faces deficits throughout the years, where capital account surplus in most of the years. It implies that the extent of high revenue component of expenditure causes comparatively low expenditure for creation of physical capital. So, on the expenditure side emphasis should be given to control non plan revenue expenditure and to curb non reasonable revenue expenditure's growth on the one hand enhancing the fiscal space to productive channels. At the same time, there is clearly a case for advocating more current spending owing to the link between corruption and capital spending, which disclose that the current expenditure as more productive than capital expenditure[7,8], emphasizes the need for

the transparency. In the revenue side the state should take energetic measures to augment tax receipts through better tax administration, rationalization of tax structure, widening tax exemptions and extending concessions to various sectors need to be subjected through a thorough review to assess whether they are effective in promoting desired objectives with increasing efficiency of public sector units by appropriate policy.

Another important fact to reveal that as in politico-economic approach, fiscal deficit may be the result of political process. Especially, coalition Governments will find it more difficult to reduce budget deficits after adverse shocks. Where, the "war of attrition model", of Alesina and Drazen[9] shows that delayed fiscal adjustments in which different sociopolitical groups fight about the distribution of the fiscal burden. But, at the same time it also reveals the extent of corruption and lack of good governance in economic system. Distributive policies can enhance human capital which helps to achieve overall growth and development. But to perceive the fact that greater the scope for redistributive politics, the poorer will be the quality of public investment[10]. Besides the shadow of it not under concern due to the asymmetric information. Hence, it needs to be checked whether the amount sanctioned through budgets or recorded in estimates reached to whom or for what purpose it processed, shows lack of good governs, leakage of funds, and coverage of corruption. Not only on the expenditure side but from revenue realisation corruption can contribute to tax evasion and inefficient tax administration causes to reduce revenue. Here also mention about the strong theoretical arguments associated with 'career concern', which explains the rent seeking behaviour of appointed bureaucrats and public about abuse of public office for private gain. All of these exhibit the paradox of political dynamism of rent seeking incentives and economic inertia. It emphasises the need for a new political strategy within the democratic framework.

Moreover, it indicates to the need for transparency. Unfortunately, the debate on budget is overly focusing on estimates of expenditures which will be far from the real and rarely on the critical issues without evaluating fact full assessment on it. For instance, the widening gap between actual and estimates in budgets (Figure-5) exhibits the discrepancy and the uncertainty while preparing the budget. Only a transparent and accountable budget making government can ensure budgets to achieve their results through the public requirements. This specifies the need of impact oriented discussions and decisions about budget that "who gets, what, when, and how" is conceivably the most important step to achieve sustainability. So lack of public involvement, debates on undue facts on budget instead of revealing the reality and unavailable or opaque information on budgets are obstacles in improving the transparency of budget processes shows the need of efficient participatory budgets as an instrument in making the allocation of public resources more 'inclusive' and 'equitable'. Through enhancing public access to budgetary information and transparency in fiscal policy and public expenditure management in turn reduces pressure effects, elite capture, corruption and tax evasion. As such it can address the inequalities and to raise voice for necessities which may help to enhance performance of policies and allocations and to use the fiscal space for needy requirements instead of offering state resources to hidden heads.

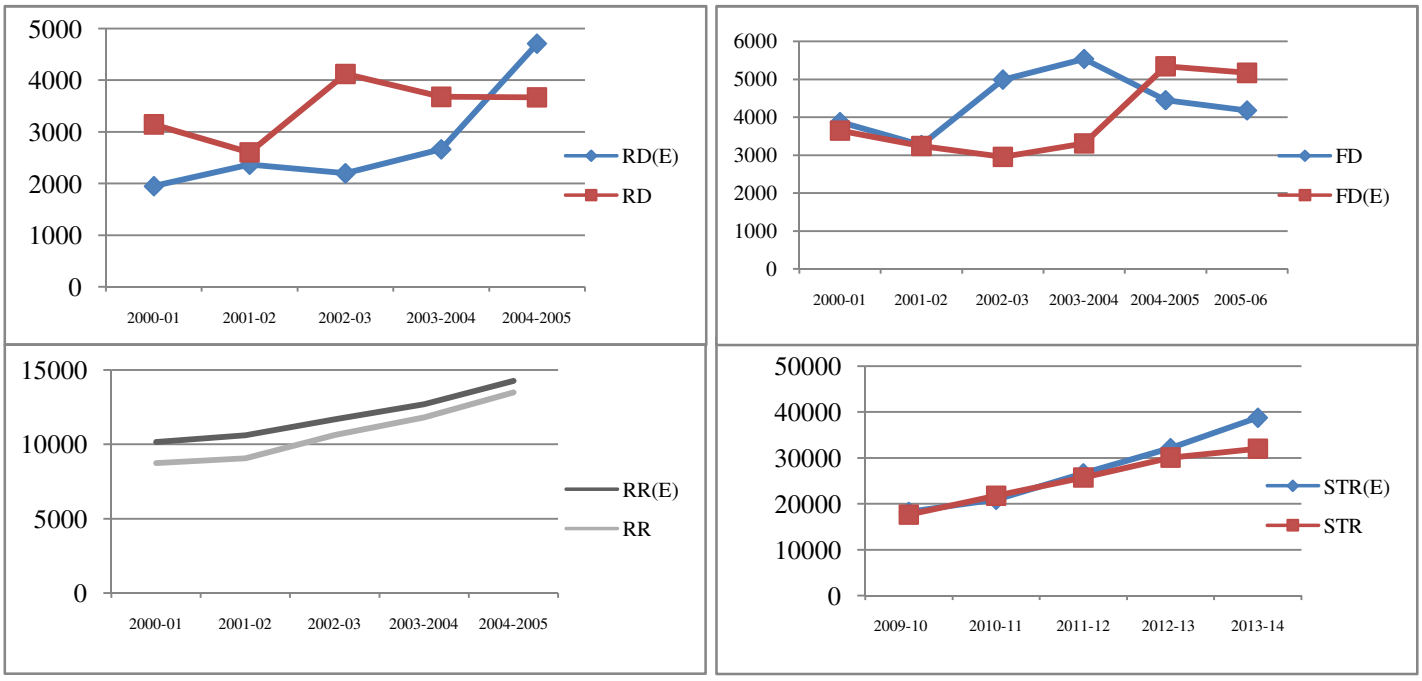


Figure-5: Divergences between estimates and Actual[5].

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