

Global recession and Kerala budget, 2021-22

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According to World Bank, COVID-19 induced recession in 2020 is the deepest recession experienced in the World since Second World War. India and the state of Kerala have been experiencing the worst recession since 1947. The total COVID-19 cases in India so far is 3.02 crore and COVID-19 death is 3.96 lakh. In this context, the article examines the measures proposed in the two Kerala budgets for 2021-22 to address the pandemic, recession and fiscal situation of the state.

Merits of the budgets

The budgets have given high priority to contain the spread of the pandemic, speed up vaccination, strengthening the public health infrastructure, distribute the food kits to the people etc. The budgets have proposed measures to address the recent sea erosion, floods and other environmental problems. The proposals on educated unemployment, female educated, promotion of skill training, transformation of the state as a knowledge society, promotion of digitalization, measures to improve the quality of higher education, promotion of innovation and enterprise etc are suited to the changing situation of labour market and economy of the state. These are the notable merits.

Demerits of the budgets

But a key policy error in the budgets is the lack of measures to address the unprecedented recession experiencing in Kerala. The pandemic induced crisis has created deep recession in all sectors except agriculture, livestock, forestry and fishing. Due to the recession the Indian economy experienced a negative growth of 7.3 percent of GDP in 2020-21. The fall in GDP in the state economy is likely to be larger in magnitude as the state heavily relied on external factors.

Some of the sectors which experienced total stagnation are tourism and related activities, hotels, restaurants, travel etc, sports, entertainment, cinema, private educational institutions from nursery schools to parallel colleges etc. Operations of many services and trade were severely curtailed. Examples are private bus transport, operation of autorickshaws, taxis, shops and trading centers other than selling essential items, small scale industrial units, construction activities of all kinds, real estate etc. Many of the activities were shifted from work places, educational institutions, IT units, offices etc to homes. Due to loss of jobs many people become street vendors, selling vegetables, fruits, fish, food items etc. The state government and its agencies failed to enumerate the magnitude of losses in production, employment, income created due to the recession. Attempts are not made to conduct quick surveys of each sector or sub sector to enumerate the magnitude of loss in production and employment.

Huge losses in employment

The state imposed 55 day lockdown with strict restrictions in the first month and with some relaxations in the remaining period from March 24, 2020. Subsequently various other restrictions and micro level containment were also implemented in local areas during the entire year. During 2021, 40 days statewide lockdown was implemented from May 8, 2021 to contain the second wave of the pandemic. Two day lockdowns during the weekend is in force even now. The various restrictions including the lockdown have resulted in unprecedented loss in employment in all categories of workers. Some of the major sectors which experienced severe loss of employment are industries (account for 11 percent for total employment), construction (19 percent of total employment), trade, repair of motor vehicles (14% of total employment), transport and storage (9% of total employment) and education (5 percent of total employment). Among the categories of employment (workers) those who experience severe loss of employment are the categories of self-employed and casual workers which account for 67 percent of total workers. Nearly one third of the total employment might have lost due to the recession. This loss of jobs and income of workers can be considered as the worst situation faced by workers since the formation of the state. Except the categories of those employed in government, public sector undertakings, semi-government organisations and organized private sector, who receive fixed wages, all other sections of workers experienced job and income losses. This core issue is not addressed by the budget.

New economic order

The pandemic is creating rapid changes in ways of life, travel habits, use of technology, shift of work places, automation, digitalization, change in preferences of goods and services, changes in skills for jobs etc. The post pandemic economic situation will be different compared to pre-pandemic situation. Preparations are needed to face this transition.

Return of Keralite migrant workers

The global recession has led to large scale return of Keralite migrant workers from Gulf countries and others to Kerala. One pillar in which the Kerala model and prosperity of Kerala society thrived is the large remittances received from Keralite emigrants. The major source of income of lakhs of families in Kerala is the remittances sent by Keralite emigrants. For the last four decades, the state has been getting an annual amount of remittances (through formal and informal channels) which exceeds the total annual expenditure of the state government. It is likely that the loss of jobs and return of large number of Keralite workers will have far reaching negative consequences in the labour market and economy in Kerala. It is pointed out in the revised budget that 14.33 lakh Keralite migrant workers from foreign countries return to Kerala. Of this, majority returned due to loss of jobs. It is likely that majority of Keralite migrants workers in foreign countries might have already return to Kerala due to the global recession. This issue creates a host of issues such as rehabilitation, assistance to find jobs, support for remigration to other countries etc.

Persistent fiscal crisis

In the fiscal front, the state totally failed to improve the acute and persistent crisis prior to the pandemic period. And the pandemic induced recession has worsened the fiscal crisis. The provisional figures of CAG show that there has been a fall in tax revenue comprising state taxes and share of union taxes by 11.3 percent in 2020-21 compared to previous year. Non-tax revenue of the state fell by 48 percent during the period. The revenue deficit increased from Rs. 14,495 crore in 2019-20 to Rs. 23,256 in 2020-21, a 60 percent increase. The fiscal deficit increased from Rs.23,837 crore in 2019-20 to Rs.38,190 crore in 2020-21, an increase by 60 percent. Normally in a situation like this the state government will be forced to close the treasury for many days, but the large amount in grant-in-aid received from the central government such as revenue deficit grant, grants to local governments, sector specific grants etc have averted such a situation. The grant-in-aid received from the central government

increased from Rs.11,235 crore in 2019-20 to Rs.31,049 crore in 2020-21 (176% increases). With the fall in revenue deficit grant the state is likely to move to precarious fiscal crisis in the near future. Due to the acute fiscal crisis, the state totally lost its fiscal capacity to spend money for reviving state's economy or provide assistance to the lakhs of workers who lost their jobs or earnings. The lesson we have to learn from this is that Kerala cannot survive unless steps are taken to improve the fiscal situation.

Issues in off budget borrowing

The budget heavily relies on funds of Kerala Infrastructure Investment Fund Board (KIIFB) for implementing major development projects in the budget. The budget says that the state government announced Rs.50,000 crore investments for five years through KIIFB in the first budget. But project worth Rs.7,000 crore was completed till January 2020-21. It is mentioned in the budget that KIIFB has accorded sanction for 821 projects worth Rs.40,100 crore. Another Rs.20,000 crores has been sanctioned for land acquisition for industrial parts. Thus most of the major infrastructure development projects are funded by KIIFB. But the CAG, a constitutional authority of India says that KIIFB cannot be considered as an off budget borrowing institution and the borrowing of it should be brought within limits on government borrowing under article 293 of the constitution of India. If the central government decides to accept the view of CAG and implement the same, the KIIFB funds come within the borrowing limit. This will create total uncertainty in the borrowing funds for the development.

The analysis may be concluded as follows: The budgets have given high priority for containing the spread of the pandemic and strengthening the public health system. But the budget has failed to address the unprecedented recession experienced in the state's economy due to the pandemic. The state even failed to collect data to know the magnitude of the losses in production and employment. Due to the acute fiscal crisis, the state lost its fiscal capacity to spend money for stimulus packages or assisting the people who lost jobs. The CAG's view that KIIFB cannot be considered as an off budget borrowing institution has very serious implications on future borrowing for development of the state. All these suggest the need for improving the state finances by all means and at all costs.

As we know that the budget is based from the Michael porter's theory of competent in terms of nation, also where it speaks about you can actually leave out the older theories which

focuses only on natural domains, Labor, interest rate and financial problems for growth. Rather than looking at, both the innovation and knowledge as the lead from elements for the economy. I think in the first budget as well as in the revised budget, there is a substantial emphasis happened on that aspect. When you look at knowledge based economy and where the economy actually derives returns, by looking at production of knowledge goods and transfer of knowledge goods. Kerala is already doing that, in fact we know that conventionally leveraging on our education system people actually use to move out of Kerala and for knowledge work be in healthcare sector, be in IT sector, some of us know that almost one third of the whole IT workforce in India is actually being funded by Kerala. But I think there are two major changes which is happening in the external world which we need to be which, is being taken care of in the budget.

One , there is a change from this large centralized models of Economic development or blogs factory based model of economic development of industrial world is actually slowly shifting to small decentralized models of economic development. We have now getting efficiencies of scale, even at a lot smaller format, so that is actually one big change from the industrial economy world which has happened. The second thing is, we also have through the Digital technologies, we have seen that many areas, which was conventionally were not dematerialized is actually getting dematerialized. Education is one example where conventionally you are looking at this as something is quite a bit of a physical dependence on is there now actually getting dematerialized to a large extent. So externally, there is a change happening; there is a decentralization of work spaces are happening, the dematerialization of many of the conventional factors of economic growth is happening. How do we actually make best use of that is primarily what I think the budget tried to address. As we discussed, we have a large pool of people who are within the state who are unemployed, who are educated. Perhaps not skilled, but educated and you also have people moving out earlier, so we were exporting. If you use that word, you are exporting human resources in the past, now we need not have to export human resources for the work can actually be exported, people can still remain in the State itself, which means you are actually having people who will consume which is triggered the consumption will be in the state. This actually get in a long event will help develop the growth of the economy person. Now in that context, how do we actually have these opportunities is primarily what I think the budgets were trying to address. But there are quite a bit of challenges in that primarily look at two three elements, one, you

need to have a good skilling infrastructure and come to that a little later. The second is you need to have very major structural changes in the education and the third thing is obviously there is a mindset change from your movie common factor based economy to an innovation based economy. We know that we have close to 3.5 million people who can actually be potential contributors of work in various domains, many of them can actually be done on a remote manner, but the skilling infrastructure of the state is still not able to address that. If you take the whole skilling infrastructure of the state, we can skill around 100,000 - 150,000 per annum, which means we are basically speaking about a huge gap in the scaling infrastructure, which is required. The challenge here is that somehow we are actually keeping the scaling infrastructure away from the mainstream of education. Because the mainstream education is never been looked at, something which can actually provide education and the budget speaks about some changes in the education like creation of centers of excellence, creation of the higher and knowledge production, etc. I think there will be an emphasis on how do we actually integrate the skilling along with the education itself. Primarily, maybe, looking at the teacher training and things like that, so there is an area where we require if you really wanted to achieve this very ambitious but achievable target person.

The second element is that there need to be a structural change in the education person. We know that the education system is having a huge amount of regulations and policy challenges which requires if you wanted to make any of the changes which envisage in the budget, even if you wanted to set up a Center of excellence within an existing university system, you really require some changes in the statutes and regulations of the university. Unless that is addressed it may not be possible for us to many times and that is the second element which we need to look at.

The third element of course is that how do we actually move from a world where we are looking only on a job which is primarily based upon conventional factors of production to an innovative job which may request continuous skilling which may require to take a break in between the re-energize themselves and combine. Budget has provided a very interesting social network for that, but addressing that taking that in and educating people that type of a model so work is actually going to happen in the knowledge economy is an area which, I think we need to propagate quite a bit if you really wanted to achieve.