

AN ECONOMIC ANALYSIS OF GDP AND PER CAPITA INCOME IN KERALA STATE

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Abstract

Government expenditure as a tool of fiscal policy can have profound influence on the stabilisation and economic growth depending upon its utilisation pattern and management by the government. Contrasts to the standard presumption that public expenditure supports the growth objective, evidences showed that it may have desirable as well as undesirable effects on the economy. The main objectives of the study is to analyze the rate of growth of real per capita government expenditure in India and Kerala During the second half of the present decade, the plan expenditure was less than that of All States. But during 2009-10 and 2010-11, the per capita approved plan outlay of Kerala (not actual expenditure) was more than that of All States.

Keywords: fiscal policy, economic growth, public expenditure, national income, tariff cuts, government spending

Introduction

Government expenditure as a tool of fiscal policy can have profound influence on the stabilisation and economic growth depending upon its utilisation pattern and management by the government. Contrasts to the standard presumption that public expenditure supports the growth objective, evidences showed that it may have desirable as well as undesirable effects on the economy. The sustained rise in the size of government expenditure in most of the developing economies in the past has frequently engaged the development economists in evaluating the effects of expenditure on economic growth. It is firstly Wagner (1883) in his "The law of an Increasing State Activities", recognised the role of national income as one of the fundamental determinants of public expenditure.

Economists in their subsequent theoretical works consider Wagner (1890)'s Law as the starting point to the analysis of the relationship between government expenditure and economic growth. The hypothesis has become a subject of intensive research motivating the economists as to know the direction of causality - whether causality runs from national income to government expenditure or vice-versa.

It is contested that government spending causes expansion of domestic output and income, resulting in home demand for increasing imports. Increased imports leading to increase in income abroad may in turn result in demand for domestic exports and hence growth. Conversely, trade openness could also enhance demand for public goods and simultaneously reducing the ability of the government to collect taxes. This holds when openness is due to tariff cuts. However, given tariff rates, openness due to elimination of non-tariff barriers could result in more government revenues and hence expansionary government policies. Thus, there could be an interaction between government spending, openness of the economy and economic growth (Ram, 1999 & Rodrik, 1998).

Given the arguments as regard to the favorable and unfavorable effects of government expenditure, while some economists theoretically argue for a low level of government expenditure as to promote economic growth, some favors for higher expenditure for boosting up the level of economic growth. Wagner (1883) points out that the volume of government expenditure is the yardstick for measuring the size of the state activity. Higher level of government expenditure indicates a larger size of the government. Advocates of larger size of government argue that the increase in government expenditure in the form of provision of public goods such as health, education (meant for human capital formation) and infrastructure (meant for creating physical capital formation) bolsters up the economic growth by expanding the level of economic activities, as these expenditures are believed to have significant positive externalities. The proponents of smaller government argue that higher government expenditure undermines economic growth by squeezing the resource availability for the productive private sectors

The Keynesians view that government expenditure, as a fiscal policy instrument, is useful for achieving short-term stability and higher long-run growth rate. Therefore, they prescribe for government interventions in the economy through the fiscal policies as this plays a crucial role in the development process. They advocate for expansionary policies during economic contractions and vice versa for correcting the short-term fluctuations and increasing the long-term steady state growth rate. Otherwise, the economy would rest at a lower growth trajectory. As opposed to this view, the Classical economists deem fiscal policies to be ineffective as it crowds out private spending such as including investment spending. When government spending is raised, private goods are substituted for public goods, thus causing lowering of private spending on education, health, transportation and other services. Further, heavy government spending requiring more government borrowings (through bond-financing) may displace private sector in availing up of credits for financing its expenditure. This can occur either by squeezing the supply of credit or raising the interest rate in the economy. The monetary approach to balance of payment also emphasizes the proposition that higher interest rate resulting from contraction in money supply leads to low investment and hence low growth rate of output in the economy.

It is also true that heavy government spending requires imposition of increasing amount of taxes. The effect of taxes may result in disincentive impact on the private sector to work and invest. Moreover, this results in inefficient resource allocation and resting the economy at an under equilibrium. Thus, according to this Classical view, countries with higher government spending would experience lower economic growth. To the extent that the public sector engages in activities that can be undertaken in the private sector, and the way in which expenditure is being financed may have detrimental consequences. In contrast, in line with Keynesians, it could be argued that the government provision of necessary public goods for which no competition exists from private sector can definitely lead to faster economic growth. It is opined that "increasing the government expenditure during slumps in the business cycle as to drive up aggregate demand and

thereby promotes economic growth. But there is a limit to increasing the size of government spending, as after a certain level, it may crowd out productive private expenditures resulting in recession and low growth rate”.

The financial condition of the state governments in India has been a cause for concern for some time now. Over the years, the consolidated financial position of the state governments has shown a marked deterioration in some of their major deficit indicators. One of the fundamental weaknesses of state government finances in India can be attributed to the increases in non- developmental expenditure, particularly the revenue component of the non-developmental expenditure, and interest payments as a proportion of revenue receipts. Structural imbalances in the form of large revenue deficits, rising interest burden, increasing distortions in the pattern of expenditure, and very slow growing non-tax revenues are major problem areas for state finances.

Objectives

The main objectives of the study are:

1. To analyze the rate of growth of real per capita government expenditure in India and Kerala and.
2. To measure the impact of government expenditure on state income.

Methodology

This research is focused on Kerala, but comparisons are made with the averages of All States (AS) and in a few cases, with major individual states. Therefore the paper can be considered to deal with the trends in state finances of all states in India during the post reforms period. Our earlier study on state finances of Kerala from 2000-01 to 2011-12

The sources of data are mostly the annual studies of State Finances conducted by the Reserve Bank of India (RBI). We also rely on the budget documents of the Kerala government, the reports of the State's Public Expenditure Review Committee and the Three-year Rolling Medium Term Fiscal Policy and Plan (MTFPP) prepared by the Finance Department, and presented along with the state budget as mandated under the Kerala Fiscal Responsibility Act, 2003.

The RBI data for 2010-11 are of Budget Estimates (BE) and those for 2009-10 are of Revised Estimates (RE). In addendum to some of our tables on Kerala, the Accounts figures for 2009-10 and 2010-11, the Revised Estimates for 2010-11 and the Budget Estimates for 2012-13 are given from the State's budget documents. It may be noted that there is a wide deviation between Budget Estimates and Revised Estimates on the one hand and Revised Estimates and the Accounts figures on the other. Our analysis based on the Revised and Budget Estimates for 2011-12 are therefore to be viewed with caution. These deviations reflect on the quality of budgets, making and the uncertainties while preparing budgets not only of Kerala but of all governments in India, Central and State.

District-Wise Per Capita Income

The analysis of district wise per capita income shows that Ernakulam district stands first with the per capita income of Rs. 85070 at constant (2004-05) prices in 2010-11 as against Rs. 78351 in 2009-10 Kottayam District has the second largest per capita income of Rs. 64648 in 2010-11 at constant prices followed by Thiruvananthapuram (Rs.60945), Pathanamthitta (Rs. 60370), Thrissur (Rs. 59127), and Alappuzha (Rs. 57298). The lowest per capita income was recorded in Malappuram District (Rs. 36740) in 2010-11 at constant prices preceded by Wayanad (Rs. 39051), Kasargod (Rs. 44572) and Kozhikode (Rs. 53298). The highest rate of growth of per capita income of 9.31% was recorded in Pathanamthitta District in 2010-11 followed by Thiruvananthapuram (8.98 %), Thrissur (8.84%), Ernakulam (8.57%), and Allappuzha (8.37%). The lowest growth rate was recorded in Idukki District (6.84%) proceeded by Wayanad District (7.74%), Malappuram (7.75%), and Kasargod (7.97 %). The district wise per capita income with growth rate is given

The analysis of district wise per capita income shows that Ernakulam district stands first with the per capita income of Rs.86267 at constant (2004-05) prices in 2013-14 as against Rs. 81557 in 2012-13. The district wise per capita income with corresponding rank and growth rate is given in the Table below:

Table 1: District-Wise Per Capita Income at Constant (2004-05) Prices

Sl. No	District	2012-13 (P)	Rank	2013-14 (Q)	Rank	Growth Rate (%)
1	Thiruvananthapuram	63003	4	67299	4	6.82
2	Kollam	51934	10	55960	9	7.75
3	Pathanamthitta	64930	3	69518	3	7.07
4	Alappuzha	57941	7	62006	6	7.02
5	Kottayam	66531	2	69555	2	4.54
6	Idukki	59058	5	60269	7	2.05
7	Eranakulam	81557	1	86267	1	5.78
8	Thrissur	58429	6	62554	5	7.06
9	Palakkad	48879	11	51561	11	5.49
10	Malappuram	33685	14	35230	14	4.59
11	Kozhikode	52176	9	55474	10	6.32
12	Wayanad	43690	13	46113	13	5.55
13	Kannur	53536	8	56372	8	5.30
14	Kasaragod	45787	12	49041	12	7.11
	State	55643		58961		5.96

Source: Department of Economics and Statistics P: Provisional Q: Quick

The table above reveals that the districts Ernakulam, Thrissur, Kozhikode, Pathanamthitta, Thiruvananthapuram, Malappuram, Kannur and Kasrgod had a much higher

growth rate than the average growth in per capita income in 2013-14. However, the districts of Wayanad, Kollam, Palakkad and Idukki showed lower growth in per capita income than the state average.

Growth rate at current prices does not eliminate the inflationary impact. When district level growth rate at constant prices, we compared the “real” GSDP growth rate may be observed as the inflationary impact has been eliminated. Ernakulam, Thrissur, Kozhikode and Kannur had higher real growth in GSDP than the State Average. Wayanad had a lower growth than other districts. According to Department of Economics & Statistics, t analysis of district wise per capita income shows that Ernakulam district stands first with the per capita income of Rs 94392 at constant (2004-05) prices in 2012-13. The details are shown below:

Table 2: District-Wise Per Capita Income

Sl. No.	District	2011-12 (P)`	Rank	2012-13 (Q)`	Rank	Growth Rate (percent) 2012-13
1	Thiruvananthapuram	64365	4	68903	4	7.78
2	Kollam	54720	10	58393	10	7.44
3	Pathanamthitta	65721	3	70600	3	8.17
4	Alappuzha	59087	6	63262	6	7.79
5	Kottayam	67376	2	72280	2	8.00
6	Idukki	58150	7	62082	8	7.48
7	Ernakulam	86572	1	94392	1	9.77
8	Thrissur	62841	5	67807	5	8.64
9	Palakkad	54410	11	58072	11	7.44
10	Malappuram	37985	14	40742	14	7.98
11	Kozhikode	56817	9	61307	9	8.62
12	Wayanad	43606	13	46507	13	7.37
13	Kannur	58003	8	62416	7	8.32
14	Kasaragod	49309	12	52813	12	7.83
	State	59052		63491		7.52

Source: Department of Economics and Statistics P - Provisional Estimate, Q - Quick Estimate

The table reveals that the districts Ernakulam, Thrissur, Kozhikode and Kannur had a much higher growth rate than the average growth in per capita income in 2012-13. However, the districts of Wayanad, Kollam, Palakkad and Idukki showed much lower growth in per capita income than the state average. District wise and sector wise analysis of GSDP reveals that Ernakulam district contributions in all these sectors are highest. District-wise sectoral distribution of Gross State Domestic Product from 2010-11 to 2012-13 at current and constant (2004-2005) prices.

District wise and sectorwise analysis of GSDP reveals that Kollam district showed highest contributions in primary sector and Ernakulam district contributions in secondary

and tertiary sectors are highest. District-wise sectoral distribution of Gross State Domestic Product from 2011-12 to 2013-14 at current and constant (2004-2005) prices.

Findings

The per capita plan expenditure of Kerala was less than that of AS during the first three years of the nineties. But during the second half of the nineties upto 2004-05 with the exception of 2001-02, the plan expenditure of Kerala was more than that of AS. During the second half of the present decade, the plan expenditure was less than that of AS. But during 2009-10 and 2010-11, the per capita approved plan outlay of Kerala (not actual expenditure) was more than that of AS.

The per capita plan expenditure/outlay of seventeen major states during the Tenth and the Eleventh Plans. During the Tenth Plan, Kerala's per capita expenditure was higher than that of the All States' average but lower than that of all southern states. Its position was only seventh among the states. During the Eleventh Plan, Kerala's relative position came down to the twelfth. In fact, the outlay was less than the All State's average.

Suggestions

One of the reasons for the smaller plan outlay of the state in recent years and its failure to achieve even the smaller plan outlay is because of its continuous non-plan revenue deficits all throughout the two decades. AS, on the other hand, started carving out a surplus on the non-plan account from 2005-06 onwards. The volume of their surpluses is increasing progressively (Table 25). The table shows that the non-plan revenue deficits of Kerala had eaten away not only the entire plan grants (including grants for Central Plan and Centrally Sponsored Schemes) from the Centre but also the total Central plan assistance (including plan loans for State Plan, CPs and CSSs).

The smaller per capita plan outlay of Kerala is because of the balance from current revenues which used to be positive till the early nineties, but turned consistently negative since then (MTFP, 2006). The negative balances in current revenue accounts were more than the Central revenue assistance for state plans during all but three years (2004-05, 2005-06 and 2010-11). The implication, as may be seen from Table 26, is that the entire state plan financing is through borrowings and net contribution from state Public Sector Units (non-plan support to the state PSUs) and Local Self Governments. The BE for 2012-13 hopefully envisages a small surplus from current revenues.

Conclusion

The preceding brief survey of the state finances of Kerala over the last ten years indicates a broad outline of fiscal policy to be adopted over the medium term, on which there seems to be some amount of consensus. The prime mover of this policy ought to be a significant step up of public investments in infrastructure services as a prelude to an industrialization drive without introducing any sudden major shock to the social

infrastructure and welfare activities. For this, it is necessary that the capital expenditures be stepped up significantly and persistently.

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