



# CHRONICLE

Quarterly Newsletter

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The logo for CDS CHRONICLE, with 'CDS' in a stylized font above the word 'CHRONICLE'.

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FROM THE EDITOR

The activities at CDS and outside with the involvement of the members of CDS during the period of July to September, 2012 are presented in this issue. Of course, by no means these are the only activities during this period. For, at least some of us are shy or don't find time to report. If the reports are received in time, much delay in the

release of *CDS Chronicle* can be avoided. A striking development in CDS is that the library is getting strengthened and it is rendering more service to research in CDS as well as outside. It is not just supporting research but in true sense, it is stimulating research.

C.Gasper

SEMINARS

**TRIPS Compliance of India's IPR Regime: An Analysis of its Potential and Actual Effects on Innovative Activity in India**

**Sunil Mani**

Centre for Development Studies

17 August

The passage of the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) in 1995 has brought a major change in the international governance with respect to Intellectual Property Regimes. It is the most comprehensive multilateral agreement on intellectual property to date. It has introduced global standards in protecting all forms of intellectual property rights (IPR) for the first time. For instance, prior to this, at least 40 countries in the world have not undertaken granting of patent protection for their pharmaceutical products. The TRIPS Agreement recommends all members of WTO to adapt their laws suitably so as to incorporate minimum standards of IPR protection in them. The obligations for the enforcement of intellectual property rights are also specific in the Agreement. However, there is some degree of flexibility in it; and the individual countries are free to accommodate their own patent and intellectual property systems according to their developmental needs within the framework of the TRIPS Agreement.

The protection and enforcement of intellectual property rights may be expected to bring about a balance between the rights and the obligations; it

may improve the process of transfer and dissemination of technology; and it may yield benefits to not only the producers but also the users of technological knowledge. As a result, it may lead to the promotion of technological innovation and overall socio-economic welfare in the individual countries.

The Indian Patents Act of 1970 has been amended and has been made TRIPS compliant by the beginning of 2005. The present study analyses the potential and actual effects of the TRIPS compliant patent regime on innovative activity in India at the macro level. It also analyses the potential and actual effects of the TRIPS compliant patent regime on innovative activity in the case of the pharmaceutical industry; for, this is one of the few industries that are likely to be affected most by TRIPS compliance. It presents an account of the evolution of the patent regimes in India over the years; and it points out the increasing number of cases of patent litigation which TRIPS compliance seems to have precipitated.

**Multidimensional Poverty Measurement: Shouldn't we take Preferences into Account?**

**François Maniquet**

University of Warwick, UK

24 August

The study focuses on multidimensional measurement of poverty. It uses the agents'

preferences in aggregating different dimensions of poverty and derives axiomatically a family of poverty indices. The key axiom consists in identifying *a priori* the preference relation that makes the experience of deprivation the most severe experience. Data from the Russia Longitudinal Monitoring Survey (RLMS-HSE) is

used to illustrate the approach. The results of the study highlight that there is considerable empirical difference between the results based on the preference-sensitive multidimensional measurement of poverty and the unidimensional or preference-insensitive measurement of poverty.

## CONFERENCES / WORKSHOPS

### Engendering Health: the Experience of NRHM

Co-ordinator: Mridul Eapen

5-6 July



Centre for Development Studies, Thiruvananthapuram and the UN Women have organised a national consultation on *Engendering Health: The Experience of NRHM* jointly at the centre on the 5<sup>th</sup> and 6<sup>th</sup> of July 2012. This Consultation has helped in reviewing the functioning of NRHM with regard to its gender sensitivity and its overall performance in terms of allocation and utilisation of funds. Representatives from the government departments, health/population related organisations and the NGOs working in the area of health and the academics interested in Health related issues have participated.

The major focus of NRHM is women's health and its institutional delivery through *Janani Suraksha*

*Yojana* and ASHA. Since the key component in the communitisation of health care is woman worker, 'engendering' health doesn't just mean a larger focus on women's health; but rather, it means to adopt a gender sensitive approach in health delivery. This approach takes into account the critical role of the social, cultural and the biological factors and that of the power relationship between the women and the men in promoting or hindering the development of women's health.

Appropriately the National Consultation reviews the progress of the activities of NRHM following a gender sensitive approach. It opens up discussion on changing gendered norms and practices in families and health systems to bring about new health architecture. This architecture will be gender sensitive and at the same time it will be more sensitive to the needs of the poor.

Mridul Eapen

### Emerging Fertility Patterns in India: Causes and Implications

Co-ordinator: S. Irudaya Rajan

23-24 July

CDS, Thiruvananthapuram in collaboration with the Economic and Social Research Council (ESRC, UK), the Population Foundation of India, New Delhi and the United Nations Fund for Population



## RBI Annual Report 2011-12

3 September

The RBI discusses its annual report 2011-12 at CDS on 3 September 2012. A team of four economists from RBI have presented the macroeconomic aspects of growth in 2011-12 and the prospects in 2012-13. According to them, the inflation slows down in response to tightening of money supply in the past. The growth decelerates in 2011-12. The rate of growth may remain the same during 2012-13. Inflation may not decrease less than 7 per cent due to deficient monsoon. Though Infrastructure plays a key role in the growth process, there would be a fall in the investments on infrastructure.

There is need to promote business. The approach adopted in Singapore seems to be the best one for this purpose. In Singapore, the decision on investment projects is taken in the joint sitting of concerned agencies and Ministries. This saves much time in clearing the projects quickly. The RBI's guidelines for implementation of Basel III capital regulation are helpful in regulating banking services. Improving credit delivery and financial inclusion remain the key priorities of the RBI. RBI takes new approach for enhancing financial inclusion. Biometric smart card system is introduced for the *kisan* credit card (KCC) and can be used in ATMs.

Under the financial inclusion plan (FIP), the commercial banks are making substantial progress. Several outreach activities have been undertaken to encourage low cost doorstep banking services in remote and unbanked villages. One of these steps is the introduction of Business Correspondent (BC) Model based on solutions from ICT. This model has not been very successful in addressing financial inclusion needs. There is need for mainstreaming financial inclusion and at the same time improving the BC functioning.

Activities, New Delhi, has organised a national seminar on 'The Emerging Fertility Patterns in India and their Causes and Implications' on 23<sup>rd</sup> and 24<sup>th</sup>, July 2012. This seminar is part of the ongoing research project on 'Low Fertility in Developing Countries and its Causes and Implications'. The scholarly papers presented in the seminar relate to declining fertility in India. The discussion on these papers are helpful in identifying the larger issues for a comprehensive research on the determinants and the consequences of faster declining fertility in India. It also points out the need for suitable policies to tackle socio-economic problems arising out of low fertility in India.

Mr S. Krishna Kumar, the former Minister of Health and Family Welfare, Government of India, has presented the key note address. The participants include K. Srinivasan, Professor Emeritus of International Institute for Population Sciences, Mumbai, Chris Wilson, St. Andrews' University, UK, Saseendran Pallikadavath, Portsmouth University, P.M. Kulkarni, JNU, Alaka Basu, JNU, New Delhi, Sayeed Unisa, IIPS, Mumbai, P.S. Nair, University of Botswana, K.S. James, Institute for Social and Economic Change, Bangalore, Anil Kumar, Tata Institute of Social Sciences, Mumbai, K.G. Santhya, Population Council, New Delhi and R.C. Sethi, the Additional Registrar General of India.

Mohammad Kashif Khan (MPhil)

The output gap has contributed to moderating inflation to some extent; but the moderation is not adequate enough to restore the fall in growth rate. The pace and extent of moderation are conditioned by other determinants such as supply shocks from food, global commodity price movements, exchange rate pass-throughs and the overall fiscal position. The interest rate channels and the credit channels of monetary transmission are working effectively. Policy rate increases in India has a negative effect on output growth with a lag of two quarters and moderating effect on inflation with a lag of three quarters.

Pinak Sarkar  
Ph.D scholar

### M.A. IN APPLIED ECONOMICS



Shri K.M. Mani, Hon'ble Minister for Finance, Law and Housing inaugurates the programme on July 26, 2012.

## B.G. KUMAR LECTURE

### Government Accountability: An Overview of Recent Research Findings

**Dilip Mookherjee**

Professor, Boston University, USA

26 July



Dr. Dilip Mookherjee, Professor of Economics at Boston University, USA has delivered the 4<sup>th</sup> B.G. Kumar Memorial lecture at CDS in the evening of

Thursday the 26<sup>th</sup> July 2012. His presentation concentrates on 'governmental accountability'. The discussion is extensive; and it covers local as well as state level issues. It is highly enriched by data from the contemporary empirical research in India.

The functioning of Indian political system at the macro level looks like a 'black box'. Not much of it is known and can be understood. There are also grave difficulties in understanding the working of the political system at the local levels. At most, one can know of it only partially. Much remains to be unravelled.

How do the institutions at the local or the state level work? In order to understand this issue in a better way, one should study the interactions among the act of voting, the interest groups and the clientele in the overall framework of socio-political system in the country. The theoretical models such as the Downsian model of perfect electoral competition and the Citizen-

candidate theory are helpful in this regard to a large extent.

However, the political institutions at the local level have to face a lot of problems in their day-to-day governance. One among them is that there is much delay in getting their projects approved by the political institutions at the higher level. As a result of long delay, many a times the local political institutions have to complete the implementation of the projects within a short period of time.

The political awareness has grown high across various social groups. For instance, the political awareness is very high in West Bengal in spite of the fact that there is wide disparity in the landholding pattern and that there are many castes in the state. On the other hand, there is also evidence to show that there is ethnicisation of politics on caste lines in Uttar Pradesh. This leads to 'low quality' people getting elected as people's representatives.

Similarly, though there are reservation for women representatives in the local bodies, this has not produced much impact in Andhra Pradesh. It is also true that the distribution of land has become highly inequitable; and many people among scheduled castes have become landless.

People's 'voice' is very important for improving their welfare. But the problem is that the voters' loyalty is influenced by their characteristics such as their caste, religion and gender. There is no uniformity in the voting pattern. The implementation of many welfare policies are affected by the voting pattern ultimately. Though the talk is more extensive, a discussion on issues like the dominance of money power in the electoral system and the failure of political institutions with regard to land acquisition and mining could have made the discussion on Indian political economy more comprehensive.

P.L. Beena

## FACULTY'S INVOLVEMENT

### Faculty's Global Involvement

**Sunil Mani** presented a paper on 'TRIPS Compliance of National Patent Regimes and its Effects on Innovative Activity in India', at the *Gordon Research Conference on Science and Technology Policy*, Waterville Valley Resort, New Hampshire, USA, August 5-10, 2012.

He also co-ordinated a workshop along with Professor Richard Nelson on 'TRIPS Compliance of National Patent Regimes and its Effects on Domestic Innovative Activity in Brazil, China, India, Thailand and South Africa', at *The Earth Institute, Columbia University, New York, USA*, September 18-19, 2012.

**J. Devika** made a presentation titled 'In the Land of Snake-eaters, Eat the Middle Piece: Malabar to Malaya through the Eyes of S K Pottekkat', at the workshop

'From Malabar to Minangkabau to Malaya', organised by Think City Sdn Bhd, Penang, Malaysia, 31 October 2012.

### Faculty's Domestic Involvement

**Sunil Mani** presented a paper on 'TRIPS Compliance of National Patent Regimes and its Effect on Innovative Activity, Case of India's Pharmaceutical Industry' at the seminar on *Mapping the Innovation Landscape in India*, Nehru Memorial Museum and Library, August 24-25, 2012.

He is invited to serve as a member of the Apex committee for identification and prioritisation of areas and activities for the Patent Facilitating Centre of Technology, Information, Forecasting and Assessment Council (TIFAC), Department of Science and Technology, Government of India, New Delhi.

## LIBRARY NEWS

During the past quarter, the membership in the library has improved: 46 candidates have joined for *Borrowing Membership*, 186 candidates have joined for *Reference only Membership* and an institution has joined for *Institutional Membership* in the library. The library collection has increased by 303 books, 49 working papers and 3 CD-ROMs. The library catalogue [OPAC] is available online. The service is available at link: <http://cdslib.cds.ac.in:8080/opac/>. The online information service website, viz., <http://lib.cds.ac.in> has been populated with 548 posts; and it has received 14876 visits.

Steps are taken to subscribe to the journals such as '*Resurgence and Ecologist*' published by the Resurgence Trust, UK and '*Finance India*' published by the Indian Institute of Finance.

The current 'India Time Series' (ITS) database of EPW Research Foundation available in the library provides for more data than the earlier ones under specific modules such as (a) Industrial Production series, (b) Finances of Government of India, (c) Combined Government Finances, (d) National Accounts Statistics of India, (e) Annual Survey of Industries and (f) External Sector. The ITS database is accessible in the CDS Network. For this, IP authentication is required; but user name and password are not required.

An Information Repository Management System is installed in the library. It is based on the free open-source software, DSpace. It is highly helpful in capturing and as well preserving the digital contents and in enabling accessibility of these digital contents to other users anytime. The Library staff is very kind

enough in populating the contents for the Information Repository. This benevolent service is available at <http://ir.cds.ac.in:8080> within the local area network. For faster accessibility, click the option, 'Communities & Collections' in the 'option' list.

Professor Dilip Mookherjee has visited CDS in July, 2012 for a special lecture. The library has had the pleasure of arranging most of his major academic publications in a special display in the library from 26 to 28 July, 2012.

The students doing the second semester in B.LISc., in the Department of Library and Information Science, Farook College, Kozhikode have come for a study visit to the library on 12<sup>th</sup> September, 2012. All members of the library staff have been pleased to make their study visit a fruitful one. The lectures with the help of power point presentations, the live demonstrations and group discussion with the section staff have been specially arranged for the purpose of enabling the students to familiarise with the day to day activities and services in the library.

V. Sriram

## CAMPUS NEWS

### **Onam Celebration in CDS!!!**

CDS celebrates *Onam* - the festival of harvest - exuberantly in the last week of August this year. The young spirits at CDS have contributed their might to make the event all the more colourful and enjoyable. The colourful '*pokalams*' arranged in the campus are fascinating. Many students belonging to M.A and M.Phil courses have actively participated in the cultural programmes and have exhibited their talents in

extra-curricular activities. A memorable event is that one of the students in MA course has entertained us by acting as the legendary emperor, 'Mahabali'. Many girls participating in the events have been wearing beautiful *kasavu saree* and many boys participating in the events have been wearing white *mundu*. The delicious *Onam Sadhya* is relished by all on 23<sup>rd</sup> August. The *Onam* celebration has become more eventful and enjoyable with the conduct of competitions in different games.

Nutan S. Tigga  
PhD Scholar

### Independence Day Celebrations at CDS

Like every year, this year also we savoured our independence. Instead of it becoming a usual chore, it really made me stumble in my conscience. In an environment where the mind thrives, some of us are late risers.

On this day (15-08-2012) all were up and enthusiastic. We gathered near the heart of the Centre, in front of the library. The open air, the *jamun* tree and our Director were all in smiles. Some were shaking their drowsiness and others were standing in patience waiting for the ceremony to commence. Lieutenant General (Retd.) S.K. Pillai was the guest of honour. It was indeed a befitting gesture to invite an ex-serviceman to commemorate India's struggle to breathe free.

As the time of hoisting neared, the student's excitement increased. Talks of reflecting upon our independence as economist were making the rounds. At fifteen past eight, our national flag was hoisted, followed by the national anthem. Loud, passionate and resonating chants of *jai hind* did the trick to unite all of us irrespective of our regional differences. Sweets were distributed, as it was certainly a day to celebrate.

Nikhil  
MPhil Scholar

## STUDENTS SPEAK

### The Changing Winds

The Centre had undergone rapid changes within a short span of time. Within the ambit of these changes, there were mixed reactions. Some were hoping to welcome a change, ended up in not being able to adjust to the racy changes. While others were not so much in desire of severe changes but the turn of events meant that they were really glad that it changed! While we thought of these changes we always had the serene research hideout in our minds, 'where the mind is without fear'; we longed for solace, 'where knowledge is solace'. The verisimilitudes of the constant correspondences between students were hidden in close corners, those benches were left bereaved and unused, and the walls spoke of untouched

layers, of bricks which never felt warmth. Amidst all these, were you and me, facing a change? For what the change would accompany – no one really knew! But what would be felt by them??

"People touch me often",  
The unkempt bricks told me,  
"I was peppered",  
Were the reactions of the caressed trees,  
"Are you understood better now?"  
A communion of books were talking,  
"I am being read",  
Glad! said one of them.

"Have you seen them hold hands?"  
Those romantic spaces expressed,  
"Why were we left alone before?"

We were always connoisseurs,  
 Waiting for the sun to set,  
 But we were always lampooned upon by them,  
 trees!  
 They thought that our romanticism was uncalled  
 for in research serenity”.

“I have seen the anger”,  
 Those dustbins shrieked,  
 “Those emote-less humans have started using us”,  
 They replied in unison – “More people we see!”  
 Of the winds, some were sad,  
 “We have to cut bulkier people to run mad”,  
 Some eccentric winds were aroused,  
 “We rub their cheeks with ours and they don’t even  
 know!”

The mother of the centre cried,  
 “I have never raised so many kinds and allowed

them to pry”,  
 Coy she was, the main library block,  
 Touched she was, when she spoke,  
 Last was her turn to express,  
 What went on at the centre, at her behest!

Unsure of changes all were,  
 There were positives and negatives, I am sure!  
 When they look back, they shall have thoughts  
 bygone and gone by,  
 Just a moments tempest, shouldn’t ridicule our  
 positive sunshine,  
 When we are unsure of where to fly,  
 We shall open our arms, and take the dive,  
 After all whenever the head is held high,  
 We are always ‘Learning to Fly’!!

Nikhil  
 MPhil Scholar

## P U B L I C A T I O N S

### Books

Devika J. 2012. *The Masculine of ‘Virgin’: Short Stories by Sarah Joseph*, [21 short stories with an academic introduction] OUP, New Delhi.

S. Irudaya Rajan and K.C.Zachariah (eds) 2012. *Kerala’s Demographic Future: Issues and Policy Options*, Academic Foundation, New Delhi and Centre for Development Studies, Thiruvananthapuram.

### Articles

Mani, Sunil. 2012. ‘The Mobile Communications Services Industry in India: Has it Led to India Becoming a Manufacturing Hub for Telecommunication Equipment?’, *Pacific Affairs*, Volume 85, No: 3, pp. 511-530.

Mani, Sunil. 2012. ‘Entrepreneurship and Industry’, *Seminar*, Number 637, (September), pp. 49-54.

### Chapter(s) in books

Mani, Sunil. 2012. ‘Have China and India Become More Innovative Since the Onset of Reforms in the Two Countries?’ in Amiya Kumar Bagchi and Anthony P. D’ Costa (eds.) *Transformation and Development, The Political Economy of Transition in India and China*, Delhi: Oxford University Press.

### Working Papers

Tapas K. Sen. 2012. ‘Recent Developments in Kerala State Finances,’ *CDS Working Paper No. 449*, July.

K.C. Zachariah & S. Irudaya Rajan 2012. Inflexion in Kerala’s Gulf Connection; Report on Kerala Migration Survey 2011, *CDS Working Paper No. 450*, September.

**P O L I C Y   P O I N T E R S****Inflexion In Kerala's Gulf Connection; Report on Kerala Migration Survey 2011**

*CDS Working Paper No. 450, September, 2012.*

K.C. Zachariah & S. Irudaya Rajan

This Working Paper embodies the results of the Kerala Migration Survey (KMS) 2011. Over the years, some broad patterns on migration have emerged in Kerala. The number of Kerala emigrants (EMI) living abroad have increased to 2.28 million in 2011 from 1.36 million in 1998. The increase shows a decreasing trend. The increase may vanish much before 2015 and the migration trend may turn to slope downwards.

The number of Kerala emigrants who returned and living in Kerala (REM) in 2011 is estimated to be 1.15 million. Compared to REM in 2008 (1.16 million), there is a small decrease in KEM during 2008-11. The number of Kerala migrants living in other states in India (OMI) in 2011 has increased to 931,000 from 914,000 in 2008. The increase is not very substantial. The number of Kerala out-migrants who returned and are now living in Kerala (return out-migrants) has declined to be 511,000 in 2011 from 959,000 in 1998. More and more Kerala migrants in the other states in India tend to stay back in their host state or move abroad instead of returning to their native state.

Kerala's demographic destiny is moving northwards. Several relevant elements of Kerala's demography show steady northward shift. Over the years, the centre of population has moved northwards. In recent years, the growth of population is much higher in the northern rather than southern districts. The origin of emigration from Kerala is moving to its north. More and more remittances are ending up in the north.

The rate of growth in education and health is much higher in the northern than the southern region. In 1998, only 33.4 per cent of Kerala's population has education upto secondary or higher levels of education in the northern districts (Malappuram to Kasaragod). This rises to 39.0 per cent in 2011, while the related figure for the southern and central regions decreases to 61.0 per cent in 2011 from 66.6 per cent in 1998.

Emigration from Kerala is dominated by Muslims whose share of the emigrants from the state (44.3 per cent) continued to remain very much higher than their share in the population (26.5 per cent). On the other hand out-migrants from the state are mostly Hindus, whose share of out-migrants (64.6 per cent) continued to remain very much higher than their share in the population (56.8 per cent).

Corresponding to 100 households, there are 59 emigrants in Muslim households, but only 18 emigrants in Hindu households and 29 emigrants in Christian households. Among the Muslims, 53.3 per cent of the households had at least one emigrant or return emigrant. However, among the Hindu households, only 19.6 per cent of the households have a non-resident Keralalite. The Christians are not far from the Hindus in this matter. Among them only 21.3 per cent has one or more non-resident Keralites.

Remittances from emigrants abroad to Kerala are about Rs 49,695 crores in 2011 compared to Rs. 43,288 crores in 2008. Remittances are Rs. 63,315 per household in 2011 compared to Rs. 57,227 in 2008. Increase in remittances during 2008-11 (15 per cent) is much larger than the increase in the number of emigrants (4 per cent). Muslim households have received Rs. 23,089 crores as remittances from abroad in 2011. This amounts to 46.5 per cent of the total remittances. Hindus have received Rs. 18,089 crores or 36.4 per cent of the total remittances. The Christian community has received Rs. 8,508 crores or 17.1 per cent.

Although the total remittances to the state are relatively very large, only a small fraction (17.1 per cent) of the households in Kerala have received them; more than 80 percent of the Kerala households have not received any remittances in 2011. The amount of remittances received varies according to the religious status of the migrants.

The macro-economic impact of emigration and remittances is very significant. Emigration and the ensuing remittances continue to be the most important factors in Kerala's economic scenario. Remittances are 31 per cent of the state's domestic product. The per capita income in the state is Rs 52,000 without taking into consideration remittances, but would be Rs 68,000 if remittances are taken into consideration.

On the one hand, the state receives huge economic benefits from the annual remittances; on the other hand, it loses significant number of human resources. At present, there is acute scarcity of qualified workers in many occupational categories. More than 30 per cent of persons with higher educational qualifications are now living abroad. More than 25 to 30 per cent of workers in high skill occupations are now living outside the state. The negative impact of this drain on Kerala's economy is yet to be fully quantified in financial terms. Equally pertinent is the drain of funds that go into educating Kerala's youth outside the state. This amount was roughly about Rs 1703 crores in 2011, or 3.4 per cent of the annual remittances to the state.

Migration is also having a negative impact on income distribution in the state. As the early emigrants from the state were mostly construction workers, there was a general feeling that emigration contributed to income equality. In recent years, the relatively better-off persons emigrate and improve their income level. Consequently emigration contributes to inequality.

Emigration from Kerala seems to be approaching an inflexion point in history. Kerala's Gulf connection is edging towards a turning point. Emigration from Kerala in 2011 is almost same as in 2008, indicating that 2011 is not far from the inflexion point in the history of emigration from Kerala. Many of the major centres of emigration in Kerala are already experiencing a decline in the number of emigrants and/or emigrants per household.

The experience of Pathanamthitta district shows the trend in emigration from Kerala. The number of emigrants has decreased to 91,000 in 2011 from 98,000 in 1998. While emigrants per household are 33.1 per cent in 1998, they are 28.4 per cent in 2011. Pathanamthitta district has reached the point of inflexion in the emigration trend as early as 2003.

Demographic contraction of young working age population in Kerala, decline in wage difference between Kerala and the Gulf region, rising competition from other Indian states and other countries, and the rapidly rising cost of emigration are probably the reasons for Kerala approaching the point of inflexion in the emigration trend fast. It may reach the point of inflexion within a period of 4 to 5 years.

### **Recent Developments in Kerala State Finances**

*CDS Working Paper No. 449, July, 2012.*

Tapas K. Sen

The paper analyses the fiscal scenario in Kerala during 2001-02 to 2010-11. The fiscal deficit rises from 3.88 in 2001-02 to 5.3 per cent during 2002 to 2004 (very high); it declines to 2.49 per cent in 2005-06; and then it fluctuates. The revenue deficit component of deficit rises from 3.09 per cent in 2001-02 to 4.39 per cent in 2002-03 (very high); and it declines thereafter. On the other hand, the primary deficit component of deficit is less than a per cent in 2001-02; rises higher than 2 per cent during 2002-04; and declines then.

The revenue expenditure is observed to play an important role in fiscal management. For instance, though the state's own revenues – tax and non-tax revenues are high in 2002-03, the fiscal deficit is also high. This is because the revenue expenditures have risen up in this year. When the contribution of state's own revenues declines in 2006-07 from 2002-03, the fiscal deficit does not increase but decreases. This is because there is large reduction in revenue expenditures. The fiscal deficit decreases from 2009-10 to 2010-11. This may be because of one percentage point decline in revenue expenditures. The fiscal deficit rises in 2011-12 (RE). This is again attributable largely to increase in revenue expenditures during this year. On the other hand, the fiscal deficit rises from 2006-07 to 2009-10, despite an increase in the state's own revenues. This rise in fiscal deficit may be caused by the reduction in central transfers and the increase in all expenditure items, particularly capital expenditure. This is the only exceptional case. In all other cases, the rise in fiscal expenditure goes parallel with the rise in the revenue expenditure.

Further, substantive increases in expenditures are accompanied by increases in own revenues, but not enough to fully cancel out the increase in expenditures; also, the declining trend in central transfers is not helpful in containing the deficits. Reduction in interest payments plays some role and not a dominant one in reducing the revenue expenditure.

The manner of financing the fiscal deficits assumes significance. States have to finance fiscal deficits through some kind of debt or liability only. The two main sources are internal debt and public accounts. Not much problems involved in financing fiscal deficit by funds from internal debt. But there are problems in using the funds from public accounts. The state government acts more or less like a bank for public accounts; and draining the public accounts is against financial integrity. The funds in the public account are not meant to be a regular source of financing the government's day-to-day expenditures. In practice, the state has withdrawn substantial amounts from the public accounts every year except 2006-07 since 2005-06. This adds to the financial instability of the government and puts a question mark on the role of the government as a banker.

Since the states are to meet the fiscal deficits by liquidating assets or incurring some kind of financial liability, those states that have high fiscal deficits persistently are likely to have high level of indebtedness. Kerala's fiscal liabilities are much more than 25 per cent of GSDP recommended by the Finance commission. It is about 34 per cent in 2001-02, rises to about 38 per cent in 2003-04, and declines to about 29 per cent in 2011-12. The declining trend in the fiscal liabilities allays the fear of 'exploding' debt levels and fiscal unsustainability to a large extent.

High indebtedness causes a vicious circle of higher interest burden, leading to higher deficits and then on to further borrowing to finance the higher deficits. Fortunately this vicious circle has not come into play in the state. This is due to various factors including smaller deficits, softening of interest rates, debt relief and rescheduling by the Government of India and better debt management.

All types of liabilities do not bear the same interest rate, and one of the aspects of good debt management is to exploit various debt instruments in ascending order of interest rates, using that with the lowest interest rate to the maximum extent possible and so on. The substitution of Plan loans from GOI (the major part of indebtedness to GOI) by market borrowings has also helped to keep interest costs at a lower level because the latter source had lower interest costs.

Market borrowings, as a result, have increased from about 17.5 per cent at the end of 2001 to more than 41 percent at the end of 2012 as a share of total outstanding liabilities. On the other hand the share of small savings loans (NSSF) has come down from almost 16 per cent in 2005 to 12 per cent in 2012. As a result the state's interest payments as a ratio of revenue expenditures have declined from 21.34 per cent in 2001-02 to 14.11 per cent in 2011-12.

There is striking decline in the guarantees outstanding, reducing the financial risk of the state government substantially. However, there are other types of contingent liabilities like bills outstanding, accumulated losses of public sector undertakings and amounts under litigation.

The ratio of financial assets to liabilities in Kerala is around 40 per cent only. This is the third lowest ratio among the states in India. Due to Kerala's special emphasis on social infrastructure and welfare, the structure of expenditures is biased more towards revenue expenditures and less towards capital expenditures.

The other category of expenditures, loans and advances, account for an even smaller share and are dominated by loans of doubtful utility to various public enterprises that are often known to be not in a position to repay them anytime in the foreseeable future. In recent years (2007-08 onwards), loans and advances are further shrinking while capital expenditures have increased a little.

During the reference period, the distribution of capital expenditure is fairly stable at around 40 per cent for general services (including interest payments), around 35 per cent for social services and about 20 per cent for economic services. From 2006-07, transfers to local bodies accounts for 7-8 per cent of total expenditures; till 2005-06 its share is negligible and the share of the other three are roughly proportionately higher. The expenditure share confirms the policy bias in favour of social services.

The share of general services is also unduly large. Although the share of interest payments has shrunk substantially, that of general services has declined only marginally. This implies that the fiscal space created by the smaller share of interest payments has largely been devoured by expanding and/or more expensive administrative machinery with hardly any increase in developmental expenditure.

A large part of state level public expenditures often consists of contractual expenditures; these include salaries, wages and pensions (other retirement benefits too), and interest payment at the minimum. These are inflexible in the short run; the expenditures in the nature of entitlements add to the inflexibility. These expenditures limit the fiscal space available for discretionary developmental expenditures.

The degree of inflexibility in the expenditures has declined over the reference period from about three-quarters at the beginning of the reference period to around two-thirds at the end. This is a welcome trend as it makes space for more of truly developmental expenditures; ways of further improving this flexibility have to be explored continuously.

Total revenue receipts are about 10 to 12 per cent of GSDP. They are dominated by tax revenues. The non-tax revenues are not large. The revenue receipts from the shared taxes and grants from the Union government are small and account for less than half of the state's own revenues. In other words, though the state maintains a relatively high level of own revenues, total revenue receipts from the Centre are very low.

The share of the secondary sector in the GSDP is only around 23 per cent in Kerala. It is the tertiary sector which has grown much more than any other sector; but this sector contributes relatively less to the state exchequer. The non-tax revenues are very low because the contribution from the interest receipts, the dividends and the user charges are very low. Substantial investments in areas like tourism, forestry and wildlife, health and minor minerals may raise the non-tax revenues from the physical infrastructure services.

The largest share of tax collections are from sales tax/VAT. It is more than 70 per cent of the own tax revenue. This is followed by collections from the stamp duties, registration fees, state excise and motor vehicle taxes. Taxes on the agricultural sector (land revenue and agricultural income tax) contribute an insignificant share despite the presence of plantations of several cash crops.

The proposed destination based Goods and Services Tax (GST) in the place of origin-based elements like the central sales tax would be highly advantageous for a net importing state like Kerala, and should raise its revenues. There is scope to raise further revenues from two main sources: more appropriate use of the value added tax and bringing the mushroom growth of neighbourhood stores into the tax net. The state will have to modernise its tax administration in order to get the full benefit from restructuring the taxes. Further, bulk of the revenues flows from the public sector distributor of foreign liquor – the Beverages Corporation, and other revenues are minimal. Substantial additional revenues could be generated from the country liquor (arrack) and the country fermented liquor (toddy).



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