**FRBM ON ECONOMIC AND SOCIAL EXPENDITURE OF KERALA**

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**Abstract**

*FRA was enacted in a situation in which the revenue and fiscal deficits of the states increased beyond limits and there was a need for a strong step from the centre to control the states from growing revenue and fiscal deficits. Finance commission’s criteria for transfer is also based on the performance of the states in achieving the targets set by the FRA and almost all the states strived towards the achievement of the targets. In this context the study basically focused on examining the trends of fiscal stability in Kerala before and after the enactment of FRA and understanding the impact of FRA target on the development expenditure of Kerala.*

After 1990s almost all the states in India faced persistent fiscal crisis that they incurred more expenditure than they mobilized. This was aggravated by fall in central transfers as the Union government was experiencing not a different situation due to payments on high cost borrowing and on the other hand revenue growth remained sluggish due to decline in own tax revenue. This tenacious fiscal imbalance necessitated fiscal reforms and the Twelfth Finance Commission was asked to review the fiancés of the states and suggest fiscal restructuring measures in the face of deteriorating fiscal situation of the states. The Twelfth Finance Commission recommended enactment of Fiscal Responsibility and Budget Management Act (FRBM) at the Centre and the States. Along with this the efficiency factors such as tax effort and expenditure disciplines have been given higher weights in the distribution formula by the Finance Commission. As a result of these pressures there is considerable decline in both fiscal and revenue deficits among the states. The fiscal and revenue deficits of Kerala also showed a similar trend during the period and declined. In this context this work strives to find out the ways through which state reduced its deficit indicators after FRA and analyse the impact of fiscal management on development expenditures of the states

Since there are alternative ways of achieving fiscal adjustment and each of them has a different impact on the economy of the state, this issue has some economic importance. Tapas K. Sen. et al (2003) examined the degree of success of the states in achieving the targets in the last decade. The study gave more importance to the route through which fiscal adjustments were achieved and noted that it was easy for states to cut development expenditure than any other expenditure.Ashok K. Lahiri (2000) opines that it is imperative to effect a fiscal correction and safeguard developmental expenditure at the state level. This work therefore, gives due importance to access the impact of FRA on development expenditure.

The FRA targets can be achieved either by increasing own tax revenue or by reducing the non-developmental and developmental expenditure or with an increase in the transfer from the centre. We can say that achieving the targets by increasing tax revenue and reducing non-development expenditure is desirable or this method of finance is prudent. But, achieving fiscal target by reducing development expenditure is an issue to be addressed. Before going through a detailed analysis of on development expenditure, a general trend of fiscal indicators are traced by analysing the trend of Revenue Deficit, Fiscal deficit and development expenditure of Kerala.

Development expenditure incurred today will certainly have some effects on the performance of the economy in the future. A reduction in liabilities shows the strength of the economy in terms of its affordability for more borrowings and an increase in development expenditure of the economy shows the fiscal prudence of the economy (Pinaki Chakraborty 2013). Fall in development expenditure has been the prime force since Fiscal Responsibility Act (FRA) which reduced Fiscal and revenue deficits of Kerala. This is evident from the figure (1.1).Comparison of trends in development expenditure with that of revenue and fiscal deficits shows that revenue and fiscal deficits follow the same trend as that of development expenditure. Whenever the development expenditure increases, both the deficits also increase and decreases when development expenditure decreases. During 1999- 2000 when development expenditure peaked, revenue and fiscal deficits also peaked, following a sharp decline during 2001- 02 with a fall in the development expenditure of the state in the same manner.

Figure 1

Comparing Development Expenditure with RD and FD

Source: Handbook of Statistics on States Finance, Stud y of States Budget by RBI

and National Account statistics.

Expenditure on education, Sports, arts and culture experience a declining trend over the entire period of analysis except 1996-99(Table1.1). Medical and public health expenditure either decreased or almost remained stagnant over the periods of analysis. From 1.0 per cent during 1990- 93 periods, it decreased to 0.6 per cent during 2005- 08 periods and increased by 0.1 per cent and reached 0.7 per cent during 2011- 13 periods. Expenditure on water supply and sanitation was 0.3 per cent of the GSDP and remained completely stagnant until 2002- 05 periods and subsequently declined to 0.1 per cent during 2011- 13 periods. Another important threat has been on the Expenditure on welfare of SC, ST and OBC which remained stagnant and further decreased to 0.2 per cent of the GSDP during 2005- 08 periods from 0.3 per cent during 1990- 93 periods. Social security and welfare expenditure also showed a decreasing trend during the same period. The Social security and welfare expenditure increased to 0.3 per cent during 2005- 08 periods from 0.2 per cent during 1990- 93 periods and again increased to 0.4 per cent during 2011- 13 periods.

Table 1.1

Expenditure on Social Services

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Year | (a)Social Services (1 to 5) | 1.Education, Sports, Art and Culture | 2.Medical and Public Health | 3.Water Supply and Sanitation | 4.Welfare of SC,ST and OBC | 5.Social Security and Welfare |
| 1990-93 | 5.8 | 3.6 | 1 | 0.3 | 0.3 | 0.3 |
| 1993-96 | 5.5 | 3.5 | 0.9 | 0.2 | 0.2 | 0.2 |
| 1996-99 | 5.2 | 3 | 0.7 | 0.2 | 0.4 | 0.2 |
| 1999-02 | 5.3 | 3.3 | 0.8 | 0.2 | 0.3 | 0.3 |
| 2002-05 | 5.1 | 3 | 0.7 | 0.2 | 0.3 | 0.3 |
| 2005-08 | 4.3 | 2.5 | 0.6 | 0.1 | 0.2 | 0.3 |
| 2008-11 | 4.9 | 2.7 | 0.7 | 0.2 | 0.3 | 0.4 |
| 2011-13 | 4.2 | 2.6 | 0.7 | 0.1 | 0.2 | 0.4 |

Source: Handbook of Statistics on States Finance, Stud y of States Budget by RBI and National Account statistics

Expenditure on economic services also witnessed a falling trend when the state moved closer to FRA targets. Expenditure on Agriculture and allied activities declined year after year. During the last three periods of the analysis the expenditure on agriculture and allied activities remained constant(Table 1.2).Expenditure on rural development increased from 0.5 per cent during 1990-93 to 1.1 per cent during 1996-99 periods. There after it started declining and reached 0.4 per cent during 2005-08 and further came down to 0.2 per cent during 2011-13 periods. Transport is the only one sector, which registered an increasing trend in expenditure. Expenditure on transport was 0.6 per cent of the GSDP during 1990-93 periods and remained constant in first three periods of analysis and increased to 0.8 per cent during 2005-08 periods and remained stagnant.

**Table1.2**

**Expenditure on Economic Services**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Year | (b)Economic Services | 1.Agriculture and Allied Activities | 2.Rural Development | 3.Major and Medium Irrigation and Flood Control | 4.Industry and Minerals | 5.Transport | 6.General Economic Services |
| 1990-93 | 3.7 | 1.4 | 0.5 | 0.6 | 0.4 | 0.6 | 0.1 |
| 1993-96 | 3.5 | 1.2 | 0.5 | 0.7 | 0.4 | 0.6 | 0.1 |
| 1996-99 | 4 | 1.1 | 1.1 | 0.5 | 0.4 | 0.6 | 0.2 |
| 1999-02 | 3.3 | 1 | 1 | 0.4 | 0.2 | 0.6 | 0.2 |
| 2002-05 | 3.5 | 0.7 | 1 | 0.3 | 0.2 | 0.7 | 0.2 |
| 2005-08 | 2.6 | 0.7 | 0.4 | 0.3 | 0.2 | 0.8 | 0.1 |
| 2008-11 | 2.4 | 0.7 | 0.2 | 0.3 | 0.2 | 0.8 | 0.1 |
| 2011-13 | 2 | 0.6 | 0.2 | 0.3 | 0.3 | 0.7 | 0.1 |

Source: Handbook of Statistics on States Finance, Stud y of States Budget by RBI and National Account statistics

It is evident from the above figures that development expenditure was slightly reduced when state moved close towards the achievement of FRA targets. Since the enactment of FRA, development expenditure of the state declined slightly and reached close to 6 per cent of the GSDP in 2012-2013. The study also reveals that reduction in expenditure on economic services was much higher than that of social services. Expenditure on most of the components of economic services and social services remained constant or registered a decline except that of transport and social welfare.

**Conclusion**

FRA was enacted in a situation in which the revenue and fiscal deficits of the states increased beyond limits and there was a need for a strong step from the centre to control the states from growing revenue and fiscal deficits. Finance commission’s criteria for transfer is also based on the performance of the states in achieving the targets set by the FRA and almost all the states strived towards the achievement of the targets. In this context the study basically focused on examining the trends of fiscal stability in Kerala before and after the enactment of FRA and understanding the impact of FRA target on the development expenditure of Kerala. Reduction in pension and interest payments is not easy, as theinterest payment is the reflection of the past accumulated debt and pension is socially sensitive expenditure and cannot be reduced sharply during the short time. The tax buoyancy of the states is also limited. Kerala tried to increase its own tax revenue since the enactment of FRA. But the growth in own tax revenue is not enough to achieve the FRA target and therefore Kerala was compelled to reduce development expenditure to achieve the FRA target. It is seen that the development expenditure of the state registered a decline since the enactment of FRA and followed the trends of Fiscal and Revenue deficits. Expenditure on both economic and social services declined continuously. The economic expenditure declined more rapidly than the social services expenditure. While during 2008-10 the social service expenditure slightly increased due to increase in the expenditure on social security and welfare. On the other hand economic expenditure fell continuously and most of its components remained constant or decreased except the expenditure on transport. Based on the analysis there are evidences to say that improvement in the fiscal ratio of Kerala after the enactment of FRA had a negative impact on development expenditure of the state.

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