DEVELOPMENT PLANNING AT THE STATE LEVEL IN INDIA
A CASE STUDY WITH REFERENCE TO KERALA, 1957-'84

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D E C L A R A T I O N

I declare that this thesis is the record of bona fide research carried out by me under the supervision of Dr.M.K. Sukumaran Nair, Reader in the Department of Applied Economics, Cochin University of Science and Technology, Cochin-22. I further declare that this thesis has not previously formed the basis for the award of any degree, diploma, associateship, fellowship or other similar title of recognition.

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CONTENTS

			Pages
Chapter	1.	Introduction	1 - 36
Chapter	2.	Planning in Perspective	37 - 67
Chapter	3.	Pre-Plan Patterns of Public Expenditure and Their Tendency for Persistence in the Plan Period	68 - 109
Chapter	4.	Plan Allocation and Expenditure under the State Plans in Kerala - A Temporal and Sectoral Overview	110 - 129
Chapter	5.	Plan Performance: Irrigation and Power	130 - 164
Chapter	6.	Social Services	165 - 181
Chapter	7.	Pace and Pattern of Public Expenditure in Kerala - A Functional Analysis	182 - 194
Chapter	8.	Resource Mobilisation for the State Plans	195 - 221
Chapter	9.	Summary and Conclusion	222 - 231
Appendix			232 - 239
Bibliography			240 - 250

LIST OF TABLES

Table Number		Page
3.1:	Revenue Expenditure of the Government of Travancore	77
3.2:	Revenue Expenditure of the Government of Travancore-Cochin	78
3.3:	Government of Travancore-Cochin - Capital Outlay on Large Schemes	80
3.4:	Revenue Expenditure of the Government of Madras	83
3.5:	Principal Irrigation Works of the Madras State	85
3.6:	Irrigation and Power Projects in the Madras State	86
3.7:	Development Expenditure under the First Five Year Plan	89
4.1:	Composition of Agricultural Population by Relationship to Land - 1951	115
4.2:	Allocation of Plan Expenditure -III Plan (in percentage)	118
4.3:	Sector-wise Distribution of Plan Allocation and Expenditure in Kerala	120
4.4:	Percentage Sectoral Distribution of Plan Allocation and Expenditure in Kerala	123
5.1:	Some Aspects of the Completed Irrigation Projects in Kerala	134
5.2:	Some Particulars of the on-going Irrigation Projects in Kerala.	135
5.3:	Plan Expenditure on Major and Medium Irrigation Schemes in Kerala	137
5.4:	Major and Medium Irrigation in Kerala - Physical Targets and Achievements (Net Hectares)	141

		Page
5.5:	Firm Power as Percentage of Installed Capacity	146
5.6:	Physical Target and Achievement (Cumulated)	149
5.7:	Details of Investment in Power Development in Kerala	153
6.1:	School Education in Kerala (1955-56)	168
6.2:	Growth of Schools in Kerala	172
6.3:	Number of Schools opened in Kerala	174
6.4:	Plan Expenditure on Selected Items under Social Services in Kerala	180
7.1:	Revenue Expenditure of the Government of the Travancore-Cochin State	184
7.2:	Trends in Percentage Distribution of Revenue Expenditure in Kerala	185
7.3:	Percentage Distributions of Revenue Expenditure	188
7.4:	Revenue Expenditure and Capital Expenditure as Percentage of Aggregate Budgetary Expenditure in Kerala	190
7.5:	Percentage Distribution of Total Budgetary Expenditure (Revenue and Capital combined) in Kerala	192
8.1:	Plan and Non-Plan Expenditure in Kerala	198
8.2:	Financing the Kerala Plan	200
8.3:	State's Resources for the Third Plan	201
8.4:	State's own Additional Tax Resources for the Plan	203

		Page
8.5:	Mobilisation of Additional Resources through Taxation in the Plan Periods	205
8.6:	Mobilisation of Additional Resources through Taxation in the Fourth Plan	207
8.7:	Central Assistance to State Plan -- Kerala	209
8.8:	State Plan Expenditure and the Revenue Component	210
8.9:	Central Plan Loans to Kerala	213

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Chapter 1

INTRODUCTION

Significance of the Study

The state, as a unit of planning, occupies a pre-eminent position in the Indian federal polity. It is an autonomous administrative-cum-political unit with its own legislature, executive and judiciary. Also, many types of information vital for economic planning are conceived, collected and classified at the State level. In the federal scheme of distribution of powers and functions and sources of revenue, it has its well-defined domain of jurisdiction and hence, its own annual budget. On account of all these, state level planning assumes great significance. Planning in India being a concurrent subject, the states deal with subjects such as agriculture, irrigation, power, education, health, rural development etc.

Nevertheless, academic interest in state level planning has been far less than that in aggregate national planning. Besides, whenever state level planning had been studied, the major emphasis used to be placed invariably on the imbalances in the existing Centre-State financial relations and the constraints imposed by such relations on the planning initiative at the state level. This has been so in the case of both studies of a general nature and also those dealing with particular states. Thus, financial aspects of planning in the States, especially questions relating to Central plan assistance, have received the exclusive attention of economists mainly due to the widely held belief that in the prevailing scheme of Centre-State economic relations in the country, the States have absolutely no alternative to formulating uniform plans conforming to the national priorities.

While the necessity for formulating state plans within the national framework and keeping in view the national objectives and priorities is unassailable, the country being a union of states, it needs to be examined whether the states have really been doing so. The facts that in India, the introduction of planning was not preceded by a structural socio-economic change (in the sense of levelling up of the socio-economic terrains of the country) and that at the inception of planning, the states were characterised by socio-economic diversities of various sorts, would themselves *a priori* give the impression of different patterns of development followed by different states. This would, in other words, mean the tendency of certain historical patterns to persist in spite of the declared intentions of the planners to set new patterns. To the extent that this is the case, the scope for planning at the state level may progressively decline not due to the process of excessive centralisation as is usually alleged but due to the die-hard nature of the past patterns.

Review of Literature

Since discussions on state finances significantly impinge upon states' planning issues, studies on state finances merit our serious consideration in this context. A review of such studies will undoubtedly unravel the evolution of thinking on the issues relating to planning at the state level.

An observation made by R.N. Tripathy in 1967 appears to be meriting overwhelming attention in the context of planning at the state level.[1] Dilating on the slackness on the part of the State Governments in their efforts for maximisation of resource mobilisation and fiscal discipline, he rightly concludes that the burden of financing state plans falls overwhelmingly on the urban sector while the rural sector refuses to make its due contribution.

However, the first systematic attempt to study states' finances in India was made by Venkataramanan[2] in 1968. In this study, the imbalance in the approach to the study of States' financial problems has been succinctly pointed out. The observation of the author that "... much less attention has been paid to the aspects of state expenditure than to state taxes"[3] unambiguously points to the neglect of state level planning. It is through the public expenditure programmes that we try to give the intended direction and orientation to the economy.

Venkataramanan questions the rationale of the prevailing expenditure classifications such as 'development' and 'non-development', and 'plan' and 'non-plan'. This classification, according to him, has the danger of endowing certain schemes with more than necessary legitimacy and distorting our view of public expenditure. He deplores the widely prevalent tendency to reckon all cases of non-development expenditure as "some kind of a second class expenditure".[4] As a matter of fact, the expenditure categories and functions of modern Governments are so overlapping that it is often impossible to categorise total governmental expenditure into developmental and non-developmental.

Apart from the subjective element that is likely to creep into the classification, there is a real snag here. The fact that an increasingly higher proportion of the total expenditure is incurred for developmental purposes cannot ipso facto mean development. Equally or perhaps more important is the efficiency with which the resources are spent. More resources inefficiently spent may not promote development while less resources efficiently spent will do it.

In a thought-provoking analysis, Porwal also maintains that a comparison of development expenditure with non-development expenditure does not provide a real picture of the development process.[5] Development can be understood only in terms of projects implemented or programmes completed. This calls for such measures as cost-benefit analysis, programme budgeting and performance classification.[6] However, he maintains, with specific reference to Rajasthan, "the classification of expenditure in the state is essentially on departmental basis".[7] The accounts pertain, not to the "services and purposes" but to the "activities of the administrative departments".[8]

An important study of state finances was done by Srish Chandra Patnaik in 1970.[9] The analytical focus is on the growth of regional finance of Orissa from its formation as a separate province in 1936 to the end of the Third Five Year Plan, in the framework of fiscal federalism in India. A rather unique significance of the study is that it brings into sharp focus "the financial problems of the state arising out of the implementation of the five year plans and offers a federal solution".[10] Two other important observations are: (1) the revenue receipts of Orissa are not generally responsive to inflation; and

(2) inflation results in the escalation of cost of development and non-development services. These are applicable to other states also, given the wellknown fact that the majority of the elastic sources of revenue are with the Union Government while the states are left with relatively less elastic sources. Also, the author questions the prevailing narrow view of deficit financing in India, the government resorting to the printing of notes to meet its budget deficits. As the State Governments cannot print notes, it is held that they cannot take recourse to deficit financing. Needless to say, this is a restricted view. Patnaik rightly maintains that the states' practices such as dishoarding cash balance, dissaving in the form of liquidating their short-term investments, use of trust fund receipts, and borrowing from banks including overdrafts from the Reserve Bank of India are tantamount to printing money.[11]

In his analysis of state finances, Christine Wallich (1982)[12] contends that the formulation of all state budgets is done on standard lines. The tripartite accounting classification consisting of (1) Consolidated Fund; (2) Public Account; and (3) Contingency Fund does not enable us to understand the development process.

The above studies, as is evident by now, are on state finances and are not on state level planning as such. Even as we concede that finances are an essential component of planning, the latter has more dimensions all of which must be taken care of for making planning a success.

Studies in state level planning are few and far between. In the following paragraphs, we propose to make an appraisal of the major works in this regard.

In a pioneering work on the planning process in India, Hanson (1966) makes certain illuminating observations about the planning issues pertaining to the States.[13] He reminds us of the fact that the states were formed not for suiting the requirements of the planning process. In fact, "their competitive self-assertion makes rational planning on an all-India scale immensely more difficult".[14] However, he recognises their existence as "the most important fact of Indian Political life".[15] He brings into sharp focus the appalling vagueness[16] regarding the formulation of the state plans till the mid-sixties. There are no concrete norms or guidelines governing matters such as the size, sectoral composition, etc. of the state plans.

Nevertheless, he concedes that "while it is easy to criticize these vague and muddled formulation, it is difficult to device alternative ones".

The Administrative Reforms Commission had recommended in 1967 that the states should be vested with powers to do detailed sectoral planning, including formulation and implementation of individual programmes and projects. In fact, the ARC had provided useful guidelines in this regard. It had recommended setting up of State Planning Boards "for formulating plans and for evaluating performance".[17] The composition of the Boards was clearly indicated. There should be four full-time members and one part-time member. The Chairman would be one of the full-time members. Ministers could not become members. It was observed by the Study Team of the Commission that "the scope of State Planning agencies is not as comprehensive as that of the national planning agency..... The state plans ....confine themselves mainly to three major areas of development, viz, (i) agriculture, (ii) economic infrastructure, and (iii) social services. ...We assume that the scope of the state plan would continue to be the same".[18] One serious limitation of the recommendations and guidelines of the ARC is their rigidity in the face of dynamic processes.

In his comprehensive study of Uttar Pradesh's finances since Independence, P.K. Bhargava (1969) notes the tendency for centralisation of policies even in matters which are exclusively assigned to the states and in which the states are visualised to exercise full initiative.[19]

Against the backdrop of the ARC exercises, Vithal (1972)[20] makes an important contribution regarding the planning organisation at the state level. He points out the deplorable lack of planning expertise at the state level which can be attributed to the fact that in the federal distribution of work, states' planning domain is such that "not much expertise was required under the first three plans". However, the need for it has been increasingly felt from the Fourth Plan onwards. The author is of the firm view that if the states are given more powers in plan formulation, the requisite expertise is bound to be built up. The serious distortions taking place at the local level are ascribed to the "extraneous time-scales" being imposed on local authorities. Vithal's paper merits serious consideration from the point of conceding greater scope for planning initiative at the state level. However, the observation that at the state level, the planning organisation must "ultimately" be linked up with the Finance Department should be accepted with great caution. Of course, the author has a point here "since the operative form which the plan takes is the budget". But, then, there is the grave danger of planning becoming highly "officialised".

In an attempt to explain the way in which state level five year plans are drafted and to identify the major bottlenecks adversely affecting the plan performance, Divakara Rao (1982)[21] enumerates the points that are to be borne in mind while formulating the state plans. These points are (a) the progress achieved by the State in the earlier plan periods and its relative position at the all India level; (b) a comparison of the GDP growth rates with those of other states in the recent past; (c) measures to eradicate poverty and unemployment in the state; (d) assessment of existing potentialities such as the social and economic infrastructure; (e) the growth rate that might be feasible during the plan period; and (f) the broad objectives of the National Plan.

A serious defect observed in the state plans is the adoption of the capital - output ratio postulated in the National Draft Plan for the country as a whole. This ratio is simply applied to work out the total investment requirements of the states for the five-year plan period. The unrealistic nature of this practice hardly needs elaboration considering the fact that there are considerable inter-state variations in the socio-economic structure and the consequent likelihood that the capital-output ratios differ from state to state.

Another defect of the state plans pointed out in the paper is also worthy of serious consideration. At present, there is no objective basis for deciding the break-up of investment for public and private sectors and also for State and Central sectors. It is simply based on the proportions worked out for the country as a whole in the National Draft Plan. Therefore, the investment outlays shown against the Central as well as the private sector may not have any relevance to the investments actually made in those sectors in the state. Again, none of the states employs methods such as the input-output technique so that projections of physical resources for the plan period are not being made. Hence, unlike in the case of the national plan, it has not been possible to make balancing of the physical resources with the financial resources. No wonder, it is widely held that state plans are intended to serve primarily to enable the state governments to get more money from the Centre.[22] Once the money has come, the plan is not scrupulously adhered to.

In a highly thought-provoking paper, Ajit Kumar Singh pointed out in 1972 that due to "the overpowering position of the Planning Commission", all state plans follow more or less uniform pattern.[23] Each state plan can be regarded as a "miniature National Plan."[24] The paper deals with the nature and scope of state plans. As the writer rightly maintains, there has been increasing consensus in favour of giving greater powers to the states in the formulation of their plans. Singh is making out a convincing case for endowing the states with more planning responsibilities in view of their possessing "vast political, economic and administrative power to influence the development of the economy within their region".[25] This, he concedes, calls for a major realignment of states' boundaries purely on economic consideration. The ultimate purpose should be to facilitate regional planning[26] which has been increasingly becoming popular in view of the glaring spatial diversities of the country. In fact, with the increase in the popularity of state level planning, the problem of regional disparities has also been increasingly engaging the attention of planners in the country.

While arguing for the need for a study of the planning process in the Mysore State, Nagaraj (1975)[27] makes a broad mention of the cavalier manner in which State plans are formulated. In fact, this is a general study, and not a detailed study of planning in Karnataka (the former Mysore State). The State governments have a central co-ordinating unit or department at the headquarters with nucleus planning cells in major development departments. At present, state level planning is 'departmental planning' "without reference to the practical conditions and without taking into account inter-sectoral balances".[28] In fact, this way of 'doing things' is the very negation of planning.

Bhambri (1976)[29] succinctly brings out the crucial manner in which the Union Government in India depends on the State Governments for implementation of several national programmes of development. Quoting Paul H. Appleby who maintained that the Government of India was unduly dependent on the States and that the Centre was "fundamentally lacking in administrative authority", Bhambri highlights the importance of state as a planning unit. At the same time, "the Politico - administrative evolution of the Indian States is characterised by a diversity of experience". State level administration takes place in the context of national uniformity and local diversities. While agreeing that the State Governments play a significant role in plan implementation, it is debatable whether the Centre is administratively weak. Moreover, being a journal article, this also is not a detailed study of state level planning.

According to Rakesh Hooja (1976),[30] the state is "the key link" in the planning process in India. It is the "most important tier of all". Nevertheless, planning at the state level has remained "relatively undiscussed". After narrating the manner in which the state government departments suggest projects, the author caustically remarks that "hasty, ad hoc, fund-based projects on the guidance from above are the rule of the day... Few departments care to work out all the implications of a scheme". Nobody would disagree with the author when he says that only the Planning and Finance Departments seem to carefully scrutinise proposals; other departments functioning as mere "post offices transmitting proposals up and allocations and targets down". However, it must be remembered that, rather than being a detailed study, it only makes certain general observations, albeit absolutely convincingly. Of course, within the compass of a journal article, one cannot be expected to deal with all the relevant issues involved in state level planning.

There is a general impression that the fiscal diversity of Indian States is a post-1967 phenomenon created by political parties other than the one ruling at the Centre coming to power in a large number of States. This impression is sought to be convincingly removed by Rajendra Jain through a systematic study.[31] According to Jain, "notwithstanding the fact that the same party was in power both at the centre and in the states, diverse fiscal methods were followed with the result that the trends in tax revenue, expenditure, and public debt became a strange medley of confusing issues".[32] It is high time we realised that the core programme of the Indian plan strategy depends, to a very great extent, on financially sound state governments.[33] Similarly, the observation that the role of the Finance Commissions should be appreciated in terms of their successful efforts at co-ordinating the finances of the Union and the States is incontrovertible.[34]

Somasekhara (1984)[35] has done perhaps the most comprehensive study on state level planning. The analytical focus is on the techniques, procedures and management. The significance of state level planning has been recognised only from the late sixties onwards; till then "state level planning in its true sense was non-existent".[36] During the Fourth Plan, the Government of India declared that the states would have greater liberty in formulating their plans. It advised them to immediately set up specialised planning machinery.

Somasekhara points out that the state plan documents do not describe the technical aspects of the plan, i.e., the techniques of planning and the planning procedures.[37] One is here reminded of the observation made by Prof.D.R. Gadgil in 1966 that "the state plans are prepared basically in the same manner as the annual state budget".[38] Besides, the scope of planning at the state level is limited. The Centre plans for all the sectors of the economy, viz, Central and State, and private and co-operative whereas the state plans relate mainly to additional departmental outlays of the State Governments' sector.[39] Thus, only a third of the total plan falls within the purview of the states. Further, 90 per cent of the states' outlay is distributed under three heads, viz, (1) Agriculture and Community Development; (2) Irrigation and Power; and (3) Social Services. However, while conceding that states' sphere of direct planning is obviously limited, one cannot but maintain that the states' planning role must be considered primarily in terms of giving the desired sense of direction to the economy. In this vital sense, one finds it difficult to totally accept the view that "at the state level, there is not much scope for evolving policies".[40] In our view, this is not a sufficiently large perspective. Planning is a multi-faceted process involving broadly four processes, viz, (1) formulation, (2) implementation, (3) monitoring, and (4) evaluation. And, in all these four processes, there is sufficient scope for the states to take initiative.

Objective of the Present Study

Keeping the above perspective in mind, our attempt here is to make a critical study of state level planning in India with Kerala as a case study in depth.

The selection of Kerala for a detailed case study is based, in addition to the author's familiarity with the socio-economic conditions in the State, on the fact that the socio-political climate obtaining in the state immediately after its formation in 1956 was uniquely conducive to the spread of ideas about economic planning. Comparatively high literacy level, the uniquely high political awareness, growing influence of the leftist parties with an ideological commitment to planning, a long tradition of public expenditure and social welfare programmes -- all these could ideally prepare a propitious ground for the germination and growth of a process aimed at basic changes in the socio-economic system.

Besides, planning in Kerala has not so far been subject to a systematic appraisal. Of course, recently (during 1984-86), there took place a raging controversy over the fiscal crisis of the State Government. In the controversy, two leading partners in the ruling coalition of that period, viz., the Kerala Congress(M) and the Congress(I) were ranged against each other.

The then Finance Minister (belonging to the Kerala Congress) who had set a record of sorts by presenting without any difficulty, whatsoever, eight budgets in the Kerala Assembly for the various coalitions led by the Communist Party of India (CPI), the Communist Party (Marxist), and the Congress(I) and thereby earned the title of an "all-weather Finance Minister"[41] whose armoury was "so well-stocked with double-edged arguments" that he could present a budget for the Marxist-led government with as much ease as he did it for a Congress-I led government,[42] blamed the state's economic ills on the lopsided nature of the Centre-State financial relations. In a white paper presented at a convention of his party, he took the Central Government to task for its discrimination against Kerala.[43] That naturally provoked the Congress(I) which immediately took arms in defence of the Centre. In a study done on its behalf,[44] the crisis was attributed to the policy adopted by the Kerala Congress of wooing its political base, viz., the cash crop and trading lobbies of central Travancore. That policy, according to the Congress(I) spokesman, consisted of the provision of large-scale grants and subsidies to the predominantly wealthy rubber growers and non-collection of sales tax and agricultural income tax.

It must be noted that the controversy, which was in the nature of a war of attrition generated more heat than light, for the exercise was carried out with a view to finding scapegoats with no honest and sincere attempt made to understand the problem in its proper perspective. The participants in the controversy were prompted by short-term political considerations rather than any concern for the economic health of the State. Whereas, in an article[45] on the subject, the present author had taken the position that (i) the crisis was not an overnight development and had been the outcome of the particular pattern of planning followed in the State, (ii) it could not be blamed on a single political party, for, as almost all major political parties had shared power in the state at one time or another, none could absolve itself of the responsibility and totally blame the others for the debacle and (iii) the Centre had neither discriminated against nor specially favoured Kerala and hence could not be singularly blamed for the fiscal mess that the State found itself in. The reflection of these views can be found in the present study also.

Methodology and Data Base

The present study purports to make an assessment of the plan performance of Kerala till the end of the Sixth Plan.

It may be borne in mind that the sphere of States' direct planning exercise is limited to the State segment of the public sector. While the Central sector is completely outside the scope of States' decision making authority, the private sector within the State can be influenced only indirectly through the various policy measures adopted by the Government from time to time. Our enquiry is limited to the state segment of the public sector, wherein the state enjoys and exercises functional freedom in planning.

The study is based entirely on secondary data. The important sources of such data are

i. Five Year Plans and Annual Plans of Kerala;

ii. Annual Budgets of the Government of Kerala;

iii. Various reports of the (Kerala) State Planning Board; and

iv. the Reserve Bank of India Bulletins.

The data collected from the above sources have been tabulated and cross-tabulated so as to make it suitable for analysing the problem at hand.

A serious lacuna in the plan documents of the State is the incomplete nature of the information on the financing of the State plans. Source-wise details on plan finances in terms of targets and achievements are available only for the first three plans; from the Fourth Plan onwards, only targets are given. This vital item of information prepared by the Finance Department of the State Government for discussion with the Planning Commission, had it been shown in the plan documents, would have facilitated our understanding of the methods of plan financing to a very great extent.

In Kerala, as in other States and at the Centre, the budget is prepared by major heads of account which fall either under the Consolidated Fund of the State or the Public Account of the State Government.[46] The system followed is an object classification, the objective being financial accountability to the State Legislature. A serious drawback of this system is the emphasis on the accountability criterion mostly in terms of the financial aspects of expenditure rather than on the economic or functional or performance criteria. The basic objectives of financial administration are legislative control, administrative accountability and booking and auditing transactions.

Hence, the budget data as such cannot be used to analyse the impact of the budgetary expenditure on the economy. Such an analysis requires the reclassification of Budget data into economic and functional categories. The National Council of Applied Economic Research has done such a reclassification of the Kerala Government Budget for the year 1957-'58.[47] The Department of Economics and Statistics of the State Government made reclassifications for two periods, viz., 1962-'63 to 1967-'68[48] and 1975-'76 to 1980-'81.[49] Certain limitations of these reclassifications, from our point of view, may be noted. First of all, they are not available for all the years under consideration. Secondly, they are not comparable. For instance, for 1962, only economic classification is available. Thirdly, only for some years (1957-'58, 1962-'63 to 1965-66 and 1975-'76 to 1978-'79), Accounts are available; for others, only Budget Estimates and Revised Estimates are available. Fourthly, there are variations in the items included in the different categories. Thus, these reclassifications do not facilitate a time-series study. Hence, we reclassified the figures for the period 1957-'58 to 1984-'85 into functional categories based on the methodology suggested in the United Nations Manual for Economic-Functional Classification of Government Transactions (1958). Accordingly, the expenditures have been classified under three functional heads, viz., (i) General Services, (ii) Economic Services and (iii) Social Services. Such reclassifications are done in the case of both revenue expenditure and Capital expenditure with a view to obtaining a glimpse of the priorities set and followed by the State Government.

There are two approaches to the study of budget expenditure, viz., (i) normative approach and (ii) positive approach.[50] The first approach concerns itself with the requirements of achieving an optimal provision of public goods and services , while the second aims at an economic assessment of the observed pattern and the level of budget expenditure and the impact thereof.[51] In the present study, we have adopted the positive approach.

A word of caution regarding the comparison between development expenditure and non-development expenditure seems to be warranted. A high proportion of expenditure incurred for developmental purposes should not *ipso facto* push one to the hasty conclusion that development is, in fact, taking place. A definite conclusion can emerge only from a detailed study of the projects completed and the targets achieved.[52]

Regarding the level of budgetary expenditure (i.e. budgetary expenditure taken as a proportion of the State domestic product), a few limitations and technical problems may be noted. Though it is an indicator of the scope of the public sector, it must be remembered that public expenditure undertaken through the State budget does not encompass the entire public sector in the State. The public sector of the State comprises the Central sector and the state sector. The former is completely outside the purview of the State budget. Even in the State sector, it does not include the autonomous enterprises and corporations and the expenditure incurred by local bodies except the grants provided to the last two categories of institutions. However, as an instrument of government policy for giving desired orientation to the economy, budget expenditure is crucially significant.

Again, the total budgetary expenditure includes transfers and subsidies while the State domestic product excludes them. The level of government's total budgetary expenditure as considered by us here would, therefore, present a slightly exaggerated picture of the State's share of the state output. We have not, however, excluded transfers and subsidies because to do so would understate government expenditure.[53]

Structure of the Thesis

Chapter 2 is divided into three sections. Section 1 is devoted to a discussion on planning under different systems. For this purpose, we have considered three categories of countries, viz, (i) advanced capitalist countries, (ii) Soviet-type economies, and (iii) non-Soviet-type developing economies. Section 2 is on Centre-State relations and their bearing on state level planning in India. In Section 3, we make a few preliminary observations on the Kerala economy.

In Chapter 3, we give a brief account of the planning strategy at the Centre during the first two Plans and show how the strategy followed in Kerala differed therefrom. Also included is the main thrust of the arguments emerged from a very serious discussion on the strategy of development for Kerala held in 1960 in which the participants were the top-ranking economists and leading politicians of the day. We have also mentioned the recommendation of the National Council of Applied Economic Research based on a well-designed and exhaustive techno-economic survey of the State. The strategy evolved out of the academic discussions and the NCAER study is furnished so as to verify whether that was ever tried in the course of planning in the State.

Chapter 4 is devoted to an analysis of the sectoral allocation of State plan expenditure.

The state's plan performance in terms of physical targets and achievements and the various problems involved on the implementation front form the theme of chapters 5 and 6. In these chapters, we take up for detailed examination irrigation and power (Chapter 5) and Social Services (Chapter 6) which together accounted for 61 per cent of the aggregate plan expenditure incurred over the period 1951-52 to 1984-85.

The picture relating to the allocation of plan expenditure alone may not reveal the importance of the various sectors of the economy, for such expenditure constitutes only a small proportion of the total budgetary expenditure (revenue and capital) of the Government. Even as early as 1957-58 (the first year after the formation of the state for which budget figures are available), this proportion was only 29.8 per cent and declined to 19.3 per cent in 1984-85. Whereas total budgetary expenditure as a proportion of the state domestic product increased from 11.2 per cent in 1957-58 to 23.6 per cent in 1982-83, plan expenditure as a proportion of the State domestic product registered only a small increase (from 5.5 per cent to 7.6 per cent) over the same period. On account of the substantially increasing total budgetary expenditure and the low proportion of the total expenditure incurred on the plan account, therefore, we have considered in Chapter 7 the trend in total budgetary expenditure (revenue and capital, both separately and combined) from 1957-58 to 1984-85 so that we get a panoramic picture of the overall budgetary expenditure of the State Government.

Chapter 8 contains an analysis of the major aspects of resource mobilisation for the state plans.

The major findings of the study are summarised in Chapter 9.

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Notes and References

1. R.N. Tripathy, "Mobilisation of Resources for State Governments" in M.D. Joshi, (ed), Mobilisation of State Resources, Impex India, New Delhi 1967.

   Another important study of this genre is Kameshwar Mallik, The Resource Mobilisation and Indian Five-Year Plans, Bihar Granth Kutir, Patna, 1979. See especially the Foreword.

2. K. Venkataramanan, States' Finances in India: A Perspective Study for the Plan Periods, George Allen and Unwin Ltd., London, 1968. Also see Venkataramanan, "States' Tax Effort in the Third Plan", The Economic Weekly, Vol.XVII, No.12, March 20, 1965. This article should be noted for the following instructive statement, "...the performance of states in taxation and in plan implementation need not be direct and proportional. A state may raise the targetted additional resources and yet find itself not fulfilling the plan, if administrative arrangements and other factors stand in the way. Conversely, though with lesser likelihood, states may be implementing the plan satisfactorily even though they may not have fulfilled their taxation targets".

3. Ibid,

4. Ibid.

5. L.S. Porwal, State Finances in India. A case study of Rajasthan, Sultan Chand & Sons, Delhi, 1971, p.118.

6. Ibid. For a detailed discussion, also see K.S. Sastry, Performance Budgeting for Planned Development, Radiant Publishers, New Delhi, 1979, pp. 1-61. M.J.K. Thavaraj, Financial Management of Government, Sultan Chand & Sons, New Delhi, 1978, B.B. Lal, Financial Control in a Welfare State, Publications Division, Ministry of Information and Broadcasting, Government of India, 1965. "The modern trend is that budgeting should not only give the money values but the respective quantitative values represented by the money values, and similarly, any report on the execution of the budget should give not only the money values but also the corresponding budgeted quantity/achievement and the actual quantity

achieved or in other words, the work expected to be performed and the actual work performed. This is called performance budgeting", Lal, Ibid, p.281.

It may be mentioned that the observation made by Gulati in 1965 that "the present technique of annual budgeting is not suited to the requirements of long-term planning" still holds good. See, I.S. Gulati, "Long-Term Planning of the Budget: The Need for Advance Tax Planning", The Indian Economic Journal, Vol.XIII, Number Two, October-December, 1965.

7. Porwal, op.cit, p.114.

8. Ibid.

9. Srish Chandra Patnaik, Orissa Finances in Perspectives (1951-52 to 1965-66), People's Publishing House, New Delhi, 1970, Preface.

10. Ibid. Another study dealing with this problem is Veda Doss, Impact of Planning on Centre-State Financial Relations in India, National Publishing House, New Delhi, 1978. Especially relevant is chapter 3, "Impact of Planning on State Budgets".

11. Patnaik, op cit, p.23.

12. Christine Wallich, State Finances in India, Vol.2. "Studies in State Finances", World Bank Staff Working Papers, No.523, 1982.

13. A.H. Hanson, The Process of Planning. A Study Based on India's Five Year Plans 1950-1964, Oxford University Press, 1966.

14. Ibid, p.313.

15. Ibid.

16. As an example of this vagueness, Hanson quotes from a Planning Commission publication. "Outlays for the Third Plan for each State will have to be arrived at after study of needs and problems, past progress and lags in development, likely contribution to the achievement of major national targets, potential for growth and the contribution in resources which the state is able to make towards its development plan. In assessing needs and problems, such factors as population, area, pressure on cultivable land, extent of commitment

carried over from the Second Plan, commitments on account of large projects and the state of technological and administrative services available, will have to be taken into account. Due attention will have to be given both to national and to state priorities". Government of India, Planning Commission, Economic Development in Different Regions of India, 1962, p.3, Hanson, op cit, p.371. In fact, this vagueness is still the hall-mark of our plan documents. In stating the objectives, for instance, we are indulgent and include all pious wishes and ambitions.

17. B.P.R. Vithal, "Planning Organisation at the State Level", Economic and Political Weekly (EPW, hereafter), Vol.VII, No.17, April 22, 1972.

18. Quoted by Vithal, Ibid. Also see Ravi Zutshi, "Depoliticised Centre-State Interactions. A Federal Issue", Indian Journal of Public Administration, Vol.XXV,No.1, January - March 1979. "At the state level, the professional and technical competence... is seen as being of no consequence and the talent has gravitated to the Central Government leaving the states at the mercy of mediocrity. In fact, planning has been so centralised that the State Planning Commissions or Planning Departments have very little input or influence on planning at the national level".

19. P.K. Bhargava, Uttar Pradesh's Finances Since Independence, Vora and Co. Publishers Private Ltd. Bombay, 1969, p.33.

20. Vithal, op cit.

21. T. Divakara Rao, "Some Aspects of State Level Planning in India", Yojana, Vol.XXVI, No.16, 1-15 September 1982.

22. "At the conference table, unlike the corporate representatives, the state in most cases comes up with demands based on needs rather than on the basis of a planned, researched alternative" --- Ravi Zutshi, op cit.

23. Ajit Kumar Singh, "States as Planning Regions", Indian Journal of Regional Science, Vol.IV, No.1, 1972.

24. Ibid.

25. _Ibid._

26. K.N. Raj, "Planning from Below' with Reference to District Development and State Planning", _EPW_, Vol.VI, Nos.30,31, and 32, Special Number, July 1971. "The territory of a State is of course not necessarily - or even usually - co-terminus with a region defined as an area with common economic or geographical characteristics. But since it represents an area of administrative authority that might either be parts of a larger region or has within it several regions, it is only through the active association of states at all stages that the problems specific to various regions can be introduced into the planning framework and suitable solutions found for them".

27. H.S. Nagaraj, "A Note on the Need for a Study of the Planning Process in the Mysore State", in V.K.R.V. Rao, (ed), Planning for Change. Issues in Mysore's Development, Vikas Publishing House, Bangalore, 1975.

28. _Ibid._

29. C.P. Bhambri, "Contextual Framework of Public Administration in Indian States", _The Indian Journal of Public Administration_, Vol.XXII, No.3, July-September 1976.

30. Rakesh Hooja, "State Level Planning. The Rajasthan Case". _The Indian Journal of Public Administration_, Vol.XXII, No.3, July-September 1976.

31. Rajendra Jain, _State Finances in India_, Progress Publishers, Bhopal, 1978.

32. _Ibid_, Preface.

33. _Ibid_, p.5.

34. _Ibid_., p.12. This point seems to be generally overlooked. Jain's contribution in this regard seems to be highly praiseworthy. See, for instance, the observation that "...the striking feature of the pre-Independence era was that due to absence of the economic unity of the country, there had been two independent financial systems working: one on the pattern of federal finance in the provinces and the other in Princely States which were following, in some sense, _an archaic system of finance_, in which even the system of budgeting did not exist" -- _Ibid_, (Emphasis added).

35. N. Somasekhara, States' Planning in India, Techniques, Procedure and Management. An Across the States Account, Himalaya Publishing House, Bombay, 1984.

36. Ibid, Preface.

37. Ibid, p.43.

38. D.R. Gadgil, District Development Planning, R.R. Kale Memorial Lecture, 1966, Gokhale Institute of Politics and Economics, p.13.

39. Somasekhara, op cit, p.41.

40. Ibid, p.38. Raj also believes that "they (Plan efforts in India) have left little scope for flexibility or initiative at the state level (except through exercise of political pressure on the Centre wherever possible)". K.N. Raj, op cit.

41. "Bad Shape of the Economy. A State Minister Puts the Blame on the Centre's Fiscal Policies", The Hindu (Daily), Tuesday, October 30, 1984.

42. Ibid.

43. K.M. Mani, Keralathinte Sampathika Prasnangal. Karanangalum Pariharamargangalum (Malayalam) (Economic Problems of Kerala: Causes and Cures), Kerala Congress State Committee, Kottayam, 1984.

44. P.K. Gopalakrishnan, "The State of Kerala Finances: A Synoptic View", Kerala Pradesh Congress Committee, Trivandrum, 1985.

45. M. Kunhaman, "Keralathile Sampathika Prathisanthi" (Malayalam) ("Economic Crisis of Kerala"), Kerala Kaumudi (daily) March 19, Wednesday 1986.

46. In addition, the Government also maintains a Contingency Fund for making advances for urgent and unforeseen expenditure which are recouped to the Fund by debit to the Consolidated Fund after obtaining Supplementary Grants.

47. Economic-Functional Classification of Central and State Government Budgets 1957-58, National Council of Applied Economic Research, New Delhi, 1960.

48. Economic Classification of Kerala Government Budgets 1962-63 to 1964-65, Bureau of Economics and Statistics, Government of Kerala, (GOK hereafter) 1965. An Economic and Functional Classification of the Kerala Government Budgets 1963-64 to 1967-68, Bureau of Economics and Statistics, GOK, 1967.

49. An Economic-cum-Purpose Classification of the Kerala State Government Budgets 1975-76 to 1980-81, Directorate of Economics and Statistics, GOK, 1981.

50. K.N. Reddy, etal, Central Government Expenditure Growth, Structure and Impact (1950-51 to 1977-78), National Institute of Public Finance and Policy, New Delhi, 1984, p.3.

51. Ibid.

52. L.S. Porwal, State Finances in India. A Case Study of Rajasthan, Sultan Chand & Sons, New Delhi, 1971, p.118.

53. K.N. Reddy, et al, op cit, p.15.

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Chapter 2

PLANNING IN PERSPECTIVE

Planning under different systems

Though the world has now before it a formal planning experience of nearly 60 years[1] only, the tendency to plan has a longer history. Perhaps, it may not be an exaggeration to say that every production unit always used to have a plan. Similarly, every organised society had a plan at one time or another in its existence, of course, varying in details and scales. The degree of details and coverage in planning depends, *inter alia*, on the exigencies of the situation in which the country in question finds itself.

To plan is to re-orient the activities along desired lines so as to achieve a given objective. It is necessitated by the desire to obtain better or different results from the performance of a system. In this general sense, planning seems to be perfectly congruent as much with capitalism and mixed economies as with socialism. In fact, the adoption of planning under diverse socio-economic systems has resulted in differences in the structure and scope of the plans of various countries so much so that today it is difficult to say what is precisely meant by a development plan.[2]

There was a time when planning (at the formal level) used to be associated with a communist country. This practice made the rulers of the capitalist economies shun the use of the word 'planning' while, at the same time, resorting to planning, of course, in an unplanned manner.[3] This ideological idiocyncracy seems to be on the wane today as is exemplified by the insistence of the Governments of developed capitalist countries as well as the multilateral aid-giving institutions on the formulation of economic plans as a precondition for giving aid to developing countries. Even in the case of aid extended with the covert motive of blocking the spread of the influence of Communism, this insistence is seen to be made.

However, the observation that all countries have planning and only the extent of coverage and degree of details differ among different types of countries may appear to be a simplistic way of espousing the cause of planning and may, consequently, obscure our understanding of the vital questions involved, viz., objectives, nature, processes, outcome etc. It is, therefore, essential to know, at least broadly, planning in different types of countries.

From the point of view of economic planning, the countries of the world can be classified into three categories, viz., (1) advanced capitalist countries, (2) Soviet-type economies, and (3) non-Soviet type developing economies. Type of planning and the institutional framework within which it is undertaken vary as between these three categories.

In advanced capitalist economies, planning, in the sense of state intervention plays a pro-market, promotional role, the objective being to provide the right environment for the smooth functioning of the private sector. State intervention takes the form chiefly of the creation of infrastructure facilities. Since the pursuit of profit-maximisation is the over-riding objective, meticulous and detailed planning takes place at the level of individual production units as evidenced by the increasing use of monitoring techniques such as CPM and PERT in private enterprises and autonomous corporations in the USA. Nevertheless, generally, no plan for the economy as a whole, in the sense of a detailed blue-print for economic development, is adopted. Overall state intervention takes at best the form of the adoption of contra-cyclical measures and, therefore, aims at the maintenance of steady growth along the capitalist lines. Thus, there are other types of state intervention such as the provision of social security measures and other welfare programmes. However, such interventions seldom constitute co-ordinated parts of an integrated ex ante programme and are made mainly to rectify some of the side-effects of the market economy. Thus, whatever planning is adopted is carried out within the framework of the market mechanism without any attempt or intention to replace that mechanism. Above all, what is more important from our point of view in the present context is to note that planning, even in this restricted and loose sense of the term, has followed development.

In a Soviet-type economy, on the other hand, planning is essentially a substitute for the market-mechanism and development is planned within the bounds of a system based on the social ownership of the major means of production. As inter-personal non-functional inequalities are absent, the only other major objective (other than growth) of planning is, therefore, the removal of regional disparities. This objective can, of course, come into conflict with the growth objective. The attainment of spatial balances tends to evade solution even in the USSR and China. It, therefore, seems that the problem of spatial imbalances has a stubborn tendency to persist under all systems. If this reality is recognised as an inescapable one, it becomes obvious that planning in the Soviet-type economies is predominantly aimed at a single objective, viz., growth.

A non-Soviet-type developing economy, on the other hand, is saddled with multiple problems such as low growth, inter-personal and inter-group inequalities, regional imbalances, unemployment and mass poverty. Hence, the degree of inter-objective conflicts involved in planning is far higher in such an economy than in a Soviet-type economy. Planning is an instrument of growth (unlike in advanced capitalist countries, planning in this group of countries precedes development) and a socialist pattern of society is sought to be established through a planned process.

Thus, unlike both in an advanced capitalist economy and in a socialist economy where policy objectives are limited, in a non-Soviet-type developing economy characterised by the continued existence of a private sector, the pursuit of multiple, mutually conflicting, objectives makes policy intervention more complex and difficult. This fact needs to be kept in mind while evaluating the plan performance of such an economy because a strong tendency seems to prevail to compare such performance with that of the Soviet-type economies without having due regard for the entirely different institutional set up prevailing there.

The non-Soviet-type developing economies have adopted democratic planning whose success depends upon the voluntary co-operation of the people.[4] But such co-operation is constrained by the existence of an institutional framework dominated by innumerable pressure groups with conflicting interests.

It is all the more important to bear in mind that in the countries belonging to the third category, the plan does not have the force of law. It only indicates to the government the desired directions of development. Consequently, many important economic decisions are taken outside the ken of the formal plan.[5] Thus, programmes which have not been included in the plan are publicly announced by Ministers; some of the projects included in the plan are not implemented; and, again, projects are located at places other than those originally envisaged. Perhaps, the most conspicuous example in this regard was the promulgation in 1975 of the Twenty Point Programme by Mrs. Indira Gandhi, the then Prime Minister of India, lending credence (of course, inadvertently) to the view that basic issues such as abolition of bonded labour system and eradication of mass poverty cannot be resolved under the usual Five Year Plans of the country.

The deviations from the approved plan is sought to be justified by the apologists of market economies by pointing out the 'failure' of planning. In support of their contention, they cite, quite persuasively, the individual freedom granted to the people in China and the gradual opening up of the Chinese economy to foreign technology and investment. While this line of argument is not altogether unconvincing, its absolute nature is open to question. For one thing, the individual freedom granted is limited in scope and without prejudice to the quintessence of the system, viz., the social ownership of the major means of production. Secondly, the tendency need not necessarily be an infallible proof of the failure of planning *per se*, as it could very well be due to a change in the outlook of the rulers. However, as this point by itself can furnish a theme enough for a major enquiry, we do not intend to dwell on it here at any length. Our purpose here is to point out the stupendous nature of the tasks involved in planning in a non-Soviet-type developing economy where a multiplicity of objectives are pursued simultaneously.

A non-Soviet-type developing economy, launching upon a course of planned development, is confronted by yet another serious problem, viz., the lack of consensus on an appropriate development strategy. The other two types of countries do not face this problem. In the case of advanced capitalist countries, the course of development is a 'natural' and spontaneous one determined by market forces, while in the Soviety-type countries, it is determined by the government. In the case of the non-Soviet type developing economies, on the other hand, the course is not determined exclusively by either the market or the government, but by both. (In the private sector, by market forces and in the public sector, directly by the government). As far as the functioning of the two sectors is also concerned, there are peculiarities. The private sector, unlike its counterpart in the advanced capitalist countries, is sought to function in accordance with the social objectives stipulated in the plan. Conversely, the public sector while undoubtedly functions in the interest of social good, is nonetheless, required to facilitate the functioning of the private sector which is supposed to play a complementary role.

Since planning is for development in the broad sense of the term, it must be based on a development strategy. Unfortunately, despite the large and growing corpus of literature in development economics, the appropriateness of a development strategy is still a controversial issue. We still do not know many of the causal factors in the development of a country rendering the choice of a development policy with certainty impossible.[6] Thus, the task of development planning still remains a formidable one. However, the observation that since the wealth of a society consists of the capacity to produce goods and services rather than the volume of goods and services available at any point of time,[7] the accent in the initial stages of development should be on the building and expansion of the infrastructure base of the economy appears to be convincing. In this sense, the lines along which to proceed are clear and simple. The selection of projects at these stages cannot be based on any scientific tests of investment planning such as cost-benefit analysis, for the creation of infrastructure is a pre-decided matter and what is really relevant is the selection of the least-cost methods of creating it. Thus, there is a certain degree of crudeness of planning in the early stages of development.

Nevertheless, two snags, apart from the choice of the efficient and economical methods, can arise here. The first is that while the importance of physical infrastructure in propelling development is well recognised by all, the role of social services is still in the realm of controversy. Writers like Theodore W. Schultz regard expenditure on social services as investment, whereas, according to Arthur Lewis, at the margin, such services are consumption rather than investment. However, what is important here is to note that even if treated as consumption goods, the fact that social services spur economic development by removing the institutional impediments to development underlines the need for providing such services. Nevertheless, serious problems can arise here. As 'social capital' is not fully self-financing, the burden of providing it has to be borne on the general budget. This fact, in conjunction with the ever-increasing popular demand for it may provide ample scope for misdirected and wasteful expenditure.

The second snag is that there is no quantitative method of determining the amount or extent to which over-head capital (both physical and social) should exist as a pre-requisite for economic development. As Oscar Lange rightly points out "they (infrastructure) by themselves are not a factor bringing about development".[8] Economic development, according to the prevailing notions, is measured by the volume of goods and services produced by an economy. Hence, directly productive activities seem to call the tune here. Accordingly, a "sequence of development" based on "development via shortage" (of social overhead capital) is recommended.[9] However, a crucial question in planning in a mixed economy is the division of economic activities between the public sector and the private sector. The private sector cannot be expected to undertake directly productive activities in the face of inadequate social overhead capital, much less to create such capital by itself. Whereas, at least conceptually, it can be expected to respond to the stimuli created. Hence, the government under such a planning regime has to undertake the responsibility of creating such capital. Besides, due to the lumpiness of such investments, a certain amount of surplus cannot always be ruled out. All the same, in the absence of norms regarding adequacy, large scope for overdoing may exist with the result that directly productive activities will be totally neglected. Thus, the government is inextricably caught in the horns of what may be called a development dilemma.

The difficulty of planning in a non-Soviet type economy referred to above gets compounded if such an economy is also a federal one where planning is a concurrent responsibility of the Central Government and the Governments of the federating units. The most typical case in this regard is India which has a federal set up, a democratic Constitution and a planned economy.

Centre-State relations and state level planning in India

Planning in India takes place within the framework of a mixed economy. The public sector provides the necessary infrastructure which results in lowering the cost curves of the private sector, thus giving the latter incentives for undertaking productive activities. In the public sector, planning responsibilities are divided between the Centre and the states. Schemes of an inter-state nature and also those involving very high investment outlays are undertaken by the Central Government while schemes whose impact is limited mainly or exclusively to individual states fall within the functional responsibility of State Governments. Thus, subjects such as basic and heavy industry, major ports, railways, and telecommunications are within the

Central purview while the statesdeal with agriculture, irrigation, power, small and medium industries, minor ports, health etc. There are also programmes which are concurrently undertaken by both the Centre and the States. From the listing of the subjects falling within the purview of the respective Governments, it is obvious that the State Governments deal with matters immediately affecting the life of the people. In this sense, States' plan performance is subject to public scrutiny more closely than that of the centre.

However, an understanding of the manner in which State plans are formulated and implemented requires an understanding of the position of the State in the Indian federal polity, for the entire gamut of Centre-State relations has its bearing upon planning at the State level.

That the states in India ought to be 'free' to formulate and implement their plans is necessitated by their diversity in terms of size, population, availability of resources, levels of development already achieved, socio-cultural milieu, and above all, historical experience. In all these respects, the states widely differ from one another. Hence, a centralised national plan may not be able to take account of the diverse socio-economic and geographical peculiarities. This fact has been recognised from the very inception of planning in the country and the states have, therefore, been required to formulate their own plans taking into account their socio-economic problems and development potentials. However, the states' planning initiative is said to be severely circumscribed by the fact that the scale of Centre-State relations is unduly tipped in favour of the Centre.

First of all, the monetary policy which affects the pace of implementation of the various programmes and projects through changes in the price level is the exclusive preserve of the Central Government.

The State Governments' control over the private sector is nominal. On the other hand, the Centre, through its industrial licensing, credit, and fiscal policies, can exercise significant control over the investment decisions of the private sector.

A very serious factor acting as a deterrent to the States' initiative in planning and has raised much hue and cry against the existing scheme of

Centre-State relations is the excessive dependence of the States on the Centre for plan assistance. It is an incontrovertible fact that the federal balance of fiscal relations in India disproportionately favours the Centre. This is because most of the buoyant and elastic sources of revenue are with the Centre whereas the states which are Constitutionally enjoined to perform more responsibilities are assigned revenue sources most of which are less elastic and have political implications. The states, after meeting their non-plan revenue requirements find themselves left with little or no surplus from their own revenues at their existing levels of exploitation, making it imperative for them to rely on Central assistance for the new plan. By virtue of this excessive reliance on Central assistance, the states, it is alleged, are bound to toe the Central line in planning though it may be out of step with their own problems and potentialities.

The Centrally Sponsored Schemes are accepted by the states primarily for taking advantage of the grants/loans attached to such schemes. It is even observed that left to themselves the states would not have included many of these schemes in their plans. This was made amply clear at the meeting of the National Development Council for finalising the Seventh Five Year Plan. At that meeting, the Chief Ministers almost unanimously demanded substantial reduction in the number, if not total abolition, of Centrally Sponsored Schemes.

Again, the Central Government enjoys great control over the supply of basic materials such as cement, iron and steel, fertilizer etc. which are so vitally essential for the implementation of programmes and schemes in the state sector. The shortage or non-availability of these materials and their price hike effected by the Centre through the policy of administered prices, can upset the schedule of plan implementation in the states.

The major irrigation and power projects included in the state plans have to be approved by the Planning Commission and the Central Water and Power Commissions. The delay in sanctioning the approval results in time and cost-over-runs. Thus, for reasons which are beyond the control of the state governments, their programmes are adversely affected. Similarly, the foreign exchange required for the projects of the State Governments has to be released by the Central Government. The delay in such releases delays the implementation of the projects with all the adverse consequences.

Further, the States' capital budget is alleged to be crucially dependent upon the whims of the Central Government. As has already been observed, most of the states can hardly break even on the non-plan revenue front unless grants in-aid under Article 275 of the Constitution are forthcoming on the basis of the recommendations of the Finance Commissions, thus rendering it impossible for them to transfer any surplus for capital investment purposes. Inevitably, they have to resort to borrowing for raising investment funds. A state which has an outstanding debt to the Centre has perforce to obtain the latter's permission before entering the capital market. An inescapable outcome of the asymmetrical scheme of fiscal federalism and the increasing tempo of development is that invariably every state is indebted to the Centre. The phenomenon of states' mounting debt arrears to the Centre compels the states to obtain fresh loans from the former in order just to meet the obligation of interest payment on the previously contracted loans. As a matter of fact, Central loans have become the major source of the capital budgets of the state governments. This is rather a peculiar feature of the Indian federation. In other countries, there is either a joint borrowing authority, like in Australia, or the units enjoy independent borrowing powers.[10] This fact has created a patron-client relationship between the Centre and the States rather than a sense of partnership in the development process. This has conditioned a way of thinking that is hardly conducive to development planning which calls for initiative on a partnership basis on the part of the Central and State Governments. What is even more serious is the fact that there are no uniform terms and conditions relating to the distribution of Central loans among the states. The amount, the rate of interest and the duration of the loans vary widely as among states, thus, making the allotment of Central loans to states depend upon the former's whimsical impressions about the latter. Of course, considering the diversity of Indian states in matters of necessity for resources and their ability to repay the loans, it is in the fitness of things to ensure sufficient flexibility in the Centre's policy in this regard. However, the same diversities which require initiatives suiting the respective conditions without compromising the sense of self-reliance and self-respect also call for a set of criteria which ensure a fair degree of objectivity. The absence of such criteria at present cramps the sense of responsibility of the states.

Moreover, the major institutional lenders such as the Reserve Bank of India, the scheduled banks, and the Life Insurance Corporation of India are under the policy directions of the Central Government.

The iniquitous nature of the central grip over state plans is more glaringly discernible in the case of externally financed projects. Even in cases where the funds are advanced by the concerned external agency as a grant, the Centre releases to the states only a portion of the funds, and that, too, a certain part as grant and the remaining part as loan. Though the rationale of such a policy has been questioned since long back, the Union Government does not seem to have found it necessary to change it.

The secondary importance attached to the states in the planning process can be discerned from the fact that even though the <u>inter se</u> distribution of Central assistance to state plans is governed, from the Fourth Plan onwards, by the objectively devised Gadgil Formula, there is no formula for sharing the aggregate national plan outlay between the Centre and the States. As things stand at present, the States' share is a residue arrived at after meeting the requirements of the Central Ministries.

It appears that the above situation which has inexorably given rise to a "bottom-down" approach to economic planning could not have been visualised at the time of framing the Constitution, for the attention of the leaders seems to have been focused almost exclusively on the quantum and pattern of Central assistance with practically no thought given to the question of state autonomy in the matter of planning.

This might be probably due to the fact that social and economic planning which is enshrined in the Constitution as a concurrent subject was supposed to provide sufficient scope for state initiative. However, experience has shown that "the Centre has entered the State and Concurrent fields in a big way through the fiscal and financial instrument at its command and converted a large number of the state subjects virtually to Concurrent if not Union subjects."[11]

From the foregoing account of the prevailing Centre-State relations, it is obvious that these relations place many limitations on state level planning. We have given a fairly detailed account of these limitations in order to avoid being unduly harsh in our criticism of the plan performance of the states. Nevertheless, the existence of these limitations should not be considered as solely responsible for the short-falls in the plan performance of the states, for, as will be shown later, the states in India do enjoy considerable functional freedom within the planning spheres earmarked for them. The crucial question, then, will be, have they exercised this freedom judiciously? If not, what are the imponderables against which they are helpless?

A few preliminary observations about Kerala economy

Planning in Kerala is subject to all the limitations that the Indian federal polity imposes on state level planning. In this sense, an account of its plan performance may give a general idea about state level planning in the country. However, to the extent that the state possesses certain unique characteristics which definitely influence the course of planning, the temptation to generalise from its experience for all the states in the country should be kept in check. In the following paragraphs, therefore, we present some of the salient features of the state's economy.

Usually, Kerala has been characterised as a 'problem state'. The twin problems confronting the state are food-shortage and chronic unemployment. As the state's domestic production of food accounts for only less than half the total requirements, the remaining quantity has to be 'imported' from other states. Unemployment, whose level is the highest and which causes growing social and political unrest, is related to the structural characteristics of the state's economy. Land-man ratio is the lowest in the country and scope for any significant extension of the net area under cultivation is non-existent. In the case of the services sector, the saturation point has already been reached. At the same time, the industrial sector, whose expansion is the ultimate solution for unemployment, does not show any tendency to expand.

As far as public expenditure is concerned, the state has the characteristic of a welfare state with substantial expenditures on social services and social welfare programmes. Expenditure on social services, taken as a proportion of total budget expenditure, is the highest whereas the proportion claimed by administrative purposes (general services) has been comparable with that of other states. Obviously, the proportion on economic service is much smaller and had been declining over the years. As the expenditure on economic services is meant for the building and maintenance of productive assets, this pattern of expenditure conclusively shows the inadequate attention given to the productive base of the economy which continues to remain fragile. Thus, the enormous expansion of the services sector has been at a very high cost, viz., the declining attention devoted to the economic base.

Another important feature of the state's socio-economic lay-out is a well developed infrastructure. As far as road transport is concerned, the state occupies the pride of place among the Indian states. The state's development effort under the Five Year Plans has been concentrated on the exploitation and expansion of power and irrigation. Of the total plan expenditure, as high as one-fourth has gone into the power sector. However, as the state's power production is entirely hydro-based, the power system is crucially dependent on the monsoons. While the state enjoys some cost advantage in power generation, much remains to be desired in the case of transmission and distribution. The electricity supply in the state is notorious for unsteady supply and voltage fluctuations; and loss of power in distribution is the highest in the State. Also, there has been power theft on a significant scale. The state has witnessed intermittent load-shedding and power cuts (sometimes going upto 100 per cent) for high-and extra-high-tension consumers, i.e., the industries, resulting in loss of production and throwing thousands of industrial workers out of employment. It would seem that unsteady and unreliable power supply is one of the (if not the) major reasons for the tardy progress of industrialisation in the state. Productive consumption of electricity is the lowest in Kerala (in the case of both agriculture and industries). Also, it is of significance to note that most of the power projects are located in the central part of the former Princely state of Travancore.

Very high importance has been given to the construction of major and medium irrigation projects (the state has no multi-purpose irrigation projects) the majority of which are concentrated in the two districts of Palghat and Trichur.

Two alarming features of the development of power and irrigation projects in the state have been (1) the proliferation of projects and (2) the inordinate delay in their completion resulting in staggering time, and cost-over-runs. The selection of the projects is not based on any scientific criteria such as cost-benefit analysis. Large-scale, avoidable waste has been involved in the development of both power and irrigation.

The development of the infrastructure base has not, however, succeeded in motivating the private sector to undertake directly productive activities on any significant scale. In fact, a clear dichotomy exists between services and commodities. While social services, especially education and health, have expanded substantially, commodity production seems to have remained stagnant or increased only slowly as is exemplified by the 'import' of nearly all items of day-to-day use. Thus, Lewis' observation that due to differential supply elasticities, expansion of services need not necessarily lead to production of more commodities while the converse is most likely to happen seems to be empirically substantiated by the Kerala experience. Of course, the provision of social services raises the skill and productivity of labour; but due to the backward nature of the commodity producing sector, such labour cannot be productively absorbed within the state and hence, labour shows an ever-increasing tendency to migrate whenever opportunities arise. Thus, in a very crude sense, one can say that Kerala is a 'service-exporter' and a 'commodity-importer'.

It is in the field of education that Kerala is far ahead of other Indian states. The state spends nearly one-third of its budgetary expenditure on education. It has a wide network of educational institutions, mostly in the private sector. In fact, the field of education has been deftly used by a few pressure groups and their political spokesmen in the state as a manipulative lever for furthering their interests at very high public cost.

Kerala is a middle income state in terms of per capita income. However, in the matter of taxation, it stands close to the most advanced states such as Punjab, Haryana, Gujarat and Maharashtra. In its pattern of taxation, the principle of equity seems to have been given the go-by. While sales tax has increased enormously over time, the buoyant cash crop sector has been only tangentially taxed. This light tax burden, in addition to the heavy doses of subsidies flowing into that sector, is due to the political clout it enjoys.

As a result of the ever-increasing burden exerted on the revenue budget by the social services sector, the non-plan expenditure had been rising fast creating deficits on the revenue account and necessitating grants-in-aid under Article 275 of the Constitution on the basis of the recommendations of the Finance Commissions. The state, consequently, has earned, the dubious distinction of being a 'grant-in-aid state'. As the grant-in-aid recommended by the Finance Commissions used to be inadequate to wipe out the deficits (due to differences in the forecasts of revenue and expenditure made by the state Government and re-assessed by the Commissions), on many occasions, plan funds had to be diverted for closing the revenue gaps. Consequently, the State, ever since the commencement of planning, had to be content with smaller plans as is corroborated by the fact that the per capita plan expenditure used to be one of the lowest. At the same time, most often, the targets for additional resource mobilisation used to be over-achieved.

An important fact which deserves special mention in this regard is the decreasing scope for fresh initiative in planning. Nearly half the total budgetary expenditure of the state is incurred on the payment of salaries and wages. Another portion goes for the maintenance of the completed projects. The major chunk of the remaining resources has to be earmarked for the spill-over schemes, especially in the power and irrigation sectors. After meeting all these commitments, what becomes available for undertaking new schemes is meagre. It appears that, in the face of inadequate resources, fast-rising non-plan expenditure and the increasing claims of spill-over projects, a stage will soon be reached where the state is not able to take up any new projects while the economy is way behind achieving the targets set in various fields.

Of course, the public sector undertakings can generate surplus resources which can be used for plan purposes. However, ironically in Kerala, such undertakings, instead of generating surplus resources for deployment elsewhere, have become a liability to the general budget compelling people to question the very rationale of maintaining them.

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Notes and References

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Chapter 3

PRE-PLAN PATTERNS OF PUBLIC EXPENDITURE AND THEIR TENDENCY FOR PERSISTENCE IN THE PLAN PERIOD

It is believed that, theoretically, comprehensive national planning, to be successful, must be preceded by the establishment of the social ownership of the means of production and a levelling up of the socio-economic terrain of the country concerned, for planning is the essential integrating mechanism under socialism in the place of the market mechanism that is the nerve-fibre of a capitalist economy.[1] In socialist countries such as Soviet Russia, the planning process rests on the foundation of such ownership and is held responsible for their success in planned development.

On the other hand, in India which is committed to the attainment of a socialist pattern of society, this kind of a fundamental change did not take place before the introduction of planning.[2] Instead, planning was foisted on a system which was characterised by socio-economic diversities of various sorts.

In such a situation, the historical patterns, with all their consequences, may have a tendency to persist, notwithstanding the avowed intention of the planners to set new patterns. In the following paragraphs, we propose to examine this contention in the specific context of Kerala's experience during the first two plans, without trying to judge whether those patterns have been correct or not. This judgement is deemed unnecessary considering the fact that the very idea of planning presupposes the need for changing the status quo.

We limit our discussion in this chapter to the first two plans for the following reasons:

i. By the time the State of Kerala was formed in November 1956, the First Plan had already been over and the Second had become operative with effect from 1st April 1956. A new plan was not prepared for the newly formed State.

ii. A clear picture of the geographical dimensions, socio-economic problems and development potential of the State had emerged only by the time the exercise relating to the formulation of the Third Plan started. Hence, the Third Plan should be considered as the defacto First Plan of Kerala.

iii. On account of the above two, the first two plans constitute a definite stage in the planning process in the State.

In India, at the commencement of planned economic development in 1951, the different states remained at different levels of socio-economic development.[3] In matters such as geographical area, resources position, social organisation, structure of revenue administration etc., there were vast differences among them. Beneath such interstate differences lay vast intra-state differences as well thanks to a variety of historical reasons. It was in such varied and variegated situations that the concept of planning was introduced with the avowed objective of attaining growth with equity.

In the pre-Independence days, in addition to the investment programmes of private individuals and organisations carried on in response to the changing market signals, programmes of public expenditure, capital as well as revenue, were also undertaken in both the provinces and the native states. Such public expenditure programmes as were carried out then were not, however, based on any notions of balanced spatial development; rather, they were undertaken purely on the basis of development potential of the localities concerned and as adjuncts to the private sector, and hence, the less promising areas were left out. This was so due to the fact that maximisation of Government revenue rather than the welfare of the people at large was the motive behind such programmes.

Since many such programmes, at different stages of progress in 1951, automatically spilled into the plan period and pre-empted the investment resources, the claims of regions which did not have any such projects already under way, and which for the same reason deserved priority in a programme of development, were accorded only residuary importance. In situations of general budgetary constraints, those historical laggards became the first casualties.

The situation depicted above was the inevitable offshoot of the manner in which the First Five Year Plan was formulated. As has been widely recognised, that Plan was not a plan in the accepted sense of the term. It was mainly preparatory in character with the goals related more to the fulfilment of the immediate requirements than to any ideology or long-term perspective.[4] In fact, the Plan was drawn up after the plan period had begun bringing within it projects which had already been decided upon or were under execution in 1951.[5] Instead of fundamental socio-economic change, the accent was on the technical aspects of planning. In other words, the approach was hardly different from that of annual budgeting. In spite of all these limitations, the importance of the First Plan is indeed high by virtue of "chronological precedence and also because of the orientations it gave Indian planning at its inception".[6] These orientations, it may be remembered, have continued to cast their constricting influence on the scope of our planning ever since.

Unlike the First Plan, the Second Plan had an ideological framework, a clear perspective and a definite approach. At the ideological level, it was guided by the commitment to attain a socialist pattern of society. As far as strategy is concerned, the accent was on industrialisation with basic and heavy industries forming the core of the programme. Thus, the Second Plan marked a big leap forward in the planning process.

However, it must be emphasised that while the ideological garb of a socialist society was nothing but a camouflage for a mixed economy with an increasing accent on the public sector, the theoretical underpinning provided by the Mahalanobis model remained confined to the central plan, the State plans continuing to proceed on the patterns set in the First Plan. This unbroken continuity in the historical patterns had been due to the fact that most of the programmes included in the First Plan spilled into the Second Plan making priority claims in the matter of plan allocation. It may be mentioned that the staggering of the projects at the implementation level resulted in cost over-runs limiting the resources available for new projects in the hitherto neglected areas.

The constraining situation depicted above could be further deemed to have been exacerbated by the provision of social services like education and health at government cost. The very nature of the expenditure on these services is such that its revenue component is very high and hence the recurring expenditure on the revenue account goes on increasing over time. Since the pricing of these services bristles with innumerable problems, the returns from them are nominal. Thus, while the government's expenditure commitment increases, its revenue does not increase commensurately, constraining further its ability to mobilise additional resources for the plan. In this way, planning becomes a prisoner of the pattern of past development.

The indefinite locking of investment resources in big projects whose implementation gets unduly staggered and the rapid expansion of the social services sector through the government's budgetary support, along with the overall resource constraints, limit the scope for initiative for rectifying regional imbalances whose genesis is historical. Thus, notwithstanding the declared intentions of the Indian planners, spatial imbalances seem to have been built into the very strategy of our planning. We propose to examine here the extent to which this fact is exemplified by the experience of the various regions that constitute the present state of Kerala.

The present-day Kerala State had comprised three distinct administrative-cum-political units, viz., the princely states of Travancore and Cochin and the Malabar district of the Madras Presidency of British India. Socio-economic conditions and administrative arrangements differed significantly among these three regions, including differences in fiscal administration. While the revenue side is undoubtedly important and will be dealt with later, what is germane to our present purpose is to examine the differences, if any, in the pattern of public expenditure and see whether such differences had any impact on the process of resource allocation under the Five Year Plans. Let us examine the position in each region.

Travancore-Cochin

The princely state of Travancore used to incur large public expenditure on providing social services, especially education. As can be seen from Table 3.1, the claim of social services on the budgetary expenditure on the revenue account increased from Rs.59 lakhs in 1934 to Rs.206 lakhs in 1948. The major chunk of this expenditure (viz. Rs.47 lakhs in 1934 and Rs.150 lakhs in 1948) was incurred on education.

Table 3.1: Revenue Expenditure of the Government of Travancore

(Rs. in lakhs)

Categories	1934	1935	1936	3 year average 1934-36	1946	1947	1948	3 year average 1946-48
I. General Services	125.7 (54.3)	121.6 (52.8)	124.7 (50.2)	124.0 (52.4)	557.8 (63.1)	586.7 (53.5)	594.8 (62.4)	579.8 (59.3)
II. Social Services	58.8 (25.4)	60.5 (26.3)	63.6 (25.6)	60.9 (25.7)	213.4 (24.2)	249.9 (22.8)	205.7 (21.5)	223.0 (22.8)
2.1 Education	47.2 (20.4)	47.2 (20.5)	47.0 (18.9)	47.1 (19.9)	103.3 (11.7)	125.8 (11.5)	149.6 (15.6)	126.2 (12.9)
2.2 Health	11.6 (5.0)	11.6 (5.0)	13.2 (5.3)	12.1 (5.1)	33.9 (5.8)	43.9 (4.0)	44.5 (4.7)	40.8 (4.2)
2.3 Others	..	1.7 (0.7)	3.4 (1.4)	1.7	76.2 (8.7)	80.2 (7.3)	11.6 (1.2)	56.0 (5.7)
III. Economic Services	47.0 (20.3)	48.0 (20.9)	60.0 (24.2)	51.7 (21.9)	112.3 (12.7)	260.6 (23.7)	153.4 (16.1)	175.4 (17.9)
IV. Total	231.5 (100.0)	230.1 (100.0)	248.3 (100.0)	236.6 (100.0)	883.5 (100.0)	1097.2 (100.0)	953.9 (100.0)	978.2 (100.0)

Source: Travancore Budgets

Figures in brackets: per centages.

After the integration of Travancore and Cochin into the Travancore-Cochin State in 1949, public expenditure on social services increased substantially (from Rs.444 lakhs in 1950 to Rs.115 lakhs in 1956).

Table 3.2: Revenue Expenditure of the Government of Travancore-Cochin

(Rs. in lakhs)

Categories	1949 A/c (7½ months)	1950 RE	1951 BE	1954 A/c	1955 RE	1956 BE
I. General Services	439.7 (51.9)	624.8 (47.7)	741.7 (49.7)	673.3 (30.9)	777.6 (30.8)	798.3 (27.7)
II. Social Services	260.5 (30.7)	443.5 (33.9)	427.6 (28.7)	831.0 (38.1)	913.9 (36.2)	1155.1 (40.1)
2.1 Education	113.3 (13.4)	226.4 (17.3)	288.3 (19.3)	654.2 (30.0)	635.9 (25.2)	715.6 (24.8)
2.2 Medical and Public Health	47.2 (5.6)	87.1 (6.7)	131.2 (8.8)	116.3 (5.3)	150.3 (5.9)	226.9 (7.9)
2.3 Others	100.0 (11.7)	130.0 (9.9)	8.1 (0.6)	60.5 (2.8)	127.7 (5.1)	212.6 (7.4)
III. Economic Services	147.2 (17.4)	241.4 (18.4)	322.8 (21.7)	675.6 (31.0)	835.9 (33.0)	928.4 (32.2)
IV. Total Development Expenditure	847.4 (100.0)	1309.7 (100.0)	1492.1 (100.0)	2179.9 (100.0)	2527.4 (100.0)	2881.8 (100.0)

Source: Budgets, Travancore-Cochin

Figures in brackets: percentages.

The fact may particularly be noted that the expenditure on social services constituted as high as 40 per cent of the revenue expenditure in 1956, for as will be seen later, this had tremendous impact on the pace and pattern of public expenditure and resources mobilisation in Kerala. The single major item under this category the expenditure on which went on increasing considerably was education. Its share in total revenue expenditure formed 25 per cent in 1956.

This rise in the expenditure on education is understandable as provision of universal primary education was enjoined upon the Government under the Directive Principles of State Policy in the Constitution. For instance, the number of primary schools increased from 3,918[7] in 1950 to 4,400 in 1956.[8] Another noteworthy point is the near-doubling of the proportion of total revenue expenditure on Economic Services. As the revenue expenditure under Economic Services was meant for the maintenance of the productive assets built in the previous years, this high and increasing proportion indicate that high priority was attached to the maintenance of the assets already created.

Now, let us examine the capital expenditure on large schemes undertaken by the Government of Travancore-Cochin. Data adjusted for the period 1947 to 1949 are furnished in the Table below:

Table 3.3: Government of Travancore-Cochin - Capital Outlay on Large Schemes

(Rs. in lakhs)

Scheme	1947	1948	1949
Railways and Harbour			
Quilon-Thampanoor Railway	84.7 (8.8)	84.7(7.5)	84.7(6.9)
Shornur-Cochin Railway	84.8 (8.8)	118.1(10.5)	118.2(9.6)
Cochin Harbour	15.9 (1.7)	15.9(1.4)	15.9(1.3)
Communications and Navigation Canals			
Communications	45.0 (4.8)	43.7(3.9)	43.8(3.6)
Neendakara Bridge	5.3 (0.5)	5.2(0.5)	5.3(0.4)
The Bridge at Neriamangalam	4.3 (0.4)	4.3(0.4)	4.3(0.3)
Providing Dustless surfacing to M.S Road	15.1 (1.6)	15.1(1.3)	15.1(1.2)
Town Improvement Works			
Town Improvement Works (Cochin)	37.0 (3.8)	38.6(3.4)	32.1(2.6)

(Contd...)

Scheme	1947	1948	1949
Town Planning Scheme	27.4 (2.8)	27.9(2.5)	28.0(2.3)
Drainage Scheme	30.0 (3.2)	30.8(2.7)	31.9(2.6)
Electricity Schemes	--	--	6.8(0.6)
Trivandrum Electricity Supply	12.0 (1.1)	12.0(1.1)	12.0(1.0)
Pallivasal Hydro-Electric Scheme	497.3 (51.8)	562.9(50.1)	634.3(51.5)
Electricity Schemes (Cochin)	65.3 (6.8)	115.0(10.2)	132.0(10.7)
<u>Other Schemes</u>			
Telephone Scheme	27.0 (2.8)	36.5(3.3)	52.3(4.2)
Radio Broadcasting	2.4 (0.3)	2.4(0.2)	2.5(0.2)
Miscellaneous	7.2 (0.8)	10.3(0.9)	11.9(1.0)
Total	960.7(100.0)	1123.4(100.0)	1231.1(100.0)

Source: Government of Travancore-Cochin, <u>Statistics for 1125 M.E</u>

Figures in brackets: per centages.

The most striking feature of the pattern of capital expenditure on large schemes evident from Table 3.3 is the very high proportion of the total expenditure going to the power sector.[9] This proportion used to be more than 50 per cent of the aggregate capital expenditure. The power projects undertaken in the pre-Plan period were Pallivasal (1933), Peringalkuthu (1946) and Sengulam (1947).

Thus, we find that even in the pre-Plan days, the Travancore-Cochin State had attached very high priority to the Social Services Sector. Substantial expenditure on the revenue account used to be incurred on education. Also, high weightage was accorded to the maintenance of the assets built in previous years. Besides, large-scale capital expenditure programmes were undertaken, the power sector having the pride of place in such programmes.

Madras Presidency

Though in terms of population, Madras Presidency used to be third among the British Provinces, with regard to Government Budgetary expenditure on "nation building Services" (Education, medical and public health, agriculture and veterinary, industries, co-operation, and scientific departments), it used to top the list.[10]

Table 3.4: Revenue Expenditure of the Government of Madras

(in lakhs of rupees)

Year	General Services	Social Services: Education	Social Services: Health	Social Services: Total	Economic Services	Total
1921-22	881(69.2)	143(11.2)	84(6.6)	227(17.8)	166(13.0)	1274(100.0)
1922-23	900(71.4)	153(12.1)	64(5.1)	217(17.2)	144(11.4)	1261(100.0)
1923-24	896(70.9)	163(12.9)	64(5.1)	227(18.0)	140(11.1)	1263(100.0)
1924-25	935(71.4)	169(12.9)	85(6.5)	254(19.4)	120(9.2)	1309(100.0)
1925-26	959(69.8)	186(13.5)	88(4.5)	274(18.0)	140(10.2)	1373(100.0)
1926-27	971(68.5)	197(13.9)	92(6.5)	289(20.4)	157(10.1)	1417(100.0)
1927-28	994(66.4)	219(14.6)	92(6.2)	311(20.8)	193(12.8)	1498(100.0)
1928-29	1029(63.8)	261(16.2)	108(6.7)	369(22.9)	216(13.3)	1614(100.0)
1929-30	1056(62.7)	262(15.5)	118(7.1)	380(22.6)	249(14.7)	1685(100.0)
1930-31	1066(59.6)	297(16.6)	126(7.0)	423(23.6)	301(16.8)	1790(100.0)
1931-32	1027(63.2)	241(14.8)	111(6.9)	352(21.7)	245(15.1)	1624(100.0)
1932-33	1017(65.1)	242(15.5)	105(6.7)	347(22.2)	199(12.7)	1563(100.0)
1933-34	989(64.1)	248(16.1)	109(7.0)	357(23.1)	198(12.8)	1544(100.0)
1934-35	998(64.3)	252(16.2)	109(7.1)	361(23.3)	193(12.4)	1552(100.0)
1935-36	1025(64.8)	254(16.0)	113(7.0)	367(23.2)	191(12.0)	1583(100.0)
1936-37	1008(63.9)	256(16.2)	115(7.3)	371(23.5)	198(12.6)	1577(100.0)
1937-38	977(61.7)	258(16.3)	139(8.8)	397(25.1)	209(13.2)	1583(100.0)
1938-39	1001(61.8)	263(16.2)	129(8.0)	392(24.2)	228(14.0)	1621(100.0)
1939-40	1015(61.9)	265(16.1)	126(7.7)	391(23.8)	235(14.3)	1641(100.0)

Source: P.J. Thomas, op.cit. p.517 Table 15
Figures in brackets: Per centages.

The proportion of total budgetary expenditure going to the social service sector was not much lower than that in the Travancore-Cochin state. Thus, the three year (1934-36) average expenditure on social services constituted 23.3 per cent of the total budgetary expenditure in the Madras Province and 25.7 per cent in the Travancore-Cochin State. So was the case with the proportion of expenditure incurred on education (16.2 per cent for Madras and 19.9 per cent in the Travancore-Cochin State).

In the Malabar region also, there had been a large network of educational institutions (See Table 6.1 in Chapter 6 on Social Services). However, as the prevailing socio-economic situation permitted the entry into such institutions of the children of only the higher socio-economic sections, the educational facilities in that region remained largely underutilised.[11] An inevitable offshoot of this was that while the percentage of literacy in Travancore-Cochin was 54 in 1951, the corresponding figure for Malabar was only 31.[12]

Coming to the capital expenditure programme, it may be noted that massive irrigation projects were undertaken in the Madras Presidency during the pre-Plan days.

Table 3.5: Principal Irrigation Works of the Madras State

Name of Works	Year of completion	Total Capital Outlay (Rs. in lakhs)	Area irrigated (in thousand acres)
Cauvery Delta System	1889	87	1070
Godavary Delta System	1890	210	1229
Kurnool Cuddapah Canal	..	234	88
Pennar River Canals	1894	71	178
Periyar Systems	1897	108	202
Krishna Delta System	1898	227	1002
Lower Wlernom Aamicut	1903	230	123
Krishna east-bank Canal Extensions	1913	59	100
Cauvery Mettur Projects	1934	646	232

Source: Government of India, Planning Commission, First Five Year Plan

What is to be particularly noted from Table 3.5 is that not even a single project was undertaken in the Malabar region.

The neglect of Malabar in locating major projects continued. This is borne out by the details furnished in the following table.

Table 3.6: Irrigation and Power Projects in the Madras State

Project	Total Cost (Rs. in lakhs)	Expenditure (in lakhs of rupees) incurred upto March 1951
Irrigation		
Lower Bhavani	907	417
Malampuzha*	380	78
Mettur Canal Scheme	245	13
Rallapad Second Stage	58	2
Rompen Drains	96	59
Cauveri Delta Drainage Improvements	30	29
Manimuthar Project	398	4
Upper Perriar Project	84	..
Bhiravanitippu Project	93	..
Araniar Scheme	95	..
Walayar Scheme	100	..
Mangalam Reservoir	45	..
New GMM Scheme in charge of PWD	73	..
Tungabhadra	1820	806
Total	4424	1408

(Contd...)

*(Malabar)

Project	Total Cost (Rs. in lakhs)	Expenditure (in lakhs of rupees) incurred upto March 1951
<u>Power</u>		
Moyar Hydro-Electric Scheme	464	274
Pykara Third Stage Extensions	489	128
Papanasam Second Stage Extensions	336	130
Machlikund Hydel Scheme	682	184
Machlikund Transmission Lines	803	147
Madras Plan Extensions	1043	171
Nellore Therwal Scheme	101	53
Madras-Mettur Inter-connection	218	59
Transmission line and Distribution	2293	589
Tungabhadra Hydel Scheme	794	62
Acquisition of Electrical Undertakings	450	8
Total-Power	7773	1805
Grand Total Irrigation and Power	12197	3213

Source: Government of India, Planning Commission, <u>The First Five Year Plan, A Draft Outline</u>, July 1951

As is evident from Table 3.6, out of a total expenditure of Rs.32 crores incurred on irrigation and power projects upto 1951, the amount spent in Malabar was only Rs.78 lakhs, i.e., 2.47 per cent of the total. This amount was spent on the Malampuzha irrigation project the work on which commenced in 1948. What is specially noteworthy is that, of the many power projects, not even a single one was located in Malabar.

It is important to note in this connection that, of all the Part 'A' and Part 'B' states, Madras incurred the highest expenditure on irrigation and power. Thus, of the total expenditure on irrigation and power incurred in the various states of India upto March 1951, the share of Madras was 32 per cent. Taking only Part 'A' states, Madras's share was as high as 48 per cent.

First Five Year Plan

In the foregoing paragraphs, we have seen that large scale capital expenditure programmes were undertaken in the pre-plan period in both the Princely states of Travancore and Cochin and the Madras Presidency of British India and that the Malabar region was almost totally neglected in this regard. The major part of such expenditure was incurred on irrigation and power projects.

As many of the projects were remaining unfinished at the time of the introduction of the First Plan, inevitably such programmes had the first claim on the investment resources in the plan. Hence, it is only in the logic of the situation to expect a high proportion of the total plan expenditure to be earmarked for the major fields, viz., irrigation and power. This is evident from the following table which depicts development expenditure under the First Five Year Plan in Travancore-Cochin and Madras.

Table 3.7: Development Expenditure under the First Five Year Plan

(Rs. in lakhs)

Sector	Madras	Travancore - Cochin
Agriculture	1593.7(11.3)	545.1(20.0)
Veteninary and Animal Husbandry	100.0(0.7)	2.5(0.1)
Dairying and Milk Supply	50.0(0.4)	..
Forests	38.8(0.3)	60.0(2.2)

(Contd...)

Sector	Madras	Travancore - Cochin
Co-operation	100.0(0.7)	8.0(0.3)
Fisheries	100.0(0.7)	15.0(0.5)
Rural Development	200.0(1.4)	..
I. Agriculture and Rural Development	2182.5(15.5)	630.6(23.1)
Irrigation	3408.0(24.2)	478.0(17.5)
Power	5024.0(35.7)	1035.0(37.9)
II Irrigation and Power	8432.0(59.9)	1513.0(55.4)
Cottage Industries	116.9(0.8)	89.0(3.3)
Other Industries	85.1(0.6)	15.8(0.6)
III Industry	202.0(1.4)	104.8(3.8)
Roads	500.0(3.6)	150.0(1.5)
Road Transport	..	42.0(1.5)
Ports and Harbours	..	30.0(1.1)
IV Transport	500.0(3.6)	222.0(3.8)
Education	800.0(5.7)	20.0(0.7)
Medical	300.0(2.1)	120.0(4.4)
Public Health	900.0(6.4)	51.5(1.9)
Housing	300.0(2.1)	10.0(0.4)

(Contd...)

	Sector	Madras	Travancore - Cochin
	Labour and Labour Welfare		
	Amelioration of Backward Classes	467.6(3.3)	60.0(2.2)
V	Social Services	2767.6(19.6)	261.5(9.6)
VI	Miscellaneous	..	..
	Grand Total	14084.1(100.0)	2731.9(100.0)

Source: Government of India, Planning Commission The First Five Year Plan

Figures in brackets: Per centages.

As is obvious from Table 3.7, both in Travancore-Cochin and Madras, more than 50 per cent of the total plan expenditure was earmarked for irrigation and power. In Madras, it was as high as 60 per cent.

It is appropriate to note here the differences between the two States regarding the total plan outlays and their distribution among the various functional sectors. The total plan outlay in Madras was as high as five times that for the Travancore-Cochin State. In the case of expenditure on irrigation and power also, the differences were of the same order. Here again, the geographical dimension of the plan allocation should be noted. Out of the total outlay of Rs.8,432 lakhs for major irrigation in Madras, only Rs.448 lakhs, i.e. 5.6 per cent was earmarked for the Malabar region to be spent on the three irrigation schemes of Malampuzha (Rs.303/- lakhs) Walayar (Rs.100 lakhs) and Mangalam (Rs.45/- lakhs). Further, no power projects were started in the region.

Thus, the conclusion seems inescapable that the First Five Year Plan of Travancore-Cochin or of the Malabar area in Madras could hardly be called a plan; it was, rather, the continuation of the schemes which were already in operation at the time of the commencement of the plan. Consequently, Malabar which did not have any major projects at that time[13] failed to attract investment funds under the Plan on any significant scale.

By the time Kerala State was formed in November 1956 through the integration of the Travancore-Cochin State and the Malabar District of Madras Presidency, the Second Five Year Plan had already been finalised and had become operative with effect from 1st April 1956. For the integrated State, no new plan was formulated based upon its basic needs and development potentials.

Only the size of the plan was enlarged[14] without any structural modification in the composition thereof. However, the Plan size, too, was arrived at not in accordance with the principles of planning but through a process of negotiation[15] between the two governments of Kerala and Madras. In negotiation over the share of Malabar, the Madras Plan outlay was divided into two categories, viz., (i) "breakable items" and (ii) "non-breakable items". Schemes benefiting the whole State or specifically located in any particular place or attached to Head Quarters were treated as non-breakable; the others were considered as breakable. Malabar got its share only of the amount under "breakable items" proportionate to its population vis-a-vis the population of the whole of Madras State. In this scheme of division, therefore, its proportionate share in respect of "non-breakable items" was lost. Kerala, later on, regrettably felt that if the scheme was worked out on the basis of the per capita plan outlay in the Travancore-Cochin

State, or in other words, "if the Malabar area had formed part of Kerala at the time of the Second Plan being finalised on the basis on which allotment was made for the Travancore-Cochin Plan, the share in respect of Malabar area should have been Rs.43.3 crores instead of Rs.19 crores, thus making a total of Rs.111.3 crores for Kerala"[16] instead of Rs.87 crores.

The above facts corroborate the conclusion that "it cannot, (therefore), be said that the Second Five Year Plan, so far as Kerala is concerned, was formulated on the basis of any scientific or systematic appraisal of the requirements, resource and potentialities of the State".[17] Its immediate accent was on bringing the Malabar area on par with the Travancore-Cochin region in the matter of the provision of social services. This too was possible only within the severe constraints posed by the operation of historical factors. We have already noted that Malabar got as its share under the Madras Plan outlay much less than its due. Given the overall resource constraint, the only way to accelerate the pace of development in Malabar so as to enable it to catch up with the development attained by the Travancore-Cochin region was to reduce the outlay earmarked for the programmes in the latter region. This was impracticable and impossible as large volumes of investment resources had been committed on the big projects almost all of which spilled into the Second Plan. Thus, in the Second Plan also, the uninterrupted continuity of the historical course had to be accepted as an inexorable fact and, consequently, there was not much room for planning in the sense of initiating structural changes for the comprehensive and rapid development of the State as a whole.

The Debate of the 'Sixties

We have already observed that so far as Kerala is concerned, the first two plans could hardly be considered as well formulated blue-prints for the development of the State. Nevertheless, the contribution made by them should not be underestimated. Of the many such contributions, perhaps the most notable was the "Plan consciousness"[18] that they created not only in the Government organisation, but also among the public and its leaders. We were also able to realise our inadequacies with regard to the efficacy of the various executive departments of the State Government to carry out the varioud programmes of development.[19] Thus, in the course of the formulation and implementation of the first two plans, we acquired invaluable experience in the process of planning itself.

Another gain was that the meticulous dissection of the economy in the course of the two plans brought into sharper focus the major problems plaguing the State, viz. (i) chronic food deficit and (ii) massive unemployment. Against the backdrop of the experience gained in the first two plans, a well informed and detailed discussion ensued in 1960[20] on the appropriate solution and the strategy for its realisation. This debate continued for a long time and culminated towards the close of the 'Sixties in an exhaustive discussion questioning the very philosophy of planning hitherto pursued in the country. These prolonged debates, which we call the debates of the 'sixties' centred broadly on two themes, viz. (a) strategy of industrialisation and (b) the need for an alternative approach to planning.[21] These discussions elicited nationwide interest. In both the debates, the participants ranged from top level politicians of both the leftist and rightist parties to eminent and top-ranking economists of the day. In what follows, we present the major threads in the first debate postponing an examination of the other to a later stage.

The discussion on the strategy of industrialisation

The strategy of industrialisation had been subjected to detailed discussions at the national level at the time of the formulation of the Second Plan and the heavy industry-oriented industrialisation was recognised as the key-note of the central plan. Investment planning favouring the production of machines for the further production of machines had been accepted as the appropriate strategy conducive to generating and sustaining an accelerated process of long-run growth.

The significance of the discussion on the strategy of industrialisation in Kerala lies in the fact that it was for the first time that a thorough-going academic discussion took place on the relevance and feasibility of that strategy for planning at the State level. More than that, this was, in fact, for the first time that the various aspects of planning at the

State level became the subject of an intensive and wide-ranging discussion. From the specific point of view of Kerala, this was the first time that the burning problems of the State and the appropriate strategy for their resolution attracted such a wide spectrum of intelligent opinions.

A significant feature of the debate was that industrialisation was unanimously regarded as the ultimate solution for the spectre of unemployment perpetually haunting the State, while severe controversy raged over the question of strategy of industrialisation. Over the question of strategy, the views were sharply polarised as between an 'agriculture-first' group and an 'industry-first' group. Of course, this kind of a neat classification of the views expressed by the various participants in the debate is an oversimplification which may subsume many vital elements of an essentially complex socio-economic situation, for all the views expressed on the issue cannot be categorised neatly under these two groups; there was definitely a grey area in between. However, we accept this oversimplified frame merely to capture the perspective in which the debate was carried on.

The State Government then was firmly committed to the attainment of self-sufficiency in food during the Third Plan period. Hence, it vehemently advocated the policy of 'agriculture-first'. The best spokesman of this school of thought was R. Sankar, the Deputy Chief Minister and the Finance Minister[22] of Kerala in 1960 who, while underscoring the necessity for industrialisation had, nevertheless, serious reservations about pursuing a strategy of establishing large-scale industries straightaway on account of (a) the very high capital requirements of such industries in the context of capital shortage, and (b) their limited employment generation potential while the immediate need was to create enough employment opportunities so as to absorb the vast army of unemployed labourers. Posed against the nature and dimensions of the immediate problems facing the state, these reservations were not totally misplaced.

The State's domestic production of rice, the staple food of the people, used to be just about 50 per cent of the total requirements leaving a deficit of 50 per cent to be met through imports which entailed "huge drain on our resources" every year. It was maintained that if this drain could be stopped, the money thus saved could be diverted for rapid industrialisation. The pre-requisite to this was, of course, the attainment of self-sufficiency in food. While recognising the desirability of industrialisation, the starting of large-scale industries was shunned. Instead, in view of the lower capital requirements and high employment generation potential, development of small-scale industries was considered as the right course of action for the State to adopt. However, the whole question of industrialisation was considered as "a long-term process" arising only after attaining food self-sufficiency. The immediate accent was required to be on the development of agriculture which would necessarily enhance the employment potential of agricultural labourers and to some extent even of the educated people. Thus a gradualist approach was advocated starting from agriculture, through small-scale to large-scale industries.

The arguments of the gradualist school were forcefully refuted by the advocates of the 'industry-first' approach. The most notable advocates of this approach were E.M.S. Namboodiripad, V.K.R.V. Rao, Asok Rudra, P.S. Lokanathan and K.N. Raj.[23] Raj made the nuances of the approach abundantly clear when he observed in an unmistakable and forthright manner that "a programme for increasing agricultural productivity, however, desirable and feasible, cannot also by itself, provide additional employment opportunities for the growing working force; it can only at best give fuller employment to those who are already in it. In the ultimate analysis, therefore, the ability of Kerala to cope with the growing working forces, and to avoid having on its hands a volume of open unemployment without pattern in the rest of India, will depend on how quickly a programme of rapid industrialisation is launched".[24] Of course, Raj recognised the necessity for promoting small-scale industries on account of their larger employment generation potential. However, according to him, a long chain of such industries is likely to come up and flourish only around vast complexes of large and medium scale industries; and, moreover, only if they are vertically linked with the latter. Thus, the role of large and medium-scale industries as the fulcrum of a programme of industrialisation was recognised and advocated.

E.M.S. Namboodiripad, a former Chief Minister of the State and a prominent Marxist theoretician, expressed views similar to the ones advocated by Raj. Taking stock of the leaps and lags of the Kerala State in the course of the first two plans, Namboodiripad observed that "the acute problem of unemployment which our people are facing is the result of the lack of industrialisation. Creation of more employment opportunities for a fast-growing population in the fields outside agriculture will alone enable us to cease to be a problem for ourselves and a problem for the whole country. It would, therefore, seem obvious that our State, like the rest of the country, has to take the path of rapid industrialisation as the only way out of the problems which face today".[25]

The National Council of Applied Economic Research which conducted a detailed techno-economic survey of Kerala early in 1960 at the request of the State Government to assess the technically feasible and economically viable potential for growth in the different sectors of the State economy over the ensuing decade (1960-70) forcefully argued against the strategy geared to food self-sufficiency.[26] It advocated an investment programmes with the accent on the production of the means of production meant for producing more means of production. The strategy recommended, taking into account the State's socio-economic conditions, was to place the major emphasis on the large-scale expansion of engineering industries as (1) they are high-value adding industries, (2) they would cater to regional demand for instruments, tools and other engineering goods, and (3) they have comparatively low capital-output ratio, viz. 2:1. A large-scale expansion of engineering industries was considered to be helpful for improving the technological level of other industries and agriculture in Kerala. The rapid spread and use of better equipments, tools and machines would result in all-round increases in productivity and production. Such increases in the production of grain through productivity increases would obviate the need for import of foodgrains in the long-run, though in the initial stages food imports would be unavoidable. If, on the contrary, the planned efforts were directed to the immediate purpose of attaining food self-sufficiency, it may be possible to stop food imports but the long-run growth of the economy as a whole would be hampered. Consequently, the State would never be able to get out of the rut of underdevelopment.

Of course, the Council was not oblivious to the fact that Kerala would have to import many of the raw materials required by the engineering industries from other parts of India over long distances. However, it maintained that history is replete with examples of countries having successfully embarked upon industrialisation based upon raw material imports. Kerala itself exports many kinds of raw materials for use in industries elsewhere. At the same time, Kerala possessed cheap electric power which can boost the development of many an industry. Since the forward linkages far outweigh the backward ones, a strategy of industrialisation which necessitated the import of some of the raw materials was only sure to strengthen the sinews of growth in the various sectors of the State's economy.

In the foregoing paragraphs, we made an attempt to examine the hypothesis that certain patterns, evolved in the pre-plan days, had a tendency to persist through the first two plans in spite of the planners' intention to set new patterns. In the course of the discussion, we observed that the natural tendency for this persistence seems to have got strengthened by the very logistics of our planning process and, in turn, limits the scope for fresh initiative in planning. However, as far as Kerala is concerned, the significance of the first two plans lies in the fact that the experience gained helped the initiation of a serious debate on the definite strategy of development required for altering the historical patterns. Thus, towards the close of the Second Plan, the state had obtained a clear perception of its problems and the appropriate strategy for their resolution. In the following chapter's, we propose to take a detailed look at some specific sectors and aspects to see whether that perception has been translated into concrete action in our planning efforts.

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Notes and References

1. Maurice Dobb in the "Introductory Note" in Mikhail Bor, Aims and Methods of Soviet Planning, Lawrence and Wishart London, 1967. "As far back as the early nineteenth century, the French philosopher Saint Simon concluded that to plan on the scale of an entire society, there must be social ownership of the main means of production. When the decisive means of production became public property and State agencies for directing them were organised, it became possible to draw up economic plans for separate sectors and industrial areas" -- Mikhail Bor, op.cit., pp.18-19

2. "The First Plan stressed that the Plans had to work within the framework of India's Constitution which was democratic. When the plan was debated in Parliament, Nehru urged that the Planning Commission had to work under a few limitations. One of these was the Constitution, another related to this was that the Commission did not proceed on the basis of sweeping away the present economic and social structure of the country (Lok Sabha Debates, Part II, Vol.16, 1951, Col.5044)" -- V.K. Nataraj, "The Political Economy of Indian Planning: A Review of the First Three Five Year Plans" in Government of Kerala (GOK hereafter), State Planning Board (SPB hereafter), Alternate Policies for the Fourth Five Year Plan, 1969. This publication by the Board contains the papers presented at the Seminar organised by it in Trivandrum on October 9-12, 1968. The conclusion of the Seminar was that the crisis of Indian Planning (as evidenced by the declaration of plan holidays after the Third Plan) had been due to its being carried out within the framework of a Constitution which guarantees private property as a fundamental right, as most often, it obstructs the fuller utilisation of the natural and human resources for the development of the economy. In fact, the existence of the unlimited right to private property is fundamentally opposed to the spirit of planning.

3. O.P. Mahajan, "Balanced Regional Development: An Evaluation of Planning Strategy in India", in M.Y. Mathur, (ed), Regional Inequalities in India. An Inter-State and Intra-State Analysis, Society for the Study of Regional Disparities, New Delhi, 1982.

4. GoK, SPB, Review of Plan Schemes (1961-62 to 1968-69), May 1972, p.1.

5. Government of India, Planning Commission, First Five Year Plan, A Draft Outline, 1951, Chapter 1. Summarising his discussion of the First Plan, D.R. Gadgil observed that "Thus, in all important respects, in coverage, in correctness, and in degree of integration, it fell short of what may properly be expected of a planned economic development....the major achievements of the First Five Year Plan were not planned at all" -- D.R. Gadgil, Planning and Economic Policy, Bombay, 1963, pp.21-43. Real planning was said to have begun only with the Second Plan, Jawaharlal Nehru cited in P.T. Bauer, Indian Economic Policy and Development, Allen and Unwin, 1962, p.30.

6. V.K. Nataraj, "The Political Economy of Indian Planning. A Review of the First Three Five Year Plans", in GoK, SPB, Alternate Policies for the Fourth Five Year Plan, 1969.

7. Travancore-Cochin Government, Annual Report of the Education Department, 1950-51, p.5

8. Travancore-Cochin, Second Five Year Plan. First Year Programme, p.55.

9. Travancore is one of the earliest to develop hydro-electric power in India. The first scheme to be taken up was the Pallivasal Hydro-Electric Project which was begun in 1933. The first stage of the project was completed in 1940 and 13,500 K.W of power generated -- GoK, Second Five Year Plan, 1958, p.24.

10. <u>Expenditure on Nation-Building Services in the Provinces in 1937-38 and 1939-40</u>

Province	Population (millions)	Expenditure 1937-38 (lakhs)	% to total expenditure (%)	Expenditure in 1939-40 (budget) (Lakhs)	% to total expenditure (3)	% increase or decrease	Expenditure per 1000 population (1939-40) Rs.
Madras	44.5	452	30.12	467	28.65	+ 3.3	1049
Bombay	18.0	254	20.75	329	25.65	+29.5	1828
Bengal	50.1	265	22.37	335	22.94	+26.4	669
United Province	48.4	316	25.72	399	29.20	+26.6	824
Punjab	23.6	309	26.98	344	28.83	+11.3	1458
Central Province	15.5	95	20.44	102	21.18	+ 7.4	658
Bihar	32.4	131	27.23	149	28.39	+13.8	460
Orissa	8.3	42	24.30	47	23.49	+11.8	566
Assam	8.6	19	24.99	73	24.49	+ 5.8	849
Sind	3.9	50	14.21	55	14.64	+ 9.6	1410
N.W.F.P.	2.4	35	19.84	40	21.75	+14.5	1667

Source: P.J. Thomas, The Growth of Federal Finance in India. Being a Survey of India's Public Finances from 1883 to 1939, Oxford University Press, 1939, p.437.

11. See Chapter 6.

12. <u>Report of the All India Educational Survey. Kerala State</u>, 1965-66, p.8.

13. GoK, <u>Second Five Year Plan Kerala</u>, 1958 p.xi

14. By "setting of a sum of Rs.4 crores as the share of the Southern Taluks of Travancore District (which were added to the Madras State) and adding a sum of Rs.19 crores for the Malabar area which was added to Travancore-Cochin from Madras. To the plan outlay of Rs.68 crores for the residuary Travancore-Cochin area, a sum of 19 crores was added and the size of the Kerala plan was fixed as Rs.87 crores" -- GoK, Planning Department, <u>Second Five Year Plan Kerala, Review of the Progress of Scheme</u>, 1963, p.1.

15. Of course, "in consultation with the Planning Commission" -- Ibid.

16. GoK, Third Five Year Plan, Policy and Programmes, p.11.

17. Ibid.

18. GoK, Second Five Year Plan Kerala, 1958, p.xii.

19. Ibid.

20. Omcherry N.N. Pillai, (ed), Planning for Prosperity in Kerala, the Delhi Malayali Association, New Delhi, 1960.

21. GoK, SPB, Alternate Policies for the Fourth Five Year Plan, 1969.

22. R. Sankar, "Plea for a Fair Deal in Third Plan" in Omcherry, op.cit. Also see Government of Kerala Budget 1960-61. Deputy Chief Minister's Speech.

23. See the articles in Omcherry, op.cit.

24. K.N. Raj, "Approach to the Planning of Kerala's Economy" in Omcherry, op.cit.

25. See Namboodiripad's article in Omcherry, op.cit.

26. Techno-Economic Survey of Kerala, National Council of Applied Economic Research, New Delhi, 1962.

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Chapter 4

PLAN ALLOCATION AND EXPENDITURE UNDER THE STATE PLANS IN KERALA - A TEMPORAL AND SECTORAL OVERVIEW

Owing to the immensity of problems and the scarcity of investment resources, the choices involved in investment planning in a developing economy are numerous as well as complex. The choices are to be made at each of the following major levels, viz., (i) the level of investment, (ii) sectoral allocation of resources, (iii) project selection and (iv) spatial location of projects. These four types of choices cannot be made successively, each in isolation from the others; rather, they will have to be made simultaneously.[1] In this chapter, we intend to briefly look into the forces underlying sectoral allocation of resources under the State Plans in Kerala while postponing a discussion on the other aspects to a later stage.

The question of sectoral allocation of investment resources assumes great significance due to sectoral interdependence, Sectoral disproportionalities can distort the course of development envisaged in the perspective as well as the medium plan.

The concept of sector connotes different things in different contexts. The conventional categories based on the nature and origin of the products consist of the primary sector (i. agriculture and allied services, and ii. irrigation, flood control and anti-sea erosion); secondary sector (i. power, and ii, industry and minerals); tertiary sector (i. transport and communications, ii. social services, and iii. others). The peculiarity of this categorisation is that the various items included under the same category do not play the same role in the development process; some may relate to the production of goods and services which are meant for direct and immediate consumption; some relate to the production of capital goods for the production of consumer goods; and still others relate to the production of capital goods for the further production of capital goods. These various items have different implications for development. An investment programme assigning the highest weightage to the production of capital goods for the further production of capital goods may entail a present shortage of consumption goods but ensures sustained future development while another placing accent on the production of consumption goods may eliminate immediate shortage but retards future growth.[2]

A U.N. study classifies investment into (i) "physical infrastructure" or "overhead capital for the economy as a whole" (such as transport, power etc.) and (ii) "directly productive activities" (such as agriculture, manufacturing, industries, etc.)[3]

From the point of view of analysing development, the U.N. classification appears to be more suitable. However, there is a serious gap in this scheme, viz., the omission of the investment in what Hla Myint calls the "Social Infrastructure",[4] i.e., investment especially in education and health. In our treatment of the problem of sectoral allocation we adopt the UN classification along with "social infrastructure". The operational difficulty[5] that arises here must be borne in mind. In the context of resource allocation, while everybody invariably speaks of the necessity for an optimum allocation, nobody tries to answer the important practical questions such as (1) what is this optimum allocation? and (2) how is it attained?[6] However, as a rule of thumb, it can be postulated that the question as to which sector should play the leading role in the development process cannot be decided independently of the level and structure of development attained by the economy in question, the relative strength of the private sector, and the objective sought to be realised through the plans.[7] For instance, a country, whose people are illiterate, ignorant, superstitious and of ill-health, must accord the first priority to the development of social infrastructure. Notwithstanding this fact, it is generally agreed that in an economy committed to the attainment of rapid development, the first priority should go to the development of physical infrastructure so that the productive capacity of the economy is enhanced on a sustained basis. This is all the more so in a mixed economy where the private sector is expected to respond to the incentives provided by the public sector mainly, in this context, through the provision of facilities which tend to effect a downward shift in the cost curves. Thus, the chief determinants of the investment priorities in a planned economy are the objectives sought to be achieved through the plans.

In the light of the above general considerations, we propose to look into the sectoral allocation of resources under the various plans in Kerala.

Before we make such an attempt, however, a few preliminary observations seem to be in order so that the problem can be placed in its proper setting. Kerala is both typical of other underdeveloped Indian states in some respects and unique in some other respects. Hence, it provides an interesting case for the study of sectoral allocation of resource under State plans in India.

At the time of the formation of the State in 1956, Kerala was a backward agrarian economy with a very low per capita income, (the lowest in the country)[8] and vast regional diversities in the levels of socio-economic development and institutional arrangements. Both economically and socially, Malabar was more backward than the Travancore-Cochin State. There were considerable variations between the three constituents of the present state in the matter of agrarian relations.[9] These are shown in the Table below:

Table 4.1: Composition of Agricultural Population by Relationship to land -- 1951

Category	Travancore State	Cochin State	Malabar District
Cultivating Landowners	53.3	19.0	12.7
Tenants	10.2	28.1	39.3
Agricultural Labourers	34.6	48.9	44.0
Rent-receivers	1.9	4.0	4.0
All	100.0	100.0	100.0

Source: Centre for Development Studies, Trivandrum, Poverty, Unemployment and Development Policy. A Case Study of Selected Issues with Reference to Kerala, United Nations, 1975, p.57.

With the coming into power of a Communist Ministry through popular elections (a unique experience in the history of the whole world), the agrarian movements of the pre-Reorganisation period culminated into an "outlook for more radical and effective land reforms" which, thereafter, became "the centre-piece of the programme for social and economic progress in the State".[10] Accordingly, "a comprehensive set of land reform (was) embodied in the Kerala Agrarian Relations Bill introduced towards the end of 1957.[11]

The two major problems continuing to evade solution were food-shortage and unemployment; while the State had the lowest per capita food production, it had the highest unemployment level in the country. The land-man ratio being the lowest, the scope for the extension of the area under cultivation was limited and any increase in the production of foodgrains was possible, given the cropping pattern in the State, only through intensive cultivation. Further, since the agricultural sector was already overburdened, industrialisation was considered to be the only solution for the intractable problem of massive unemployment. Hence, the elements of an appropriate development strategy were clear, viz., rapid industrialisation and intensive agriculture. An ideal climate for the pursuit of such a strategy was already in existence in the form of a well developed social services sector inherited from the past and a brilliant and hard-working labour-force remaining ready for productive employment.

The major features of the Kerala economy we enumerated above so as to better appreciate the objectives that are set to be realised through the plans, for, as was already observed, it is the plan objectives which are the major determinants of the investment priorities in a planned economy.

The major objectives sought to be achieved under the Five Year Plans of Kerala are (1) rapid growth, (2) maximisation of foodgrains production, (3) creation of employment opportunities, and (4) reduction of regional disparities.[12] As is well known, many of these objectives are mutually conflicting. Nevertheless, they have to be pursued simultaneously due to the compulsions of planning in a democratic society in which various socio-economic groups have conflicting interests whose accommodation in some manner is an essential precondition for any planning at all.

Let us examine what kind of investment priorities the State fixed for the realisation of the above objectives. It may be mentioned in this context that all the Five Year Plan documents of Kerala do not mention the order of investment priorities envisaged; it is mentioned only in the case of the Third, Fourth and Fifth Plans. In the Third Plan, the first priority was envisaged to be given to Agriculture and Irrigation;

the second priority to Power, and Industry and Minerals; and the third priority to Social Services.[13] Let us see to what extent these priorities were observed in the allocation of the actual plan expenditure.

As is seen from the table below, in contrast to the priorities determined, in the case of actual expenditure, the highest proportion was incurred on

Table 4. 2: Allocation of Plan Expenditure - III Plan (in percentage)

1. Agriculture and Irrigation	28.7
2. Power and Industry and Miberals	41.3
3. Social Services	30.0
Total	100.0

Source: Government of Kerala, State Planning Board, Draft Seventh Five Year Plan 1985-1990 and Annual Plan 1985-86, Vol.I.

Power, and Industry and Minerals, the next on Social Services and the lowest proportion went to Agriculture and Irrigation. Similarly, in the Fourth Plan, though the first priority was sought to be assigned to the directly productive activities,[14] in the actual expenditure such activities occupied only the third position (See Table 4.3 below). Again, as against the first priority (nearly 40 per cent) for industry envisaged in the Fourth Plan,[15] the actual expenditure constituted only 7.5 per cent of the total plan expenditure. Thus, the pattern of plan expenditure actually undertaken does not have any relation to the priorities stipulated in the plans. It is then pertinent to know the factors determining that pattern. Let us, therefore, take a close look at the expenditure pattern under the various plans so that we may get an integrated view of the allocation process. The relevant data are set out in Table 4.3 below.

Table 4.3: Sector-wise Distribution of Plan Allocation and Expenditure in Kerala (Rs. in crores)

Plan Period	Directly Productive Activities		Physical Infrastructure		Social Infrastructure		Total	
	Allocation	Expenditure	Allocation	Expenditure	Allocation	Expenditure	Allocation	Expenditure
I Plan	7 (23.3)	3(11.5)	21(70.0)	19(73.1)	2(6.7)	4(15.4)	30(100.0)	26(100.0)
II Plan	23 (26.4)	19(23.8)	40(46.0)	40(50.0)	24(27.6)	21(26.2)	87(100.0)	80(100.0)
III Plan	60 (35.3)	51(28.0)	70(41.2)	88(48.4)	40(23.5)	43(23.6)	170(100.0)	182(100.0)
Annual Plans	48 (33.8)	51(35.4)	69(48.6)	65(45.1)	25(17.6)	28(19.5)	142(100.)	144(100.0)
IV Plan	78 (30.2)	81(24.3)	130(50.4)	174(52.3)	50(19.4)	78(23.4)	258(100.0)	333(100.0)
V Plan	177 (31.1)	135(27.8)	263(46.2)	232(47.7)	129(22.7)	119(24.5)	569(100.0)	486(100.0)
Annual Plans	117 (29.8)	137(31.9)	187(47.6)	183(42.7)	89(22.6)	109(25.4)	393(100.0)	429(100.0)
VI Plan	518 (33.4)	500(31.6)	701(45.2)	699(44.2)	331(21.4)	384(24.2)	1550(100.0)	1583(100.0)
Total	1028 (32.1)	977(30.0)	1481(46.2)	1500(46.0)	690(21.7)	786(24.0)	3199(100.0)	3263(100.0)

Source: As for Table 4.2

Figures in brackets: percentages.

An important feature of the sectoral allocation of plan resources as presented in Table 4.3 above is the highest proportion going to the development of physical infrastructure. As high as 46 per cent of the aggregate plan expenditure over the period 1951-52 to 1984-85 has been incurred for that purpose. 30 per cent of the aggregate expenditure was on directly productive activities and 24 per cent on social infrastructure. The share of physical infrastructure had been consistently the highest in all the plans. In the first plan, it was as high as 73 per cent. This fact needs to be noted against the background of the observations made in Chapter 3, viz., (1) that the first plan was nothing but a compendium of the projects under execution in 1951 (i.e the allocations were in accordance with the existing inter-and intra-sectoral balances); (2) that among such projects, power and irrigation (constituents of the physical infrastructure) had the overwhelming importance; and (3) that since many of the projects spilled into the successive plans, their priority for resources had to be conceded. Thus, it appears that the prominence of physical infrastructure in the matter of expenditure over the successive plan periods has been the result of the temporal extension of a certain historical pattern rather than a planned one.[16] As will be seen later, it is a cruel irony that the overwhelming weightage attached to the expansion of physical infrastructure, instead of strengthening the productive base of the economy, acts as a fetter on the scope for planning, and instead of generating more resources, has become a vampire sucker of the available resources.

Another point which emerges from the Table is that while in the case of directly productive activities, the actual expenditure fell short of the allocation in various plans, in the case of physical infrastructure and social infrastructure, it is the other way round.

Having seen the pattern of sectoral allocation of plan resources, let us now turn to a brief examination of our financial progress under the plans. The position in this regard is discernible from Table 4.4 below.

Table 4.4: Percentage Sectoral Distribution of Plan Allocation and Expenditure in Kerala

Sector	I Plan		II Plan		III Plan		Annual Plans		IV Plan		V Plan		VI Plan		Total I to VI Plan	
	Allocation (%)	Expenditure as a % of allocation	Allocation (%)	Expenditure as a % of allocation	Allocation (%)	Expenditure as a % of allocation	Allocation (%)	Expenditure as a % of allocation	Allocation (%)	Expenditure as a % of allocation	Allocation (%)	Expenditure as a % of allocation	Allocation (%)	Expenditure as a % of allocation	Allocation (%)	Expenditure as a % of allocation
1. Agriculture and Allied Services	19	44	18	87	24	85	25	103	20	91	19	71	22	91	21	88
2. Co-operation	1	46	1	53	1	84	1	87	1	12	1	74	1	133	1	120
3. Irrigation and Flood Control	18	88	12	103	9	99	9	99	12	108	16	91	18	98	16	102
4. Power	39	89	27	93	26	140	33	89	30	141	23	85	20	101	23	98
5. Industries and Minerals	4	45	8	88	10	84	6	132	8	113	11	88	10	103	10	108
6. Transport and Communications	9	130	5	129	6	110	6	117	7	156	7	92	7	101	7	109
7. Social and Community Services	10	128	27	85	22	109	18	105	20	154	21	91	20	116	20	113
8. Economic Services	--	--	1	35	1	104	1	51	1	107	1	53	1	96	1	82
9. General Services	--	--	1	78	1	113	1	133	1	72	1	119	1	120	1	112
10. Grand Total	100	86	100	92	100	107	100	101	100	129	100	85	100	102	100	102

Source: As for Table 4.3.

As is seen from Table 4.4, the aggregate plan expenditure during the entire plan period (I to VI Plan) has been Rs.3,300 crores as against an aggregate allocation of Rs.3,200 crores, showing that the expenditure has more or less conformed to the allocation. However, there have been wide inter-plan and inter-sectoral variations.

In the First Plan, the financial progress fell short of the plan provision by 14 per centage. This is quite understandable, considering the fact that we were quite new to the concept of planning and the administrative machinery of the State Government was not fully equipped to take up the new challenge thrown up by the introduction of development planning.

In the Second Plan, the situation improved significantly. None-the-less, there was a shortfall of 8 per cent in the State's plan expenditure. Various factors were responsible for this. State's reorganisation, frequent changes of Government, the problem in the wake of reorganisation like integration of laws, administrative reorganisation and integration of personnel, and the slow growth of implementing capacity were the most important among them. However, the significant deviation of plan expenditure from the allocation during the Fourth and Fifth Plans may also be noted; the Fourth Plan witnessed an excess of expenditure to the tune of 29 per cent, while in the Fifth, there was a shortfall by 15 per centage. Obviously, lack of experience in planning cannot account for the deviations in the Fourth and Fifth Plans. However, at this juncture, we do not propose to go into this question in great detail. It will be considered in a later chapter on financial performance under the plans.

Now, coming to the inter-sectoral variations in the financial progress, considering the major items, it is seen that, in general, the expenditure on agriculture and power fell short of, whereas that on social services exceeded, the plan provisions. Perhaps the most striking is the fact that the actual expenditure on power upto the end of the Sixth Plan is only 88 per cent of the plan provision. This fact is in sharp contrast to the general impression that in the case of power projects, there is an eternal tendency for actual expenditure to exceed the plan provision.. However, at this juncture, we do not propose to go into the detailed aspects of this. These will be considered in Chapter 5.

The excess of expenditure over the plan provision is the highest in the case of social services. Within the social services sector, education accounts for the largest excess, viz., 37 per cent of the allocation over the plan period. The case of education is unique in this regard, in that in every Plan, excepting the First, the actual expenditure far exceeded the plan provision. In the Fourth Plan, the excess was as high as 63 per cent. Thus, one can make the assertion that in terms of financial progress, whereas the 'education sector' had a taut plan, the other 'sectors', especially power and agriculture had a 'slack plan'.

In conclusion, we can say that the sectoral allocation of expenditure under the State plans in Kerala has not conformed to the investment priorities envisaged in the plans. Instead, it has proceeded along a pattern which has been historically set and from which a deviation, given our approach to planning, seems to be rather impossible.

Regarding financial progress under the plans, it is seen that though the aggregate expenditure has more or less conformed to the allocation over the period 1951-1985, there have been wide inter-plan and inter-sectoral divergences between the two.

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Notes and References

1. Everett E. Hagen, "The Allocation of Investment in Underdeveloped Countries: Observations Based on the Experience of Burma", in Jan Tinbergen, et al. (ed), Investment and Economic Growth, Asia Publishing House, 1961.

2. "....In Paul Baran's treatment of economic development and its problems in his influential work, The Political Economy of Growth, this 'heterodox' principle is virtually treated as an axiom of economic growth" -- Maurice Dobb "The Question of Investment Priority for Heavy Industry" in Dobb Papers on Capitalism, Development and Planning, Allied Publishers, Private Ltd., 1967. "Large investment in producers' goods industries is tantamount to high rates of growth sustained during the entire planning period and correspondingly a programme directed towards economic development via consumers' goods industries implies automatically not only smaller initial investment but also much lower rates of ensuing growth" -- Paul Baran, The Political Economy of Growth, p.284.

   The first economist to focus attention on the relationship between consumer goods and producer goods industries in a plan for rapid economic growth was the Soviet economist Feldman whose model was published in the USSR in 1928. His conclusion was that to begin a process of rapid economic growth, it was necessary to expand rapidly the capacity of the producer goods industries. This capacity is one of the constraints limiting the rate of growth of an economy. As economic planning is largely concerned with the removal of constraints to rapid economic growth, in its early stages, a prominent role is often played by the rapid development of the producer goods sector. This was recognised by the Indian economist Mahalanobis (1953) at the start of Indian Planning, Michael Ellman, Socialist Planning, Cambridge University Press, 1979, pp.122-127.

3. United Nations, "Physical Infrastructure Vs. Directly Productive Activities" in Shanti S. Tangri and H. Peter Gray, (ed), Capital Formation and Economic Development, D.C. Heath & Co., Boston 1967.

4. Hla Myint, "Investment in the Social Infrastructure", in Shanti S. Tangri and H. Peter Gray, op cit.

5. "It is easier for economists to agree on the shortcomings of the private marginal product as a proper criterion for investment for society than on an alternative criterion" -- Tangri and Gray, op.cit., Part IV, The Allocation of Capital: Introduction, p.103. According to Harvey Leibenstein, "Given the present imperfect State of our knowledge with respect to the factors that are significant in economic development, it is impossible to come to a definite conclusion on this matter (of the correct investment policy for the economic development of underdeveloped areas)" "....it is still....very much an unsettled matter..... It would be foolish to make a specific investment allocation without taking into account the specific economic situation that the country finds itself in.....Given different views of economic development processes, we may (but need not always) arrive at different investment criteria". H. Leibenstein, "Why do we Disagree on Investment Policies for Development?", The Indian Economic Journal, Vol.V, No.Four, April 1958. "........there is no unique criterion for sectoral allocation which can be a guide to decision-making in underdeveloped countries" Samuel Paul, "Sectoral Allocation in Development Planning", The Indian Economic Journal, Vol.VIII, 1960-61. The difficulty is further reinforced by the fact that "economic reasoning cannot by itself offer criteria for choice between alternative patterns of economic development. Social and political considerations" are equally important" -- K.N. Raj, "Application of Investment Criteria in the Choice between Projects", The Indian Economic Review, No.2, Vol.III, August 1956.

6. Tangri and Gray, op.cit. Conclusion, p.144.

7. Government of India, Third Five Year Plan Draft Outline, p.29

8. GOK, Third Five Year Plan Draft Outline, p.29

9. For an excellent account of this, See T.C. Varghese, Agrarian Change and Economic Consequences: Land Tenures in Kerala 1850 to 1960, Allied Publishers, 1970.

10. Centre for Development Studies, Trivandrum, Poverty, Unemployment and Development. A Case Study of Selected Issues with Reference to Kerala, United Nations, 1975, p.59.

11. Ibid.

12. Reduction of regional disparities had been envisaged as an objective only from the Third Plan onwards.

13. GOK, Planning and Development Department, Third Five Year Plan Draft Outline, p.94.

14. GOK, Planning Department, Fourth Five Year Plan, pp.2-6.

15. GOK, SPB, Fifth Five Year Plan 1974-78 A Draft Outline, p.15.

16. This fact seems to lend credence to the view expressed by Hirschman that "....the principal areas of needed development are susually fairly obvious and the economist does not invent an investment pattern, but merely extrapolates the existing one...underdeveloped countries are characterised not only by a low rate of investment, but also by the low efficiency of much of the investment that is actually undertaken. This is due in part to the many false starts that will necessarily be made before an economy is really launched on a secure course". A.O. Hirschman, "Economics and Investment Planning: Reflections Based on the Experience of Colombia", in Jan Tinbergen, etal (ed), Investment Criteria and Economic Growth, Asia Publishing House, 1961.

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Chapter 5

PLAN PERFORMANCE : IRRIGATION AND POWER

In Chapter 4, we analysed the pattern of sectoral allocation of resources under the five year plans in Kerala and saw that, all along, the greatest emphasis had been on physical infrastructure. Next, we propose to take a closer look at our plan performance in terms of physical targets and achievements and the various problems involved in implementation. In this regard, we will concentrate our attention on irrigation and power and the social services sector which together claimed 61 per cent of the aggregate plan expenditure incurred over the period 1951-'52 to 1984-'85. In the present Chapter, we confine ourselves to irrigation and power postponing a discussion on our plan performance with regard to the development of the social services sector to the next Chapter.

(i) Major and Medium Irrigation

The rationale for Kerala attaching importance to irrigation in the five year plans rests on the conditions of agriculture in the State. The Achilles heel of the State is its food production, which is the lowest in the country.[1] The State has a perennial food-deficit. The pressure of population being the highest, Kerala has the lowest land-man ratio in the country so that the possibility of extending the area under cultivation is limited making intensive cultivation inescapable. Needless to say, the pre-requisite for intensive cultivation is the provision of regular and reliable irrigation. Of course, the state receives plentiful rainfall -- annually about 120" average. But the concentration of the precipi-tation in a few months makes it rather impossible to utilise the entire rain-water for agriculture.

However, till the Second World War, the acuteness of the food deficit situation was not keenly felt as adequate imports of rice were easily available from Burma.[2] The cessation of imports from Burma consequent on her domination by Japan, and the rapid growth of population made the food situation very precarious forcing the state to explore the possibilities of increasing internal production. Accordingly, the state began to accord high priority to the development of irrigation in the Five Year Plans as a means of enhancing agricultural productivity.

It is, of course, debatable whether it was inescapable for the state to go in for major and medium irrigation projects in view of the long gestation periods and high costs involved in such a strategy. At this juncture, however, we do not intend to dwell upon this question. It will be taken up later. For the time being, we propose to look into some broad aspects of major and medium irrigation.

Four new projects were taken up in the First Plan in addition to the three projects which had already been under implementation at the time of formulation of the plan. These entailed an expenditure of Rs.5 crores, i.e. 20 per cent of the aggregate expenditure in the plan. By the end of the Sixth Plan, the plan expenditure incurred on major and medium irrigation amounted to Rs.473 crores, constituting 14.5 per cent of the aggregate state plan expenditure. At present, there are 10 completed and 18 ongoing projects in the State.

A few characteristics of the major and medium irrigation projects in the State as they have been formulated and implemented through the Five Year Plans may be noted. The most important of these characteristics are (i) spatial concentration, (ii) rapid proliferation of projects, (iii) long gestation periods and (iv) the very high cost of irrigation. In the following paragraphs, we propose to deal with the first, third and fourth of these characteristics separately. The second is included in the discussion on the third.

Spatial concentration

It is pertinent to note that of the 10 completed projects, as many as 9 are in the two districts of Trichur and Palghat, and one in Trivandrum. Of the 18 on-going schemes, four belong to the first two districts. Thus, 72 per cent of the total number of irrigation projects are located in just two districts.

Long gestation periods

An alarming feature of the irrigation projects in the State has been the inordinately long gestation period. Let us examine first the case of the completed projects in this regard.

Table 5.1: Some Aspects of the Completed Irrigation Projects in Kerala

Project	Year of commencement	Year of completion	Time taken for completion (years)	Originally anticipated year of completion
1. Peechi	1947	1959	12	1952
2. Chalakkudy	1949	1966	17	1954
3. Malampuzha	1949	1966	17	1954
4. Neyyar	1951	1973	22	1956
5. Vazhani	1951	1962	11	1956
6. Mangalam	1953	1966	13	1957
7. Walayar	1953	1964	11	1957
8. Meenbara	1956	1964	8	1961
9. Chunukuzhy	1957	1973	16	1962
10. Pothundy	1958	1971	13	1963

Source: Five Year Plans of Kerala

It is seen from Table 5.1 that no project was completed within the originally envisaged time-schedule. On an average, a project took 14 years for completion even though all the projects were programmed for completion over a period of five years. It is alarming to note that some projects took as many as 22 years for completion. The case of on-going projects is presented in Table 5.2.

Table 5.2: Some Particulars of the on-Going Irrigation Projects in Kerala

Project	Year in which started	Originally anticipated year of completion	Originally estimated cost (Rs. in lakhs)	Actual expenditure upto March 1985	(5) as % of (4)	Latest estimated cost (Rs. in lakhs)	(7) as % of (4)
1. Periyar	1956	1961	384	4,636	1,207	5,749	1,497
2. Kallada	1961	1967	840	12,737	1,516	21,000	2,500
3. Pamba	1961	1968	385	4,859	1,262	5,400	1,403
4. Pazhassi	1961	1967	440	4,950	1,125	5,400	1,227
5. Kanhirapuzha	1961	1968	355	3,279	9,237	4,456	1,255
6. Kuttiadi	1962	1968	460	4,617	1,004	5,000	1,087
7. Chitturpuzha	1963	1867	100	1,406	1,406	17,631	17,631
8. Leenapuzha	1975	VI Plan	760	667	88	1,200	158
9. Attapady	1974	VI Plan	670	504	75	2,000	388
10. Chimoni	1974	1979	1000	1,094	109	2,343	2,343
11. Kuriarkutty	1974	VI Plan	1801	116	6	N.M	..
12. Muvattupuzha	1975	VI Plan	2969	2,167	73	4,808	162
13. Idamalayar	1978	VI Plan	1750	1,275	73	6,147	351
14. Kakkadavu	1978	VI Plan	840	151	18	2,600	310
15. Meenachil	1978	VI Plan	1000	27	3	4,956	4,956
16. Beyporepuzha	1978	VI Plan	799	37	5	25,000	3,129
17. Vamanapuram	1979	1983	749	78	10	3,712	496
18. Banasurasagar	1979	VI Plan	300	117	39	1,137	379

Source: Five Year Plans and Annual Plans of Kerala

The figures furnished in Table 5.2 gives a more distressing picture. The fact that some of the projects were started as far back as in the mid-fifties and still continue to be at the construction stage is indeed a sad commentary on our plan performance. commenting on the intolerably long gestation period of the irrigation projects in Kerala, an official economist who had been in charge of planning in the State for a long period aptly remarked in 1978 that "Bhakra Nangal and Nagarjuna Sagar proportionately to their size and cost had smaller maturity period than the pigmy schemes in Kerala".[3]

An inevitable consequence of the tardy progress in implementation has been the enormous cost escalation. As is seen from Table 5.2 above, the cost over-runs in the case of the ongoing projects are staggering. In the case of all the projects, the latest estimated costs are several times the originally estimated costs with no prospects of the projects being completed in the near future. In certain cases, the increase is by 5000 percentage. The reasons usually advanced are numerous, some[4] of which are: (a) delay in land acquisition, (b) delay in getting the Centre's clearance for the project, (c) difficulty in getting the necessary foreign exchange released by the Central Government, (d) insufficient cash-flow,[5] (e) inadequacy of technical personnel.

As a result of the enormous cost escalation, an increasing proportion of the successive plan allocation for irrigation has been eaten away by the spill-over projects, leaving very little for undertaking new schemes. This situation is amply demonstrated by the figures in table 5.3 below.

Table 5.3: Plan Expenditure on Major and Medium Irrigation Schemes in Kerala

(Rs. in lakhs)

Plan	Expenditure on: Spill-over Schemes	Expenditure on: New Schemes	Total Expenditure
I Plan	615(63.7)	350(36.3)	965(100.0)
II Plan	341(41.9)	531(58.1)	872(100.0)
III Plans	714(79.2)	187(20.8)	901(100.0)
Annual Plans	936(100.0)	..	936(100.0)
IV Plan	2,407(100.0)	..	2,407(100.0)

Source: Five Year Plans and Annual Plans of Kerala
Note: Expenditure on Investigation etc. excluded
Figures in brackets: percentages.

The figures in Table 5.3 clearly indicate that the claim of the spill-over schemes on the total allocation for irrigation has been increasing so much so that no new projects could be undertaken in the Annual Plans (1966-69) and in the Fourth Plan (1969-74). However, in the Fifth Plan, as many as eight new schemes were taken up[6] even as all the projects undertaken in the Third Plan, and even some of the projects started in the Second Plan were languishing. In fact, the Fifth Plan witnessed a virtual explosion of irrigation projects in the state. New projects were again started in the Annual Plans (1978-80) and in the Sixth Plan.

It needs to be remembered that the government was not unaware of the paradoxical situation arising out of the unbridled increase in the number of both the ongoing and new projects and the havoc that such a situation can play with the planning process. For instance, as early as 1967, in an evaluation of some of the major irrigation projects in Kerala,[7] the State Bureau of Economics and Statistics had identified and brought to light the main reason for the undue delay in the completion of individual projects, viz., "the limitation of technical manpower, and machinery and materials".[8] The solution suggested was the taking up of one or two projects at a time and completing them with the minimum possible delay. From a purely technical point of view also, such a step would be desirable because it will minimise the loss on account of accumulation of interest charges on capital."[9]

Again in 1978, it was pointed out that "a better concentration of machinery for execution, resources and personnel would have produced greater results. Individual targets and their phasing and programming could all have been different. Such planning of the project would have reduced substantially the gestation periods. The present policy is most irrational and one wonders why it finds favour with us still".[10] However, Government does not seem to have taken these timely advices seriously. Had it done so, much resources could have been saved from indefinite locking up in uncertain projects.

What is still more distressing to note in this connection is that there are instances of projects being formulated without due regard to the environmental factors and also which had a low priority in the overall plans. In its over-enthusiasm to do something 'new', the government persisted with the implementation of such projects even if they were not technically cleared by the concerned central agencies. On one occasion, the government had to ignominiously retrace its recalcitrant step in the wake of stiff objection raised by the Environmental Department of the Government of India. Thus, the Kuriarkutty-karappara project had to be dropped "in view of the objections raised by the Environmental Department of the Government of India and the low priority given by the State Electricity Board".[11] The expenditure on the scheme till the end of March 1986 was Rs.127.32 lakhs. An outlay of Rs.2 lakhs is proposed in the Annual Plan 1986-87 to terminate this project.[12] While this proves beyond a shadow of doubt that projects are formulated and implemented flouting scientific norms, it is also eloquent testimony to the fact that the government has absolutely no compunction in playing ducks and drakes with scarce plan resources which have highly productive alternative uses.

Having seen the tardy progress on the implementation front, let us now turn to an examination of the physical targets achieved. The relevant details are furnished in Table 5.4 below.

Table 5.4: Major and Medium Irrigation in Kerala -- Physical Targets and Achievements

(Net Hectares)

	II Plan	III Plan	IV Plan	V Plan	VI Plan	Total II to VI Plan
1. Physical Target	50536	56655	31600	149000	187832	475623
2. Achievement	43766	8316	11450	106000	93270	262802
3. (2) as % of (1)	86.6	14.7	36.2	71.1	49.7	55.3

Source: Five Year Plans of Kerala

As is evident from Table 5.4 above, the physical achievement has fallen far short of the target set in the various plans. Overall, it is only 55 per cent. The shortlanding on the achievement was really appalling in the Third and Fourth Plans. During the Third Plan, the achievement fell short by 85 percentage even though the actual expenditure fell only by 10 percentage. In the Fourth Plan, even if expenditure exceeded the proposed outlay by 8 percentage, the physical achievement was only 36 percent of the target.

The very high cost of irrigation

The undulating topography of Kerala makes the construction of canals for purveying water to the fields very difficult and costly. The terrain in the state is such that canals are longer than in other states and have to cross many drainages.[13] These, along with the higher land acquisition charges, make the cost of irrigation per hectare in Kerala the highest in the country.[14] Thus, in view of the innumerable problems involved in the implementation of the irrigation projects and the scarcity of resources, the emphasis placed so far on major and medium irrigation projects in the State cannot be wholly justified. It had been rightly realised at the very inception of planning that industrialisation should be the keynote of development in the State, and one of the major impediments to rapid industrialisation has been shortage of capital.[15] Hence, it has been necessary to direct resources from costly projects which take long periods to mature. At the same time, role of irrigation in enhancing productivity cannot be under-estimated. Therefore, in retrospect, it appears that much resources could have been saved by the State, while at the same time, meeting the irrigation requirements, had its irrigation strategy been based on the development of minor irrigation which has many advantages such as less capital requirement, lower cost per hectare, shorter gestation period, and higher labour intensiveness.

Thus, given the inescapable necessity for a productivity-augmenting approach to agricultural production in the State, expansion of irrigation facilities occupies an important position in the development priorities of Kerala. So far, the strategy of irrigation development in the State has placed the greatest emphasis on major and medium projects. As far as the implementation of these projects is concerned, the enormous time and cost over-runs are distressing in view of the wastage of scarce resources which have highly productive alternative uses. The physical target achieved till the end of the Sixth Plan was only 55 per cent. These, along with the fact that, due to the difficult terrain, the cost of irrigation in the state is the highest in the country calls for an immediate rethinking on the strategy of irrigation development in favour of minor irrigation.

(ii) Power Development

Since the introduction of planning, the power sector has been accorded the highest priority in the matter of resource allocation in the first five plans. The importance of this sector under the Five Year Plans can be gauged from the fact that one fourth of the total plan expenditure incurred till the end of the Sixth Plan has gone into it. Today, the Kerala power grid has an installed capacity of 1011.5 MW (out of a potential of 3000 M.W at 60 per cent load factor) and an annual generation capacity of 4730 M units from 9 completed schemes.[16]

The power system in Kerala is entirely hydro-based. As the State has no mineral oils or coal for the generation of power, it has to depend on hydro-electric power for which it has great facilities. The rivers of the State, which are numerous, rise at 3000 or 4000 feet above sea-level and fall within a distance of 20 miles to a level of about 500 feet. There are convenient locations between steep hills where the waters can be impounded and dropped to considerable depths in stages for the development of power. The rainfall in the catchment is between 125 and 200 inches and enough water can be stored for the whole year during the monsoons in dams which are comparatively cheap to construct. The distances from the sources of supply to centres of consumption are short, the distance between the Western Ghats on the east and the Arabian sea on the west at the widest points being not more than 75 miles. On account of these favourable factors, Kerala has a distinct cost advantage in power development, the unit cost being the lowest in the State. Hence, at the very inception of planning, it was realised that the economic prosperity of the State is inextricably bound up with the development of hydro-electric power.

The major features of power development under the Five Year Plans in the State are (1) geographical concentration of the projects, (2) tardy progress, and (3) inadequate emphasis on transmission and distribution.

Geographical concentration

Of the 9 completed projects, the former Malabar region has only one; and out of the 7 on-going schemes also, only one belongs to that region. Thus, there is a regional concentration of the power projects in the state with the majority of them being situated in the erstwhile Travancore-Cochin region. This concentration needs to be explained in terms of historical factors. As has already been observed in Chapter 3, power projects had been at various stages of progress in different regions at the time of the commencement of the First Five Year Plan and such projects continued to get priority in resource allocation under the subsequent plans. We also saw that there was no power project in Malabar on the eve of the introduction of the First Plan. As a consequence of the inherent tendency for historical continuity, the neglect of Malabar continued through the Second Plan also in spite of the fact that power development was high on the agenda for development of the Madras[17] State of which it formed a part. It was only in 1962 that the first hydro-electric project, viz., the Kuttiyadi Project, was started in Malabar. By that time, a sum of Rs.33 crores, constituting nearly one-third of the total plan expenditure under the first two plans, had already been spent on power projects in the Travancore-Cochin area. It may also be noted in this connection that even this delayed attention to Malabar was due to the peculiarities of the circumstances, viz.

(1) the inclusion of reduction of regional imbalances as an important objective in the Third Plan, and (2) the compulsion to take over electricity supply to the Malabar area (which had till then been supplied with electricity from the Madras system) to the Kerala power system.[18] Towards the close of the fifties, Madras expressed its inability to continue the supply due to the increase in its own domestic demand and hence the Kerala system had to cover the Malabar region also. It was in order to stabilise power supply to that region that the Kuttiyadi Project was proposed to be included in the Third Plan.[19]

Tardy progress

It is seen that the firm power potential in the State has not been keeping pace with the increase in the installed capacity over the years. Thus, as against an installed capacity of 1011.5 MW, the firm power potential is only 540 MW constituting only 53 per cent.[20] The firm power as against installed capacities in the various power stations in Kerala are shown below.

Table 5.5: Firm Power as Percentage of Installed Capacity

Power Station	Firm power as percentages of installed capacity
1. Pallivasal	87
2. Sengulam	43
3. Neriamangalam	60
4. Panniar	57
5. Poringalkuthu	61
6. Sholayar	49
7. Kuttiyadi	37
8. Sabarigiri	46
9. Idukki (Stage I)	59

Source: P.K. Gopalakrishnan, op.cit. p.144

It is equally perturbing to note that the state has not added anything to its installed capacity since 1976.[21] In fact, Kerala's is the only power system in the country with such an "unfortunate record".[22]

The figures in the following Table indicate the physical targets and achievements under the various plan

Table 5.6: Physical Target and Achievement (Cumulated)

	I Plan		II Plan		III Plan		IV Plan		V Plan	
	Target	Achievement	Target	Achievement	Target	Achievement	Target	Achievement	Target	Achievement
Installed Capacity (MW)	134.00	85.50	215.00	147.50	546.50	192.50	1011.50	621.00	960.00	1011.50
Number of Consumers (in 1000)	--	80	105	175	265	308	408	337	500	438
Number of Streetlights (in 1000)	--	25	51	83	130	107	117	265	175	285

As is seen from the foregoing Table, in every plan, the achievement fell short of the target in the case of installed capacity. It is pertinent to note in this context the observation of the High Level Committee on Industry, Trade and Power constituted by the State Planning Board in connection with the formulation of the Seventh Five Year Plan. The Committee, in its Report on Power Development, noted with concern the inordinate delay at various stages of investigation, construction and completion of power projects in Kerala.[23] There were instances of work on projects having been disrupted for more than three years. The reasons for the delay, according to the Committee, were (1) problems involved in getting clearance from the environmental angle, (2) petitions against the various decisions of the Kerala State Electricity Board in awarding contracts for various works, and (3) "unreasonable and irrational labour militancy and politicisation of the trade union movement".[24] Such delays inflict upon the State heavy cost. It was estimated in the case of one project (Idamalayar) that every day's delay cost Rs.3 lakhs to the tax-payer.[25] It is indeed amazing that in a state which is well known for its political awareness and vigilant press, things should be allowed to drift to such an extent and the tax payer compelled to bear the cross.[26]

A fact for which the authorities claim credit is the success in rural electrification. The State was the earliest (1972) to achieve hundred percent electrification of its villages.[27] However, this fact conceals more than what it reveals. Unlike in other states, the villages in Kerala are very vast and consist of many amsoms/karas which are larger than many of the villages themselves elsewhere. On the basis of the purely technical criterion, one energised pumpset, on an electrified house, or a factory run on electricity, qualifies a village to be considered as electrified. In Kerala, though electricity has reached all the villages in the strictly limited technical sense, there are many karas and amsoms which are outside its reach.

<u>Inadequate complementary investment</u>

It is maintained that a balanced and integrated process of power development means as much emphasis on transmission and distribution as on generation. Inadequate attention to the former leads to under--utilisation of the capacity created and the consequent loss of production which the use of a versatile input like electricity can make possible.

The programme of power development in Kerala has not preceeded in an integrated and co-ordinated manner. This is revealed by the figures furnished in the Table below.

Table 5.7: Details of Investment on Power Development in Kerala

(Rs. in lakhs)

Period	Generation	Transmission and Distribution	Rural Electrification and others	Total
Upto 1-4-1957	237(93.5)	110 (5.0)	45 (1.5)	2393(100.0)
II Plan	884(45.5)	799(41.2)	258(13.3)	1941(100.0)
III Plan	4751(78.3)	1084(17.9)	235 (3.8)	6070(100.0)
Annual Plans	2857(68.2)	1281(30.6)	50 (1.2)	4188(100.0)
IV Plan	6676(56.4)	4667(39.4)	500 (4.2)	11844(100.0)
V Plan	6162(51.1)	4757(39.5)	1136 (9.4)	12055(100.0)
Annual Plans	1718(22.7)	5616(74.2)	236 (3.1)	7570(100.0)
1980-'84	7990(32.9)	14805(60.9)	1521 (6.2)	24316(100.0)
Till 3/84	33275(47.3)	33120(47.1)	3981 (5.6)	70376(100.0)

Source: GOK, SPB, Economic Review 1984

Figures in brackets: percentages

In the initial stages, disproportionately higher emphasis was placed on generation. This was happening at a time when there had been a steady increase in the number of consumers and connected load, inevitably straining the existing network. More and more consumers were getting connected upto the system without the required strengthening of the network. Thus, the link between the generating stations and the consuming centres was getting choked up.[28] This lopsided situation[29] continued for a long period so much so that it was realised at the time of the formulation of the Sixth Plan that the existing transmission and distribution system was inadequate to meet the requirements.[30] During the Sixth Plan period, accordingly, high priority was assigned to strengthening the transmission and distribution system.[31]

It is also essential to consider the rationale for Kerala according the pride of place to power development in its investment programmes. This rationale was clearly spelt out in the Second Plan document, which stated that "the heavy density of population with the consequent pressure on land leaves industrialisation through the use of electricity as the only alternative means to tackle the mounting unemployment of the people".[32] However, it would be well here not to underplay the significance of historical factors. In the pre-Plan days, in the Travancore State, power development was linked up with a strategy for rapid industrialisation. Provision of cheap and highly subsidised electricity formed the core of the package of incentives given to industrialists to start industries in the State as a result of which industrially, Travancore became one of the most advanced regions in pre-Independence India. While the pace of industrialisation in the State began to decelerate since the early fifties,[33] the accent on the development of hydro-electric power continued, the State entertaining the fond hope that abundance of cheap electric power would trigger off a vigorous industrialisation process which has been recognised as the only strategy for resolving the peculiar problems bedeviling the State. However, the dream has not been realised so far in spite of the repeatedly declared intentions and the availability of other favourable circumstances such as the existence of well-developed transport and communication facilities and a brilliant labour force. Consequently, despite the 'plentiful' availability of cheap power, and the crying need for rapid industrialisation in the wake of saturated agricultural and social services sectors, industrial consumption of electricity in Kerala is the lowest in the country.[34] What is all the more intriguing is the fact that the degree of utilisation of electricity for agricultural production is also one of the lowest[35] in spite of the fact that intensive cultivation along modern lines has been recognised as the only alternative left for the State to increase agricultural productivity and production. Thus, without ever trying to explore the production possibilities utilising the available power resources acquired at very high opportunity cost, Kerala has considered itself as a 'power surplus'[36] State and had planned even to 'export' electricity to the neighbouring states. For some time, the strategy for power development was dictated by the pursuit of such an export-led growth. Thus, till date, the State has not succeeded in evolving a strategy of development justifying the top priority assigned to the development of hydro-electric power in the state plans.

In fact, the absence of a sustained process of industrial expansion should be attributed, _inter alia,_ to the fragile and unsteady power base itself. Till late 'sixties, Kerala had a big power deficit.[37] The power system of the State being hydro-based, the truant monsoon can throw the system out of gear with all the consequences. Even today, Kerala has to resort to intermittent power cuts, hundred percent in the case of extra-high-tension and high-tension consumers and partially to domestic consumers. Also, the State is notorious for voltage fluctuations and supply disruptions. No stable industrial base can be built on such a shaky power base.

Another important fact which deserves mention in this context is that the loss of electricity in transmission and distribution is very high in Kerala.[38]

Thus, we find that Kerala which has had the longest tradition of the development of hydro-electric power in the country has attached the highest priority to the development of this basic input under its successive Five Year Plans. However, the programme of development in this regard has not proceeded in an integrated and co.ordinated fashion. Spatially, it is unbalanced in that there is a concentration of the projects in the erstwhile Travancore-Cochin area, the former Malabar region continuing to receive lagged attention. The lopsided nature of power development can be understood from the fact that till the end of the Fifth Plan, the development of transmission and distribution system did not keep pace with that of the capacity generated. Also, the State has not succeeded so far in evolving a production strategy based on hydro-electric power. In fact, productive consumption of electricity is the lowest in the State. More importantly, the State's power supply is so inadequate and unsteady that it cannot provide a sure and stable base for a viable industrialisation programme.

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Notes and References

1. The following table shows the cereal production in the different states

State	Per Capita gross production of cereals	
	Per day (oz)	Annual (lb)
Andhra Pradesh	14.1	322
Assam	16.2	370
Bihar	10.4	237
Bombay	11.0	251
Kerala	5.6	128
Madhya Pradesh	20.1	459
Madras	12.2	278
Mysore	14.2	324
Orissa	14.1	319
Punjab	17.0	388
Rajasthan	17.6	402
Uttar Pradesh	12.9	294
West Bengal	14.9	340
India	13.3	303

Source: GOK, Planning and Development Department, Third Five Year Plan Draft Outline, 1960, p.7.

2. GOK, Public Works Department (PWD hereafter) Irrigation), Replies from Kerala State to Questionnaire Issued by the Irrigation Commission, Government of India, Ministry of Irrigation and Power, 1971, p.163

3. P.K. Gopalakrishnan, Notes Towards the Formulation of Kerala's Sixth Five Year Plan 1978-'83, GOK, SPB, 1978, p.139

4. GOK, PWD (Irrigation) op.cit., p.161

5. For instance, the State Government's original proposal for the Fourth Plan in the irrigation sector was for an outlay of Rs.42 crores. The Working Group constituted by the Government of India recommended an outlay of Rs.37.24 crores against the State Government's proposal. But the reformulated Fourth Plan approved by the Government of India pruned the outlay further to Rs.26.75 crores -- GOK, PWD, Irrigation Projects, Kerala, 1974, p.21.

6. The draft Fifth Plan at the time of its preparation envisaged the completion of all the on-going projects, except Kallada, within the plan period -- GOK, PWD, Irrigation Projects Schedules and Targets for Fifth Plan, 1975, p.4. However, none of them could be completed during the Fifth Plan period.
7. GOK, Bureau of Economics and Statistics, Evaluation of Some Major Irrigation Projects in Kerala, 1977, p.6. This was the first study in the "Evaluation Series" of the Bureau (presently, the Bureau is redesignated as the Department of Economics and Statistics). It undertook the study of five major irrigation projects in the State and covered different aspects such as investment, area benefited, employment generated and the impact on agricultural production -- Ibid, Introduction.
8. Ibid., p.6.
9. Ibid.
10. P.K. Gopalakrishnan, op.cit., p.139.
11. GOK, SPB, Annual Plan Proposals 1986-87, p.109
12. Ibid.
13. GOK, PWD(Irrigation) Replies from Kerala...p.186
14. GOK, PWD (Irrigation) Water Resources of Kerala. Advance Report, 1958, p.229.
15. "If the maximisation of the rate of industrialisation over the short run is aimed at, the decision to construct the irrigation projects is not wise" P.K. Gopalakrishnan, op.cit., p.140.
16. Of these, two projects, viz., Sabarigiri and Idukki, alone account for over 70 per cent of the capacity -- GOK, SPB, Draft Sixth Five Year Plan 1980-'85 and Annual Plan 1981-82, Vol.I, p.81
17. "In the matter of development and utilisation of power resources, Madras has an impressive record. The state ranks first in rural electrification, second in hydro-power development and third in overall power production in the whole country. Under the First Five Year Plan, a total capital outlay of Rs.30.54 crores was incurred on electricity schemes...The total provision for power schemes under the Second Plan is Rs.52.67 crores" -- Government of Madras, The Directorate of Information and Publicity, Second Five Year Plan. Programme for 1957-58, p.61

18. GOK, <u>Third Five Year Plan. Draft Outline</u>, p.147.
19. <u>Ibid.</u>
20. P.K. Gopalakrishnan, <u>op.cit.</u>, p.144.
21. GOK, SPB, High Level Committee, <u>op.cit.</u>, p.27
22. <u>Ibid.</u>
23. GOK, SPB, <u>Report of the High Level Committee on Industry, Trade and Power, Vol.III. Report on Power Development</u>, 1984, p.52.
24. <u>Ibid.</u>
25. <u>Ibid.</u>, p.60
26. <u>Ibid.</u>
27. "A comparison of the performance of the State Electricity Boards in the matter of rural electrification....would show that Kerala has the distinction of having electrified all its villages as early as in 1972, thus achieving this socio-economic objective 10 years ahead of other states. Haryana and Punjab had only 90% and 52% of their villages electrified in 1972. They electrified 100% of their villages only by 1982. At present, there are only three states, Kerala, Haryana, and Punjab which have achieved hundred percent electrification of their villages. The all-India average of villages electrified as on 30-9-1983 is 52.2%" -- <u>Ibid.</u>, p.37
28. P.K. Gopalakrishnan, <u>op.cit</u>., p.147. Pointing out the necessity for augmentation of transformer capacities in certain substations (Trivandrum, Alleppey, Mavelikkara, Mattanchery, Alwaye, Vytilla, Trichur etc.), the One Man Enquiry Commission on Transmission and Distribution of the Kerala State Electricity Board (KSEB hereafter) observed in 1967 that "these require urgent attention since already these stations are operating without any stand-by capacity and breakdown of a transformer will result in drastic curtailment of power for long periods.....while Idukki Project with 390 MW in the First stage is taken up for execution and the power station expected to be commissioned towards the last year of the Fourth Plan(1970-71), it would appear that sufficient thought has not so far been given for the expansion

of the transmission system to utilise this large block of power during the early years of the Fifth Plan....Even though the planning and programming of the major transmission and expansion so far could be considered satisfactory, the implementation of the Programme under the Second and Third Plans have (sic) lagged behind badly".-- Report of Enquiry by One Man Commission on Transmission and Distribution of the Kerala State Electricity Board, 1967, pp.7-8. The Public Accounts Committee (1973-74) of the Fourth Kerala Legislative Assembly noted the non-utilisation of power potential due to non-extension of transmission lines in the State. As against the power potential of about 2722 million units, the power actually generated was only 2126 million units as transmission lines of sufficient load had not been connected. Consequently, the Board continued to purchase power from Tamil Nadu and Mysore states this year too at a cost of about Rs.26.85 lakhs as against Rs.24.32 lakhs during the previous year. While the cost of generation of power by the Board during 1970-71 was 4.18 paise per unit, the average cost paid for the power purchase was 12.94 paise per unit .... This is not the first time when the Committee had to comment on the non-utilisation of power potential due to non-extension of transmission lines. This is yet another instance which shows lack of planning and foresight on the part of the Board authorities". Committee on Public Undertakings (1973-74) Fourth Kerala Legislative Assembly, Eleventh Report on Water and Power (KSEB) Department, pp.4 and 5.

29. "Investment on transmission and distribution has always been lagging behind that of generation schemes....This has resulted in a situation whereby the power generated at different stations cannot be transmitted to the ultimate consumers efficiently" -- P.K. Gopalakrishnan, op.cit., pp.146-147

30. "Owing to insufficient investments on transmission and distribution schemes during the early plan periods, the network of power lines within the State could not be built to the level required to meet the load demand in the State satisfactorily. Though Kerala at present has no dearth of power,

prospective consumers have to wait for long periods for getting power connections. At present, many applications for getting power connections are pending with the Electricity Board, some of them waiting as far back as 1971. The voltage levels and stability of supply in most of the areas are also far from satisfactory. This situation needs to be improved by strengthening and expanding the transmission and distribution system in the State" -- GOK, SPB, Draft Sixth Five Year Plan 1980-85 and Annual Plans 1981-82, Vol.I, pp.1982-83.

31. Ibid.

32. GOK, SPB, Second Five Year Plan, p.27 Similar statements can be seen in all the plan documents relating to the state. The Third Plan stated, for instance, that "Kerala is the most thickly populated State in India and as the area available for production of foodgrains is limited, the State has to depend on rapid industrialisation for her advancement. Industries cannot develop without cheap power and it is, therefore, very important that Kerala should go in for large scale Hydro-Electric Development, not only to satisfy her own needs but also to export power" -- GOK, Third Five Year Plan, Draft Outline, p.144.

33. T.M. Thomas Isaac and P.K. Michael Tharakan, "An Enquiry into the Historical Roots of Industrial Backwardness of Kerala -- A Study of Travancore Region", Centre for Development Studies, Trivandrum, Working Paper No.215.

34. This is also true of total per capita electricity consumption, which in Kerala was 113 units in 1981-82 as against an all-India average of 141 units, 194 units in Tamil Nadu, 168 units in Karnataka and 116 units in Andhra Pradesh; GOK, SPB, Report of the High Level Committee on Industry, Trade and Power, Development, 1984, p.38.

35. "Agricultural sales as a percentages of the total sales of electricity has been one of the lowest in Kerala. During the three years 1979 to 1981, the percentage of sale of electricity to agriculture has ranged between 34 and 37% in Punjab, 28 to 41% in Haryana, 25 to 27% in Tamil Nadu and 11 to 18% in Andhra Pradesh, 6.5 to 7% in Karnataka, but only 1.8 to 1.9% in Kerala" -- Ibid.

36. The myth of Kerala being a 'power surplus state' has been exploded by the Kerala Sastra Sahitya Parishad in a study undertaken in 1979. According to this study, Kerala's domestic consumption of power is only half of its generation. Another 20 per cent is lost in transmission and distribution. The rest is exported. It is often argued that no demand exists for electricity in Kerala. This is far from true. The KSEB has at no instance of time been able to supply power to all applicants within the State. The reason given by the KSEB is paucity of funds for transmission and distribution. It tried to borrow money from the prospective consumers by way of debanture schemes. Still it could not supply power to all the applicants. -- M.K. Prasad, et al, The Silent Valley Hydroelectric Project. A Techno-Economic and Socio-Political Assessment, KSSP, Trivandrum, 1979, p.21.

37. The State had an effective generating capacity of 84,500 KW only as against the total demand of 116,300 KW at the end of the Second Plan period. Thus, at the beginning of the Third Plan, Kerala had to face a gap in power supply to the tune of 31,800 KW -- GOK, Second Five Year Plan, p.73.

38. 20 per cent of the total power generated. See Ibid.

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Chapter 6

SOCIAL SERVICES

Education

Provision of education can be considered either as investment or as social service depending upon whether it helps to increase production through productivity increases or just meets the articulated need of the society in question. Even as social service, it can contribute to production by removing the institutional impediments to development. In either sense, there is the necessity for undertaking public expenditure on education.

Of all the Indian States, Kerala accords the highest priority to the educational sector. Under the various Plans, a sum of Rs.246/- crores has been spent on education. Though this amount constitutes only 7.6 per cent of the total plan expenditure incurred over the period 1951-'84, its implication in terms of non-plan expenditure and resource mobilisation is indeed very great. (This aspect will be dealt within a subsequent chapter). Hence, an examination of the major aspects of the educational field in the context of resource allocation under the plans is called for.

In terms of the amount spent, the number of institutions and the number of students, general education occupies the most important position in the system of education in the State.[1] Another feature of the system is its "commendable" structure which has a tendency to equalisation of opportunities, its peculiarity being that it is weighted in favour of the lower levels, and that the weightage declines steeply as one moves up the educational ladder.[2] However, what deserves particular mention is the fact that this commendable structure is not the creation of any planned effort; rather, it has evolved over time through a historical process and continued and got reinforced under the Five Year Plans. The State has had a tradition of providing free primary education in both the private and public sectors.[3] The rulers of Travancore and Cochin were, in fact, pioneers in this regard as they provided several facilities to private agencies to establish and maintain schools. In the Malabar region also, there had been a large number of educational institutions. As a matter of fact, the number of educational institutions was disproportionately higher in that region. Thus, in 1955-56, though the region had only 37 per cent of the total population of the State (according to the 1951 Census), it accounted for 41 per cent of the educational institutions. However, in the matter of utilisation of the available educational facilities in terms of the number of students per institution, Malabar seemed to lag behind the Travancore-Cochin State. This is evident from Table 6.1 below.

Table 6.1: School Education in Kerala (1955-'56)

Type of Institutions	Number of Institutions	Number of Students: Total	Number of Students: Per Institution
Travancore-Cochin			
Total	6245(58.7)	19,93,087	319
High/Higher Secondary	614(82.5)	3,62,552	590
Middle/Senior Basic	922(75.6)	18,3 440	199
Primary/Junior Basic	4267(50.1)	14,20,752	333
Nursery	10(83.3)	965	97
Schools for Professional Education	341(91.7)	20,001	57
Schools for Special Education	91(23.0)	5,377	59
Malabar			
Total	4,392(41.3)	3,32,826	177
High Schools	130(17.5)	22,317	540
Middle/Senior Basic	298(24.4)	39,285	313
Primary/Junior Basic/ Basic Primary	3,626(49.9)	2,68,540	164
Nursery	2(16.7)	58	60
Schools for Professional Education	31(8.3)	1,673	166
Schools for Special Education	305(77.0)	953	46

Source: GOK, Second Five Year Plan, Kerala, 1958
Figures in brackets indicate percentage divisions between Travancore-Cochin and Malabar.

As is obvious from the Table, there were differences between the Travancore-Cochin State and the Malabar region in the degree of utilisation of educational facilities at all levels. Two probable reasons can be advanced for the relative under-utilisation of the educational facilities in the Malabar region. These are (1) the concentration of the educational institutions in areas inhabited predominantly by the better-off sections of the society; and (2) prevalence of institutional factors restricting the entry of the lower sections of society into these institutions. The differences are the widest at the base, viz., the primary level and get narrowed down at the higher stages of education. Thus, at the primary level, the student/school ratio was 333 in the Travancore-Cochin state whereas in Malabar it was as low as 164. This might be due to the fact that, in the former, the primary schools drew students from all sections of the society while, in the latter, the children of only the higher strata attended the schools. This fact seems to be responsible for the differences in the ratio getting reduced at the Middle and High School levels. As economic factors assert an increasing pressure at the later two stages, a higher proportion of the pupils in the Travancore-Cochin State, belonging mainly to the poorer sections, dropped out, while in the case of Malabar, a higher proportion of the students, the majority of whom were from well-off sections, managed to go up the ladder.

Whatever may be the reasons for the differences in the utilisation of the existing educational facilities, one thing is certain, viz., that in Kerala, at the time of the State's formation in 1956, there had been a large number of educational institutions ready to be used fully, provided the right type of institutional milieu was created. By the time people had become aware of the Constitutional mandate for providing universal primary education, in the major part of the State, viz., the former Travancore-Cochin region, that objective had been achieved to a very great extent,[4] while in the Malabar region, the necessary institutions were already in existence making it necessary only to attract children from the lower socio-economic profiles who hitherto could not enter such institutions. However, it was realised in 1958 that the quantitative expansion in the field of education had not been followed by qualitative improvement.[5] Also, the problem of unemployment had assumed serious proportions.[6] Regarding the structure of the educational system that had come into force by the late 'fifties, it was admitted that it was an unplanned and irreversible one. Thus, the fact of historical continuity was accepted as an inescapable one and the process of unbridled expansion of schools (the majority of them in the private sector) continued. (See Table 6.2 below)

Table 6.2: Growth of Schools in Kerala

Plan period	High School			U.P. School			L.P. School			Total (All)		
	Govt.	Private	Total	Govt.	Private	Total	Govt.	Private	Total	Govt.	Private	Total
II Plan	244 (27.6)	641 (72.4)	885 (100.0)	492 (26.8)	1342 (73.2)	1834 (100.0)	2484 (39.7)	3771 (60.3)	6225 (100.0)	3220 (35.9)	5754 (64.1)	8974 (100.0)
III Plan	345 (30.0)	806 (70.0)	1151 (100.0)	761 (31.1)	1686 68.9)	2447 (100.0)	2904 (41.8)	4050 (58.2)	6954 (100.0)	4010 (38.0)	6542 (62.0)	10552 (100.0)
Annual Plans	440 (31.9)	941 (68.1)	1381 (100.0)	797 (31.4)	1738 (68.6)	2535 (100.0)	2805 (40.6)	4112 (59.4)	6917 (100.0)	4042 (37.3)	6791 (62.7)	10833 (100.0)
IV Plan	452 (32.2)	952 (67.8)	1404 (100.0)	809 (31.8)	1739 (68.2)	2548 (100.0)	2809 (40.7)	4097 (59.3)	6906 (100.0)	4070 (37.5)	6788 (62.5)	10858 (100.0)
V Plan	597 (35.5)	1083 (64.5)	1680 (100.0)	893 (32.6)	1846 (67.4)	2739 (100.0)	2846 (40.8)	4124 (59.2)	6970 (100.0)	4336 (38.1)	7053 (61.9)	11389 (100.0)
Annual Plan	597 (35.5)	1083 (64.5)	1680 (100.0)	893 (32.6)	1846 (67.4)	2739 (100.0)	2846 (40.8)	4124 (59.2)	6970 (100.0)	4336 (38.1)	7053 (61.9)	11389 (100.0)
VI Plan	934 (39.0)	1463 (61.0)	2397 (100.0)	906 (31.7)	1950 (68.3)	2856 (100.0)	2624 (38.3)	4225 (61.7)	6849 (100.0)	4464 (36.9)	7638 (63.1)	12102 (100.0)

Source: GOK, SPB, Kerala Economic Review 1985
Figures in brackets: percentages.

Along with the mushrooming of the educational institutions, in course of time, high school education was also made free.

A major event in the field of education which was destined to have serious implications for the revenue administration of the state was the introduction towards the close of the Second Plan of the system of direct payment by the government of salaries to the teachers of private educational institutions. By this arrangement, the private managements could appoint teachers taking hefty sums from them by way of donations while the government undertook to pay the salaries. The immediate effect of the introduction of this unprecedented practice was the fundamental change in the attitude of private agencies towards the development of education.[7] It was admitted in 1960 that "private enterprise and munificence which were, in the earlier years, responsible for the rapid spread of education has become almost extinct."[8] The earlier attitude of the private agencies was replaced by the desire to use the educational field for making profit and, consequently, a virtual scramble took place among them to get educational institutions sanctioned by the Government. The number of schools opened from the Third Plan onwards is furnished in the following table according to the type of management.

Table 6.3: Number of Schools Opened in Kerala

Plan Period	Number of Schools		
	Government	Private	Total
III Plan	790(50.1)	788(49.9)	1,578(100.0)
Annual Plans	32(11.4)	249(88.6)	281(100.0)
IV Plan	28	-3	25(100.0)
V Plan	266(50.1)	265(49.9)	531(100.0)
Annual Plans	Nil	Nil	Nil
VI Plan	128(18.0)	585(82.0)	713(100.0)

Source: GOK, SPB, Kerala Economic Review, 1985.
Figures in brackets: percentages.

From Table 6.3, it is clear that the hold of the private sector over the field of education has increased over the plan periods, so much so that as many as 585 of the 713 schools (i.e. 82 per cent) newly opened in the Sixth Plan period were started in the private sector. It may be noted that today nearly two-thirds of the schools in the state belong to the private sector entailing a heavy burden on the budgetary resources of the State.

The major part of the plan expenditure incurred on education had to be used for the payment of salaries of teachers of newly opened schools making only meagre allotments for the construction of school buildings with the result that most of the government schools are housed in rented buildings and ramshackle structures with even toilet facilities lacking.[9] "Most of the departmental schools are ill-furnished".[10] A proposal was made in the Draft Five Year Plan 1978-'83 to provide 2800 lower primary and 2800 upper primary schools "with the minimum of furniture" during the plan period.[11] It was also felt essential to renovate and/or replace the temporary sheds and old and rickety buildings in which classes were conducted. Now a stage seems to have been reached where it would be financially advantageous for the state to formalise the privatisation of education with provision for the necessary safeguards for the interests of the vulnerable sections of the society.

From the Second Plan onwards, at the time of the formulation of every plan, the planning authorities have been complaining about the enormous expansion of educational institutions, and pointing out the inability to undertake any more expenditure on education and the urgent need for improving the quality of education in the State. Nevertheless, the reckless quantitative expansion without any qualitative improvement has continued indefinitely for reasons best known only to the powers-that-be. In the matter of opening new schools, the physical achievement under every plan showed a tendency to exceed the target set. Thus, as against a target of 451, the number of schools actually opened during the Second Plan was 3,669. In the Third Plan, 1,050 schools were opened against a target of 980.

The explosion of educational institutions in the State, however, took place in an unplanned manner. Even during the Second Plan, it was found, on the basis of the criterion that there should be a primary school within one mile radius, that 186 lower primary and 39 upper primary schools and a few sections of some combined schools were superfluous. As against this, there were 685 school-less areas requiring an equal number of schools.[12] Again, even as there was a surfeit of such institutions, 562 new schools had to be opened during the Fifth Plan period in order to meet the requirements of "the backward areas or school-less habitations identified by the Second All India Educational Survey".[13]

Thus, the development of general education in Kerala through the Five Year Plans had been nothing but a continuation of an unplanned physical expansion programme which had its genesis in the socio-economic texture of the pre-plan days.

A field in which there had been ample scope for planning was that of technical education in which the State was very backward at the inception of planning.[14] At the initial stages of planned development, the state experienced acute shortage of technical personnel of various sorts. Hence, a concerted attempt was made to make up this deficiency from the Second Plan onwards by starting several new technical institutions. However, technical education introduced at the diploma and degree level was too outmoded and, therefore, turned out personnel whose skill was not readily required in the productive sectors of the economy. The outturn of technical personnel (including doctors and engineers) has increased to such an extent that the State is now faced with the problem of massive unemployment of these technically qualified persons.[15] This is the result of poor development of industries in the State.

Thus, while general education followed a historically set pattern, the expansion of technical education has been out of step with the requirement of the productive sectors; the expansion of both the fields has given rise to an increasing number of idle hands whose contribution to development is negative. At the time of the formulation of the Fourth Plan, the painful realisation had occurred that "the educational effort of more than a lakh of students is a colossal waste".[16]

Viewed in this perspective, the following conclusions are forced upon us: (i) education in the State is not an investment (ii) it is not planned to be integrated with the requirements of the productive sectors of the economy and therefore, (iii) it has an existence of its own which is the outcome of the unbroken continuity of a historical process.

Others

Apart from education, the other major items under the category "Social Services" are Sewerage and Water Supply (accounting for 5.4 per cent of the aggregate plan expenditure over the period 1951-'84); Housing (3.3 percent); and Health (3 per cent). The relative position over the different plan periods can be understood from Table 6.4.

As is seen from Table 6.4 below, the ascendancy of Sewerage and Water Supply and Housing is a later phenomenon; "Health" occupied the second position (first being "Education") till the end of the Annual Plans (1966-67 to 1968-69). However, from the Fourth Plan onwards, Sewerage and Water Supply and from the Fifth Plan onwards, Housing overtook Health in the matter of resource allocation; thus, today, it occupies the fourth position among the items constituting the category, "Social Services". Since these items are not individually significant in-so-far as resource allocation under the Five Year Plans is

Table 6.4: Plan Expenditure on Selected Items under Social Services in Kerala (Rs. in lakhs)

Plan Period	Health	Sewerage and Water Supply	Housing	Total on Social Services
I Plan	259(10.0)	..	36(1.4)	384(14.8)
II Plan	467(5.8)	..	138(1.7)	2,024(25.2)
III Plan	1,589(8.7)	..	189(1.0)	4,178(22.9)
Annual Plans	495(3.4)	474(3.3)	108(0.8)	2,671(18.5)
IV Plan	849(2.6)	2,977(8.9)	439(1.3)	7,780(23.3)
V Plan	942(1.9)	3,374(7.0)	1,726(3.6)	11,023(22.7)
Annual Plans	903(2.1)	2,039(4.8)	2,261(5.3)	10,300(24.0)
IV Plan	4,313(2.7)	8,669(5.5)	5,958(3.8)	35,481(22.4)
Total	9,817(3.0)	17,533(5.4)	10,855(3.3)	73,841(22.6)

Source: GOK, SPB, Draft Seventh Five Year Plan 1985-90 and Annual Plan 1985-'86, Vol.I

Figures in brackets: Percentages of aggregate plan expenditure

concerned, we do not propose to treat them separately here. However, as "Health" has serious implications so far as recurring expenditure is concerned, we will deal with it in some detail in Chapter 7 on the patter of budget expenditure (Plan and non-Plan).

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Notes and References

1. Number of Educational Institutions in Kerala by Type 1984-85

Educational Institution	Number
Primary Schools	9,705
Secondary Schools	2,397
Schools Total	12,102
Arts & Science Colleges	168
Medical Colleges	5
Engineering Colleges	6
Polytechnics	25
Total	12,306

Source: GOK, SPB, Economic Review 1985

2. Centre for Development Studies, Trivandrum, Poverty, Unemployment and Development Policy. As Case study of Selected Issues with Reference to Kerala, United Nations, 1975, p.124.
3. Ibid.
4. P.K. Gopalakrishnan, op.cit., p.186
5. GOK, Second Five Year Plan Kerala,
6. Ibid.
7. GOK, Planning and Development Department, Third Five Year Plan Draft Outline, 1960, p.254
8. Ibid.
9. GOK, SPB, Draft Five Year Plan 1978-83, Vol.I, p.429
10. Ibid.
11. Ibid.
12. GOK, Planning and Development Department, Third Five Year Plan Draft Outline, p.255.
13. GOK, SPB, Draft Five Year Plan 1978-83, Vol.I, p.429
14. GOK, Second Five Year Plan,p.
15. P.K. Gopalakrishnan, op.cit., 187
16. GOK, SPB, Fourth Five Year Plan 1969-74, p.143

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Chapter 7

PACE AND PATTERN OF BUDGET EXPENDITURE IN KERALA -- A FUNCTIONAL ANALYSIS

In the foregoing chapters, we have seen that planning in Kerala did not entail a structural break with the historical patterns; instead, it only strengthened those patterns. In fact, what we accomplished during the plan period (1951-'52 to 1984-'85) had been more irrigation porjects, more power projects, and more schools, with very little planning, for the various programmes implemented/being implemented remained/remain as disjointed entities being scarcely integrated into a comprehensive and well thought out framework of an economic blue-print.

However, it must be borne in mind that what we have said is only part of the story, for plan expenditure constitutes only certain proportion of the annual budget of the State Government (on an average, only one-fourth) which has increased from 11 per cent of the State Domestic Product (at current prices) in 1957-'58 to 24 per cent in 1982-'83.

Having seen the allocation of plan expenditure, let us now, therefore, turn to an examination of the total budget expenditure so that a comprehensive picture of the factors determining the pace and patterns of plan expenditure may emerge. Here, we will examine the pattern of revenue as well as total (revenue and capital combined) expenditure. In order to understand whether there is continuity in the expenditure pattern, we first deal with the situation in the former Travancore-Cochin State for, as we stated in Chapter 3, that region set the pattern of development for Kerala since its formation in 1956. In Table 7.1 below, therefore, we furnish the figures relating to that region reclassified on a functional basis for a few years immediately preceding the birth of Kerala.

Table 7.1: Revenue Expenditure of the Government of the Travancore-Cochin State

(Rs. in lakhs)

Category	1948 (AC)	1949*	1950 (AC)	1951 (AC)	1954 (AC)	1965 (RE)	1956 (RE)
1. General Services	705.1 (51.7)	439.7 (51.9)	624.8 (47.7)	741.7 (49.7)	673.3 (30.9)	777.6 (30.8)	798.3 (27.7)
2. Social Services	423.1 (31.0)	260.5 (30.7)	443.5 (33.9)	427.6 (28.7)	831.0 (38.1)	913.9 (36.2)	1155.1 (40.1)
i. Education	215.0 (15.8)	113.3 (13.4)	226.4 (17.3)	288.3 (19.3)	654.2 (30.0)	635.9 (25.2)	715.6 (24.8)
ii. Health	60.7 (4.4)	47.2 (5.6)	87.1 (6.7)	131.2 (8.8)	116.3 (5.3)	150.3 (5.9)	226.9 (7.9)
iii. Others	147.4 (10.8)	100.0 (11.7)	130.0 (9.9)	8.1 (0.6)	60.5 (2.8)	127.7 (5.1)	212.6 (7.4)
3. Economic Services	236.8 (17.3)	147.2 (17.4)	241.4 (18.4)	322.8 (21.6)	675.6 (31.0)	835.9 (33.0)	928.4 (32.2)
4. Total	1365.0 (100.0)	847.4 (100.0)	1309.7 (100.0)	1492.1 (100.0)	2179.9 (100.0)	2527.4 (100.0)	2881.8 (100.0)

Source: Travancore-Cochin Budgets
*for 7 months only
Note: AC-Account; BE-Budget Estimate; RE- Revised Estimate.

As is evident from Table 7.1, as far as developmental expenditure (Social Services and Economic Services) is concerned, in all the years without exception, the social services sector had the lead; within that sector itself, education claiming the largest share.

Let us examine the position in this regard since the formation of the State. The relevant figures are set out in Table 7.2 below.

Table 7.2: Trends in Percentage Distribution of Revenue Expenditure in Kerala

Year	General Services	Social Services	Economic Services	Total
(1)	(2)	(3)	(4)	(5)
1957-58	30.6	42.8	26.6	100.0
1958-59	30.1	47.5	22.4	100.0
1959-60	28.8	46.7	24.5	100.0
1960-61	28.1	46.7	25.2	100.0
1961-62	26.2	46.7	27.1	100.0
1962-63	27.4	44.8	27.8	100.0
1963-64	29.1	43.1	27.8	100.0
1964-65	26.4	47.5	26.1	100.0

(Contd...)

(1)	(2)	(3)	(4)	(5)
1965-66	28.2	52.6	19.2	100.0
1966-67	29.1	51.8	19.1	100.0
1967-68	31.3	50.3	18.4	100.0
1968-69	30.6	50.9	18.5	100.0
1969-70	29.5	51.8	18.7	100.0
1970-71	31.1	51.5	17.4	100.0
1971-72	30.3	52.0	17.7	100.0
1972-73	30.2	52.8	17.0	100.0
1973-74	31.2	52.6	16.2	100.0
1974-75	28.5	55.2	16.3	100.0
1975-76	27.7	55.5	16.8	100.0
1976-77	28.1	56.8	15.1	100.0
1977-78	29.1	53.9	17.0	100.0
1978-79	27.4	53.4	19.2	100.0
1979-80	25.6	57.2	17.2	100.0
1980-81	25.9	54.3	19.8	100.0
1981-82	27.4	54.4	18.2	100.0
1982-83	28.8	55.2	16.0	100.0
1983-84(RE)	30.1	51.5	18.4	100.0
1984-85(RE)	25.4	53.4	17.2	100.0

Source: <u>Kerala Government Budgets</u>

A striking feature emerging from the above Table is the top priority that the social services sector has continued to claim in the distribution of revenue expenditure; also, its share has been rising over the years (43 per cent in 1957-'58 to 53 per cent in 1984-'85). Since the share of general services has tended to remain more or less constant, this increase could take place only at the cost of economic services whose share registered a progressive decline, the decline becoming more pronounced since the mid-sixties. Thus, the proportion of revenue expenditure earmarked for economic services has declined from 27 per cent in 1957-'58 to 17 per cent in 1984-'85, whereas the share of social services increased from 43 per cent to 53 per cent in the same period. Within the social services sector, education has been the major beneficiary.

Table 7.3: Percentage Distributions of Revenue Expenditure

Year	Education	Health	Housing and Urban Development	Community Development, Miscellaneous Social and Development Organisations etc.	Total for Social Services
(1)	(2)	(3)	(4)	(5)	(6)
1957-58	30.3	7.8	..	4.7	42.8
1958-59	33.4	8.5	..	5.6	47.5
1959-60	32.4	8.8	..	5.5	46.7
1960-61	31.6	8.9	..	6.2	46.7
1961-62	31.3	9.0	0.4	6.2	46.7
1962-63	28.9	9.8	0.5	5.6	44.8
1963-64	29.7	7.3	0.7	5.4	43.1
1964-65	30.8	9.9	0.7	6.1	47.5
1965-66	34.7	10.4	0.8	6.7	52.6
1966-67	35.2	10.1	0.8	5.7	51.8
1967-68	33.5	10.2	0.9	5.7	50.3
1968-69	34.8	10.1	0.8	5.2	50.9
1969-70	36.4	9.8	0.7	4.9	51.8

(Contd...)

(1)	(2)	(3)	(4)	(5)	(6)
1970-71	36.7	9.2	1.0	4.6	51.5
1971-72	35.4	10.0	0.9	5.7	52.0
1972-73	34.5	9.5	1.9	6.9	52.8
1973-74	34.7	9.6	2.4	5.9	52.6
1974-75	35.9	11.2	2.4	5.7	55.2
1975-76	36.3	10.4	2.9	5.9	55.5
1976-77	36.2	11.2	4.0	5.4	56.8
1977-78	34.9	10.0	3.4	5.6	53.9
1978-79	32.8	9.5	4.2	6.9	53.4
1979-80	34.5	10.2	0.1	12.4	57.2
1980-81	32.0	9.7	0.1	12.5	54.3
1981-82	32.1	10.0	0.1	12.2	54.4
1982-83	34.1	9.6	0.7	10.8	55.2
1983-84(RE)	29.2	8.6	0.8	12.9	51.5
1984-85(RE)	30.8	9.7	0.9	12.0	53.4

Source: op.cit.

An important aspect of the total budgetary expenditure which has great implications for the development of the State has been the small size of the capital component.

Table 7.4: Revenue Expenditure and Capital Expenditure as Percentage of Aggregate Budgetary Expenditure in Kerala

Year	Revenue	Capital	Total
1957-58	80.4	19.6	100.0
1958-59	82.8	17.2	100.0
1959-60	85.3	14.7	100.0
1960-61	86.3	14.7	100.0
1961-62	83.8	16.2	100.0
1962-63	84.7	15.3	100.0
1963-64	86.6	13.4	100.0
1964-65	84.9	15.1	100.0
1965-66	84.3	15.7	100.0
1966-67	91.9	8.1	100.0
1967-68	88.9	11.1	100.0
1968-69	88.7	11.3	100.0
1969-70	91.6	8.4	100.0
1970-71	87.8	12.2	100.0
1971-72	87.7	12.3	100.0
1972-73	89.3	10.7	100.0
1973-74	89.2	10.8	100.0
1974-75	93.4	6.6	100.0

(Contd...)

Year	Revenue	Capital	Total
1975-76	91.4	8.6	100.0
1976-77	83.5	16.5	100.0
1977-78	89.1	10.9	100.0
1978-79	92.0	8.0	100.0
1979-80	82.0	18.0	100.0
1980-81	83.9	16.1	100.0
1981-82	85.1	14.9	100.0
1982-83	86.3	13.7	100.0
1983-84(RE)	85.1	14.9	100.0
1984-85(BE)	86.0	14.0	100.0

Source: op.cit.

The concept of capital budget is very significant in the Indian context as it is supposed to be used for building capital assets of a material nature and reducing the capitalised value of revenue obligations. Since the Kerala Government budgets have almost a perennial tendency to show revenue deficits (See the next Chapter for elaboration), the question of asset formation out of revenue surpluses does not arise. Hence, capital formation necessitates capital expenditure out of borrowings.

Let us now briefly look at the pattern of total expenditure, i.e. revenue and capital combined. The picture is clear from the figures presented in Table 7.5 below.

Table 7.5: Percentage Distribution of Total Budgetary Expenditure (Revenue and Capital Combined) in Kerala

Year	Proportion of Total Budgetary Expenditure on			Total
	General Services	Social Services	Economic Services	
(1)	(2)	(3)	(4)	(5)
1957-58	25.5	37.6	36.9	100.0
1958-59	25.0	41.7	33.3	100.0
1959-60	24.8	41.7	33.5	100.0
1960-61	24.3	42.0	33.7	100.0
1961-62	22.8	40.2	37.0	100.0
1962-63	22.8	38.8	38.4	100.0
1963-64	21.8	39.9	38.3	100.0
1964-65	23.0	41.9	35.1	100.0
1965-66	25.7	44.9	29.4	100.0
1966-67	27.6	47.9	24.5	100.0
1967-68	29.2	44.8	26.0	100.0

(Contd..)

(1)	(2)	(3)	(4)	(5)
1968-69	28.1	45.8	26.1	100.0
1969-70	24.7	49.0	26.3	100.0
1970-71	27.4	46.7	25.9	100.0
1971-72	24.7	48.4	26.9	100.0
1972-73	24.4	49.3	26.3	100.0
1973-74	25.3	49.5	25.2	100.0
1974-75	24.2	52.4	23.4	100.0
1975-76	23.4	51.2	25.4	100.0
1976-77	30.3	46.6	23.1	100.0
1977-78	23.7	47.9	28.4	100.0
1978-79	23.4	45.0	31.6	100.0
1979-80	22.5	49.6	27.9	100.0
1980-81	21.0	48.6	30.4	100.0
1981-82	22.6	49.7	27.7	100.0
1982-83	24.5	51.0	24.0	100.0
1983-84(RE)	25.3	48.5	26.2	100.0
1984-85(BE)	26.1	47.9	26.0	100.0

Source: op.cit.

The pattern of total expenditure emerging from Table 7.5 is similar to that of revenue expenditure; thus, while the proportion of total expenditure on general services remained more or less constant at one-fourth of the total, the share of social services registered a massive increase from 38 per cent in 1957-'58 to 48 per cent in 1984-'85, of course, at the expense of economic services whose share declined from 37 per cent to 26 per cent over the same period.

In conclusion, it can be stated that the pattern of budgetary expenditure (total) is characterised by a more or less constant proportion on general services, a very high and rising proportion on social services and a falling proportion on economic services. This historical pattern has evolved uninterruptedly in a State where political parties of different ideologies came to power and presented budgets. Thus, the conclusion becomes reinforced that neither the introduction of planning nor the ideologies of the different political parties that formed governments in the state could effect a fundamental change in the historical pattern of budgetary expenditure which seems to exhibit an immutable course of its own. In the next chapter on resource mobilisation for the state plans, we will examine the implications of this pattern for plan financing.

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Chapter 8

RESOURCE MOBILISATION FOR THE STATE PLANS

From the preceding discussion, the conclusion emerges that under the Five Year Plans, Kerala experienced a (social) consumption-led growth whose genesis is historical. Apart from determining the nature and extent of development, this fact has also great implications for resource mobilisation for the plans.

Since financial programming is an important adjunct to investment planning, let us take a brief look at the various aspects of the manner and methods by which financial resources had been mobilised for the plans.

Resource mobilisation for the State plan has two components, viz., (i) the State's own budgetary resources including market borrowings and additional taxation, and (ii) Central assistance by way of grants and loans.[1]

The State's own budgetary resources consist of the following elements:

1. revenue balance after meeting the expenditure at the current rate of taxation,
2. market borrowings by the State and autonomous bodies,
3. State's share of Small Savings,
4. net accretion to the State Provident Funds,
5. surplus left on capital transactions,
6. contribution of public enterprises,
7. direct participation of financial institutions like the RBI, LIC etc. in the State's development programmes, and
8. additional resource mobilisation either through revision of existing tax rates and tariff scales of the State industrial and commercial undertakings or through fresh imposts or both.

An inevitable consequence of the course of development characterised by rapid growth of public consumption expenditures (example, education) has been the uncontrolled expansion of recurring expenditure on the revenue account. In other words, non-plan expenditure increases enormously leaving a decreasing quantity of domestic resources for the purpose of financing the plan. Thus, it is instructive to note that in 1957-'58, the first year after the formation of the State for which accounts are available, non-plan expenditure constituted as high as 70 per cent of the total budgetary expenditure. As the Second Plan progressed, the acute financial strain created by the growth of non-developmental and non-plan expenditure was increasingly felt,[2] indicating that financially, the state began its plan on a dismal note. It was even apprehended in 1958 that as the State was not able to muster internal resources on an adequate scale, the Second Plan might have to be drastically curtailed.[3] Let us, therefore, examine the trend of non-plan expenditure in the State. This is discernible from the following table.

Table 8.1: Plan and Non-Plan Expenditure in Kerala

(Rs. in crores)

Period	Total Expenditure (Plan + Non-Plan)	Plan Expenditure	Plan Expenditure as % of total expenditure	Non-Plan Expenditure as % of total expenditure
II Plan (1957-'58 to 1960-'61)	239	80	33.5	66.5
III Plan (1961-'66)	551	182	33.0	67.0
Annual Plans (1966-'67 to 1968-'69)	511	144	28.2	71.8
IV Plan(1969-'74)	1,371	333	24.3	75.7
V Plan(1974-'78)	1,917	486	25.4	74.6
Annual Plans (1978-'79 and 1979-'80)	1,345	429	31.9	68.1
VI Plan (1980-1984-'85)	6,043	1,583	26.2	73.8
Total (1957-'58 to 1984-'85)	11,977	3,237	27.1	72.9

Source: 1. Total Expenditure: RBI Bulletins
2. Plan Expenditure: Annual Plans of Kerala

Note: Plan expenditure relates only to the State sector.

As is evident from Table 8.1 above, the amount spent under the plan heads over the period 1957-'58 to 1984-'85 constituted only slightly more than one-fourth of the total budget expenditure incurred over the same period. The share registered a decline from 34 per cent in the Second Plan to 26 per cent during the Sixth Plan indicating the dwindling scope for fresh initiative in planning.

7 However, a point which deserves special mention in this context is that from the point of view of financing the plans, the first three plans had been significant in-so-far-as the balance from current revenues was positive. This is clear from Tables 8.2 and 8.3 below.

Table 8.2: Financing the Kerala Plan (Rs. in crores)

	First Plan	Second Plan
Total Expenditure	26.1	80.0
1. Budgetary Resources	13.6	34.2
(a) Balance from revenue account	19.3	13.1
(b) Loans from public	3.3	13.1
(c) State trading	-5.4	..
(d) Deposits and other miscellaneous receipts on capital account	-3.6	-7.3
(e) Share of small savings	..	5.4
(f) Unfunded debt	..	2.1
(g) Resources raised by the Kerala State Electricity Board	..	7.7
2. Central Assistance	10.3	34.8
3. Total Resources	23.9	69.0
4. Gap covered by		11.0
(i) Increase in floating debt	..	..
(ii) Sale of securities in reserve	-0.9	..
(iii) Withdrawal from cash balances	3.1	..

Source: National Council of Applied Economic Research, Techno-Economic Survey Kerala 1962, pp.246-47.

Table 8.3: State's Resources for the Third Plan

(Rs. in crores)

1. Balance from Current Revenue	17
2. Additional taxation by the State	26
3. Public borrowings (net)	19
4. Share of small savings	7
5. Unfunded debt (net)	3
6. Contribution of public enterprises	11
7. Miscellaneous Capital receipts (net)	-24
Total	59

Source: Fourth Five Year Plan 1966-1971. A Draft Outline, GOK, Planning Department

However, from the Fourth Plan[4] onwards, the state began to experience deficits on the current account and started pinning its hopes on the recommendations of the successive Finance Commissions for eliminating such deficits through grant-in-aid under Article 275 of the Constitution and thereby earned the dubious distinction of being a 'grant-in-aid state'.[5] What is even more alarming is the fact that due to the widening differences in the estimates of revenue and expenditure forecasts done by the State

Government and the reassessment thereof of the Finance Commissions[6] the State was never able to strike even on the non-plan front and has, consequently, found itself in the throes of a perpetual fiscal crisis experiencing thereby great uncertainty regarding the annual plans.[7] Thus, the balance from current revenue has been increasingly negative with two undesirable consequences, viz. (1) poor maintenance of the capital assets built in the previous plans,[8] and (2) diversion of part of the plan resources for non-plan purposes.

Regarding the mobilisation of the surpluses generated by the public sector undertakings in the State, both departmental and non-departmental, it must be remembered that such enterprises are not only not making any surplus but also are incurring increasing losses[9] year after year making their upkeep a strain on the general budget.

The unenviable position is partly due to widespread corruption[10] and mismanagement and partly due to the failure to evolve a suitable economic pricing policy[11] for the commercial undertakings owned by the State Government.

Revenue balances after meeting current expenses being deficit, enhancement of the rates of taxes, tariffs, and duties has to be resorted to in every plan for mobilisation of resources for financing the plans. Let us, therefore, turn to an examination of Kerala's performance in the matter of additional resource mobilisation, which is almost exclusively additional taxation.

Table 8.4: State's own Additional Tax Resources for the Plan

(Rs. in crores)

Plan	Actual Plan Expenditure	State's own additional tax resources	(3) as % of (2)
(1)	(2)	(3)	(4)
I Plan	26	6	23.0
II Plan	80	12	15.0
III Plan	182	26	14.3
Annual Plans (1966-'69)	144	7	4.9
IV Plan	333	39	11.7
V Plan (1974-78)	486	178	36.5

(Contd...)

(1)	(2)	(3)	(4)
Annual Plans (1978-79)	429	58	13.6
VI Plan	1,583	311*	19.6
Total	3,263	637	19.5

Source: 1. Plan expenditure: GOK, SPB, Draft Seventh Five Year Plan 1985-'90 and Annual Plan 1985-'86, Vol.I

2. GOK, SPB, Kerala's Five Year Plans and Resource Mobilisation, 1985 (Mimeo)

* targeted

As is seen from the above Table, 20 per cent of the total plan expenditure incurred over the period 1951 to 1984-'85 consisted of taxes additionally mobilised by the State. During some of the plan periods (for example, the second, the third and the fourth), the contribution of this category had been low. Let us now examine the performance in terms of targets and achievements. The relevant figures are set out in the Table below.

Table 8.5: Mobilisation of Additional Resources through Taxation in the Plan Periods

(Rs. in crores)

Period	Target fixed	Amount realised	Variation	Percentage variation
I Plan	**	6.0	..	..
II Plan	8.6	12.1	+3.5	+40.9
III Plan	23.6	26.2	+3.2	
IV Plan	50.0	39.2	-10.8	-21.5
V Plan	100.0	178.0	+78.0	+78.0
VI Plan	311.0	..	..	..

Source: I to IV Plans: SPB, GOK, Plan Finance and Expenditure in Kerala, 1974

V and VI Plans, GOK, SPB, Kerala's Five Year Plans and Resource Mobilisation, [1985, (Mimeo)]

** No target was fixed.

From Table 8.5, it is seen that except during the Fourth Plan, mobilisation of additional resources through taxation far exceeded the targets fixed by the Planning Commission. The performance was particularly spectacular in the Fifth Plan with the achievement exceeding the target by as much as 78 per centage. In the First Plan, no specific target was fixed, but an amount of Rs.6 crores was raised mainly through the upward revision of agricultural income tax. During the Second Plan, a further sum of Rs.12 crores was mobilised mainly by raising the sales tax rates. In the Third Plan also, the major source of additional revenue was sales tax. About the achievement falling short of the target in the Fourth Plan, it was observed that rather than a slackening of effort, it only indicated that the taxable capacity of the State had already reached a near-saturation point.[12] However, the fact that the achievement exceeded the target in the Fifth Plan suggests that such a point has not been reached so far. Let us briefly examine which tax item failed to generate the anticipated volume of additional resources in the Fourth Plan.

Table 8.6: Mobilisation of Additional Resources through Taxation in the Fourth Plan

(Rs. in crores)

Heads of Revenue	Target	Achievement
Agricultural Income Tax	1.7	1.2(72.1)
Land Revenue	14.5	2.0(14.5)
Taxes on Vehicles	4.0	2.7(68.0)
Sales Tax	15.6	20.6(131.6)
Stamp duty	2.2	3.7(166.5)
Registration fees	0.4	0.4(100.0)
Total	38.4	30.6(79.7)

Source: GOK, SPB, Plan Finance and Expenditure in Kerala, 1976

Regarding Central assistance, it may be made clear at the outset that we do not intend to embark upon a discussion on the broader question of centre-state financial relations which has been subject to detailed study by several writers. Our concern here is with central assistance as a proportion of total state plan expenditure and the composition of such assistance in terms of its grant/loan components and also to see the implications thereof.

Out of the aggregate state plan expenditure of Rs.3263 crores incurred over the period 1951-1985, central assistance was Rs.1,397 crores, i.e. 43 per cent. The relevant details in this regard are furnished in Table 8.7.

Regarding the trend of central assistance as proportion of state plan expenditure, it is seen that it rose from 39 per cent in the First Plan to 68 per cent in the Third Plan and then started declining in the subsequent plans dipping ultimately to 42 per cent in the Sixth Plan. Thus, from the Fourth Plan onwards, there had been a marked shift towards the State's budgetary resources for plan financing. Other things remaining the same, this is a welcome trend.

Of the total central assistance of Rs.1397 crores in the period 1957-'86, 66 per cent came as loan and the remaining 34 per cent as grant.

An important fact which has overwhelming implications from the point of view of economic development is the composition of plan resources, in terms of revenue and loans. A programme of

Table 8.7: Central Assistance to State Plan -- Kerala (Rs. in crores)

	I Plan	II Plan	III Plan	Annual Plans 1966 to 1968	IV Plan	V Plan 1974-78	Annual Plans (1978 to 1979)	VI Plan	Total
State Plan Expenditure	26	80	182	144	333	486	429	1,583	3,263
Central Assistance	10*	34 (100.0)	123 (100.0)	98 (100.0)	171 (100.0)	228 (100.0)	193 (100.0)	540 (100.0)	1,397 (100.0)
1. Grants	..	9 (26.5)	19 (15.4)	28 (27.6)	51 (29.8)	62 (27.2)	59 (30.6)	251 (46.5)	479 (34.3)
2. Loans	..	25 (73.5)	104 (84.6)	70 (72.4)	120 (70.2)	166 (72.8)	134 (69.4)	289 (53.5)	908 (65.7)
Central Assistance as Percentage of State Plan Expenditure	38.5	42.5	67.6	68.1	51.4	47.0	45.0	42.2	42.8

Source: Plan Expenditure: Draft Seventh Five Year Plan 1985-90 and Annual Plan 1985-86, SPB, GOK, December 1984, Vol.I

Central Assistance: 1. Upto the IV Plan; SPB, GOK, Plan Finance and Expenditure in Kerala, 1976

2. V to VI Plan; Kerala Budgets in brief

*loan/grant break up not available

expenditure based predominantly on the revenue component of the total plan resources is far more advantageous than the one based mainly on the loan component, especially in the context of Kerala where the lion's share of plan resources goes into sectors which give abysmally low or even negative returns on the capital invested. Let us, therefore, examine the composition of plan resources in the State. The relevant data are furnished in Table 8.8 below.

Table 8.8: State Plan Expenditure and the Revenue Component (Rs. in crores)

Period	Plan Expenditure	Central Plan Grant	State's own additional tax resources	Revenue component (3+4)	(5) as % of (2)
(1)	(2)	(3)	(4)	(5)	(6)
II Plan	80	9	12	21	26.3
III Plan	182	19	26	45	24.7
Annual Plans (1966-67 to 1968-69)	144	28	7	35	24.3
IV Plan	333	51	39	90	27.0

(Contd..)

(1)	(2)	(3)	(4)	(5)	(6)
V Plan (1974-78)	486	62	178	240	49.4
Annual Plans (1978-79 and 1979-80)	429	59	58	117	27.3
VI Plan	1,583	251	311	562	35.5
Total (1957-58 to 1984-85)	3,237	479	631	1,110	34.1

Source: Same as for Table 8.7

It needs to be viewed with concern that, of the total plan resources of Rs.3237 crores raised during the period 1957-'58 to 1984-'85, revenue component (the state's revenue balance and the plan grants from the Centre) formed only 34 per cent which, conversely, means that as high as two-thirds of the total plan expenditure incurred in the state consisted of borrowed funds. In the first four plans, the share of such funds ranged from 72 to 76 per cent exerting, inevitably, an increasing pressure on the revenue budget on account of the necessity for meeting the mounting interest charges and thereby further aggravating the budgetary problems.

Of the total loan component of 2,125 crores, Rs.908 crores, i.e. 42.7 per cent came as Central plan loans. However, it must be noted that till the Fifth Plan, this proportion used to be very high as shown in Table 8.9.

The fact that central plan loan constituted only 43 per cent of the loan-component of the plan finances in the State should not be construed to mean a high degree of freedom that the State is able to enjoy in the matter of planning. The very fact that the Kerala plans were predominantly loan-financed is itself indicative of the State's dependence on the Centre, for, in India, the quantum and the terms and conditions of loans available to the States are determined unilaterally by the Union Government[13] and, for reasons which we do not want to elaborate here, a few advanced States are presently cornering the major chunk of the market borrowings earmarked for distribution among the States, the weaker States finding themselves forced to be content with less than what they deserve or need. It has been pointed out in many studies that Kerala belonged to the latter group

Table 8.9: Central Plan Loans to Kerala (Rs. in crores)

Category	II Plan	III Plans	Annual Plans	IV Plans	V Plans	Annual Plans	VI Plan	Total
Central loans	25 (43.1)	104 (75.9)	70 (64.8)	120 (49.4)	166 (67.5)	134 (43.1)	289 (28.3)	908 (42.7)
Other loans	34 (56.9)	33 (24.1)	38 (35.2)	123 (50.6)	80 (32.5)	177 (56.9)	732 (71.7)	1217 (57.3)
Total	59 (100.0)	137 (100.0)	108 (100.0)	243 (100.0)	246 (100.0)	311 (100.0)	1021 (100.0)	2125 (100.0)

Source: As for Table 8.8

Figures in brackets: Percentages

of States. Hence, given (1) the State's adamant decision to continue with the present pattern of additional resource mobilisation, (2) the objectively designed Gadgil Formula governing the horizontal distribution of a substantial part of the Central assistance"[14] among the States, and (3) the pro-rich distribution of market loans which are essentially controlled by the Central Government, the only option open to Kerala had been to rest content with small plans. Thus, the State's per capita plan expenditure had been one of the lowest in the country. For the period 1956-'57 to 1984-'85 as a whole, it was Rs.845 in the case of Kerala as against an all-states average of Rs.901.

Summary:

Kerala's pattern of growth with the social services sector acting as the leading sector inevitably led to enormous increase in non-plan expenditure right from the inception of planning, so to say, and the consequence was soon to be felt in the form of increasing deficits in the revenue balances from the Fourth Plan onwards. Being unable to strike even on the non-plan revenue account, the state always looked upto the successive Finance Commissions for wiping out the non-plan revenue gaps and earned thereby the stigma of a 'grant-in-aid state'.

The state undertakings (both departmental and non-departmental) which had been swallowing larger and larger chunks of public resources, incur heavy losses year after year due to corruption and mismanagement, on the one hand, and the absence of an economic pricing policy, on the other; and, therefore, eat into the budgetary resources of the Government for their very survival.

On the additional resources mobilisation front, the targets were exceeded in the majority of cases, but no serious attempt seems to have been made to tap the untapped or insufficiently tapped sources of revenue. On account of inadequate revenue resources, the state's plans had been mostly loan-financed entailing mounting interest payments which further aggravate the budgetary constraints. Since the availability of loans is also limited by the existing schema of centre-state financial relations, the inescapable outcome had been the compulsion to have small plans.

....

Notes and References

1. In fact, there are three components, the third being funding by institutional agencies which is accounted for in the private sector investment outlay forming part of the aggregate development plan. However, as our analysis is confined to the public sector plan, we do not take this component into account.
2. GOK, Second Five Year Plan, 1958, p.xxi
3. Ibid.
4. In the Fourth Plan estimate, a budgetary gap of Rs.125-32 crores was anticipated. However, this was ignored as there was a consensus of opinion among the State Government, the Government of India and the Planning Commission that the gap would be made good by some sort of speckal assistance -- GOK, SPB, Fourth Five Year Plan 1969-74, p.21.
5. "From the budgetary point of view, Kerala has all along been a grant-in-aid state under the awards of the Finance Commissions in so far as its non-plan requirements are concerned. In terms of the plan requirements also, the State has a substantial gap between its plan outlays and resources in sight even after taking into account the share of central assistance" -- K.V. Nambiar, "A Short Note on Impact of Inflation on State Finances", GOK, SPB (Mimeo, undated).
6. As against a non-plan revenue gap of Rs.410 crores over the five-year period of the Fourth Plan estimated by the Government of Kerala, the Fifth Finance Commission recommended a devolution of Rs.193.43 crores only (Rs.143.78 crores as share of taxes and Rs.49.56 crores as grant-in-aid). Thus, an "unbelievably unbridgeable gap of Rs.216.61 crores" emerged and was left to the State to fill it, which task was "impossible for Kerala, given its special problems" -- GOK, SPB, Kerala and the Award of the Fifth Finance Commission, 1969, p.2. Again, the State Government represented to the Eigth Finance Commission that the non-plan revenue gap during the

five-year period, 1984-89, would be of the order of Rs.2,692 crores whereas, according to the Commission's assessment, the gap was only Rs.635 crores. The State Government's request to cover under the grant-in-aid the expenditure under two major welfare schemes now being implemented in the state viz. (i) Unemployment Assistance Scheme, and (ii) Agricultural Workers' Pension Scheme (which would together entail a budgetary commitment of the order of Rs.50 crores per annum) was not conceded by the Commission. According to the reassessment of revenue and expenditure made by the Commission, the State would have a small revenue surplus after devolution of taxes as far as the non-plan revenue position was concerned. However, according to the State Goverment's calculations, "there will be a substantial deficit in this account" -- GOK, SPB, Draft Seventh Five Year Plan 1985-90 and Annual Plan 1985-86, Vol.I.p.235.

"Though the Finance Commissions were supposed to reduce this (the non-plan deficits of the State Governments) in the past, their recommendations have not helped the relatively poorer states to meet their financial obligations. In the recent past, the Finance Commissions themselves have created this problem by assessing lower growth rates for non-plan revenue expenditure of the State governments and higher growth rates for their revenue receipts while estimating their non-plan revenue gaps" -- Thimmaiah, Burning Issues in Centre -- State Financial Relations, Ashish Publishing Company, New Delhi, 1985, p.91.

7."While presenting this year's (1985-86) budget in last March, Mr. Mani (the then Finance Minister of Kerala) had picturesquely described Kerala's near-indigent lot by saying that the State's daily non-plan deficit would be Rs.60 lakh" -- K. Govindan Kutty, "Mani, Planning Board on Collission Course", -- Indian Express (Daily) 14, March 1986. In a note submitted to the Council of Ministers as a backgrounder for the preparation of the Annual Plan for 1986-87, the Board had maintained that "the state could have no plan worth the name for the next year (1986-87) with the present position of resources" -- Ibid. The Board suggested that "no schemes be announced in the budget speech from now onwards". However, the Finance Minister felt that "there will be criticism if a budget is presented without new schemes or relief measures in today's Kerala context" Ibid.

8. "Paucity of finances has prevented the State Government from making adequate provision for the proper maintenance of public assets, particularly roads and buildings. This has resulted in deterioration of buildings created at enormous cost" -- GOK, SPB, Kerala and the Award of the Fifth Finance Commission, 1969, p.5. The same observation was made by the Sixth Finance Commission. According to the norms adopted by it for maintenance of buildings and roads, the provision made by Kerala Government had been found deplorably inadequate -- GOK, SPB, The Sixth Finance Commission's Award (A Summary), p.53, About the poor conditions of maintenance of school buildings, we have already referred to in Chapter 6. Similarly, the funds allotted for the maintenance of irrigation projects had been found woefully inadequate cf. GOK, PWD, Irrigation Projects of Kerala, 1974, p.20. In the power sector, the poor conditions of the transmission system as well as distribution had been noted long back. It was found in 1967 that in many of the substations, instruments were defective requiring urgent replacement and there was no enough stock of spare instruments and spare parts -- Report of Enquiry by One Man Commission on Transmission and Distribution of the Kerala State Electricity Board, GOK, 1967, p.31.

9. For example, the net loss incurred by the Kerala State Road Transport Corporation, one of the largest public sector undertakings in the State, rose from Rs.4.08 lakhs in 1967-68 to Rs.359 lakhs in 1978-79' -- GOK, SPB, Kerala's Five Year Plans and Revenue Mobilisation, 1985 (Mimeo), p.3.

10. For instance, referring to the large-scale corruption found in the award of contracts by the KSEB, the Public Undertakings Committee (1973-74) of the Fourth Kerala Legislative Assembly in its Eleventh Report on Work and Power (KSEB) Department observed that "all these prove beyond doubt that the higher officers of the Board are more interested in safeguarding the interest of the contractors rather than that of the Board" - p.24. The Committee also made severe strictures on the "heavy incidence of overtime and holiday wages" which represented 10.5% of the total pay and allowances during 1969-70 and 12.8% during 1970-71. The system was highly

abused. For instance, overtime allowances were paid to 7 employees of a division for 18 days on which they were on casual leave/availing of restricted holiday. Overtime allowance was paid to two employees in a revenue billing unit for working from 6 a. m to 12 p.m. for 21 days in February 1971 in one case and for 16 days in another. The amount of overtime allowance paid to the employees in certain cases exceeded their monthly emoluments. Noting "with concern the percentage increase in overtime allowance", the Committee recommended that "every effort should be made to bring down the expenditure on overtime allowance"-- pp.29-30.

The Audit Report, 1986, relating to the GOK revealed several irregularities in the financial working of the Kerala State Electricity Board (KSEB, hereafter) The Central Public Accounts Committee (1966-67) which went into the matter observed that the "various financial irregularities dealt with alone indicate that the financial discipline in the working of the KSEB is somewhat slack" -- 67th Report of the Public Accounts Committee, 1966-67, p.1. The KSEB Finances Enquiry Commission, appointed by the GOK, in 1967 to look into these allegations observed in its Report that there was no proper financial control either over the collection of revenue or over expenditure. There were defaults in the remittance of moneys due to the government. "Thus, the Board has been violating the statutory provisions in regard to the payment of interest and the remittance of electricity duty" -- Report of the KSEB Finances Enquiry Commission, GOK, 1967, p.2.

11. The State's water rates and power tariffs are the lowest in the country.

12. GOK, SPB, Fifth Five Year Plan 1974-78. A Draft Outline, p.33

13. "This is rather a peculiar feature of the Indian federation. In other countries, there is either a joint borrowing authority like the Australian Loan Council, or the units enjoy independent borrowing powers" -- Jacob Eapen, "Role of Finance Commission and Planning Commission in Centre -- State Financial Relations in India", GOK, SPB, Alternate Policies for the Fourth Five Year Plan, 1969.

In India, of course, the States are allowed to go to the capital market, but borrowing programme has to be approved by the Centre and the Reserve Bank of India. What, however, the RBI does, essentially, is to fix the ceiling rates for annual borrowings by different states. However, there does not seem to be any economic rationale for determining such rates. GOK, SPB, Fifth Five Year Plan 1974-79. A Draft Outline, p.27. In the Fourth Plan period, as against a targeted net public borrowing of Rs.415 crores by the States, approximately half the amount has been appropriated by three states only which are all quite advanced. Similarly, in the case of borrowings by State enterprises such as Electricity Boards, these three states got nearly one-third of the total targeted borrowings".

14. M.M. Ansari, "Financing of the States' Plans: A Perspective for Regional Development", Economic and Political Weekly, December 3, 1983. In the first three plans, there was no definite criterion for the inter se distribution of central plan assistance among the states. Central assistance was provided according to a schematic pattern and was determined mainly by the size of the state plan outlays. From the Fourth Plan onwards, the allocation had been based on the Gadgil Formula according to which after making a lumpsum provision for Jammu and Kashmir, Assam, and Nagaland, the remaining assistance-pool was allocated as under:

    i. 60 per cent on population basis;
    ii. 10 per cent among states with a per capita income which was lower than the all-India average;
    iii. 10 per cent on the basis of the tax efforts in relation to per capita income;
    iv. 10 per cent for continuing major irrigation and power projects; and
    v. 10 per cent among states with special problems.

....

Chapter 9

SUMMARY AND CONCLUSION

Planning in India is a concurrent subject with the Centre and the States having well-defined domains of jurisdiction with regard to planning functions and sources of resource mobilisation. However, academic interest in state level planning has been few and far between. Hence, state level planning has not been subject to any systematic analysis.

The genesis of the lack of academic interest in state level planning is in the widely held belief that in the extant scheme of Centre-State economic relations, the states have little scope for initiative in planning. They are, it is held, compelled to formulate uniform plans in conformity with the national priorities.

Nevertheless, a perusal of the plans of the various states would reveal clear diversities and heterogeneities. Such diversities and heterogeneities are inescapable given the facts that (i) the introduction of planning in India was not preceded by a structural socio-economic change (in the sense of levelling up of the economic terrain of the country) and (ii) at the inception of planning, different states and social sections were at different levels of socio-economic development. This would imply that the patterns historically evolved continued and got accentuated through the plans despite the planners' declared objective of setting new patterns. Our contentions are (a) the scope for planning at the state level has been increasing, and (b) if the states experience the contrary, it is not due to the alleged process of excessive centralisation of economic powers and functions but due to the die-hard nature of the past patterns. It is in this perspective that we made an attempt to study the various aspects of planning in Kerala.

Both at the theoretical and empirical levels, Kerala has attached very great importance to planning. It has been the localeof wide and deep discussions on the various dimensions of planning. Under the aegis of the governments formed by leftist parties, it has questioned the very approach to planning in the country and has even put forward alternative approaches and policies.

In Kerala's development process, the leading sector consists of social services such as education and public health. Undoubtedly, this pattern has created a literate, intelligent and healthy population, potentially highly productive. Intelligent and healthy people are the source of growth and development in any society. Unfortunately, the state has not succeeded in realising this highly promising source created at heavy social costs. Education cannot be said to have contributed to the economic growth of the state. In fact, educated persons are considered as a burden, for the state is not able to provide them with employment opportunities. Every opportunity for 'exporting' labourers is greedily grabbed. One point that needs special emphasis in this regard is that the high demand for education in Kerala cannot be attributed to the Keralites' 'unique urge' for education. Rather, it is related to the very high level of unemployment in the state (Kerala has the highest level of unemployment in the country). It may be noted that the overwhelming significance of the social services sector has not been the outcome of planning; instead, its emergence and growth must be attributed to historical factors.

In resource allocation under the Five Year Plans, Kerala attached the highest weightage to power generation, hydro-electric projects being the major source of power in the state. Nearly one-fourth of the plan resources has been claimed by hydro-electric projects. Though it was one of the few states to achieve hundred-per cent rural electrification, Kerala's record of productive use of electricity in the industrial and agricultural sectors is one of the bleakest. In the industrial sector, the major users are a few units in the Cochin-Alwaye belt. These industries have hardly any linkages, forward and backward. Consequently, they have not succeeded in becoming the nucleus of industries. Thus, the availability of electric power has not stimulated industrialisation of Kerala which still remains one of the industrially backward states. It must also be remembered in this context that power supply is still unsteady and uncertain. In several years, the high - and extra-high tension consumers had to face 80 to 100 per cent power cuts. Under such conditions, it is naive to think of attracting industrialists to the state . In the agricultural sector, Kerala's level of productive use of electric power is one of the lowest.

Major and medium irrigation projects claimed nearly 15 per cent of the plan expenditure incurred upto the end of the Sixth Plan. However, in the matter of irrigation, the state has been facing a number of formidable problems. Here, we mention the major ones.

(a) Owing to inordinate delay in implementation, there have been staggering time and cost over-runs. It is shocking to note that there are projects started as early as the mid-fifties still remaining to be completed. Needless to say, their latest estimated costs are several times the original estimates. As the on-going projects gobble up the major chunk of the resources available in any particular plan period, hardly anything is left for fresh planning.

(b) Due to proliferation of projects, the resources have been rather thinly spread over them.

(c) The majority of the projects are concentrated in just two districts, viz. Palghat and Trichur.

(d) Almost the entire irrigation facilities are used for paddy cultivation which is not, at present, a profitable proposition. The state has not so far succeeded in using the irrigation facilities for more lucrative crops such as coconut. At the same time, cost of canal irrigation is estimated to be the highest here. This is, of course, due to topographical reasons, the terrain in the state being of an undulating nature. Considering the peculiar topographical characteristics, resource constraints, and the need for diversifying agricultural production, minor irrigation seems to be ideally suited here. However, so far, the state has not explored the possibilities in this regard.

Thus, we find that the planning process in Kerala has not strengthened the productive base of the state. The twin basic problems, vi., unemployment and shortage of foodgrains, have not only persisted but also got accentuated through the planning process. Hence, the conclusion is inescapable that planning in Kerala has not solved the basic problems of the state. Then, the question legitimately arises; why the state does not change this pattern? Under a planning regime, if development is not proceeding in the desired direction, it should be possible to change that direction. But, here, we find that the state is proceeding with the development pattern despite the conviction that it is a wrong pattern.

A fact which bears re-iteration in this context is that the present development pattern of Kerala is not the outcome of a planned process based on any well-prepared blue-print. Rather, it is the creation of a historical process. What has really happened under the Five Year Plans has been the accentuation of the historical process. As was already mentioned, in India as a whole, planning did not entail any break with the past. In other words, it had to conform itself to the unbroken continuity of the historical patterns and processes. Despite its unique characteristics such as high literacy and socio-political awareness, spread of leftist ideas and ideologies etc, Kerala is not fundamentally different from other Indian states as far as striking new grounds is concerned. Incidentally, it may be noted that notwithstanding the prevalence of left parties which vociferously advocate decentralisation, Kerala belongs to those states whose record of decentralisation is anything but encouraging. In the peculiar political climate of the state wherein coalition politics has come to stay, the tendency over time has been toward more and more centralisation of power at the state level. This is quite intriguing in view of the fact that if at all people's participation in development is a meaningful concept, the Keralites are pre-eminently qualified for that.

The Government of Kerala always used to be in the grip of fiscal problems. Right from the formation of the state, this has been so. In many years, the government had a revenue deficit requiring grant-in-aid under Article 275 of the Constitution. Thus, the state has earned the dubious distinction of being a 'grant-in-aid state'. Owing to the unbridled increase in non-plan expenditure, it could not spare much resources for planning, compelling it to go in for smaller and smaller plans. Per capita plan expenditure in Kerala has been one of the lowest in the country.

Though, in terms of per capita income, it is a middle-income state, in the matter of taxation, it belongs to the high-income states such as Punjab, Maharashtra and Gujarat. Tax burden is very high in the state. At the same time, its tax structure is not that of a progressive state. It is shy of adequately taxing powerful and articulate sections. The most conspicuous example is the plantation sector. The State Government, irrespective of the parties forming it, easily succumbs to the pressures exerted by the pressure groups. In its scheme of taxation, the state relies excessively on sales tax which is universally accepted as a regressive tax.

An important paradox with larger implications may also be noted. Kerala is widely acclaimed to have implemented 'radical' land reforms. However, contrary to the expectations and historical experiences, these reforms have not resulted in boosting agricultural production which, on the whole, has been declining since the mid-seventies. Obviously, this paradox implies the inadequacies and loopholes in the reforms. Arguably, land reforms in Kerala call for a fresh look.

As is evident from above, planning in Kerala has not enabled us to solve the basic problems of the state. More 'scientific' planning in the sense of applying more sophisticated planning techniques is obviously not the answer. It, on the contrary, consists of more fundamental changes some of which can be brought about through an effective use of measures well within the power of the State Government. In the absence of these urgent changes which call for firm political determination, the world will soon realise the futility of eulogising the so-called 'Kerala model'.

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APPENDIX

Table 1

Sectoral Contribution of Net Domestic Product of Kerala and India at 1970-'71 Prices (Percent)

Sector	Kerala		India	
	1970-'71	1984-'85	1970-'71	1984-'85
1. Primary	49.3	39.5	50.1	39.1
2. Secondary	16.3	18.0	19.7	21.0
3. Tertiary	34.4	42.5	30.2	39.9
Total	100.0	100.0	100.0	100.0

Source: Government of Kerala (GOK hereafter), State Planning Board (SPB hereafter), Economic Review 1986

Table 2

Per Capita Government Expenditure on Education in Kerala

Year	Population (lakhs)	Govt.* Expenditure on Education	Index of growth	Per capita Expenditure (Rs)	Index of growth
1961-62	173.02	1854.84	100	10.72	100
1966-67	194.35	2774.60	150	17.88	167
1971-72	218.29	6614.87	357	30.30	283
1976-77	239.50	14102.81	760	58.88	549
1980-81	253.84	21098.54	1137	83.12	775
1981-82	254.03	42451.00	1307	95.46	890
1982-83	259.49	26527.29	1430	102.33	954
1983-84	268.47	30709.23	1656	114.59	1069
1984-85	270.05*	34595.27	1865	128.10	1194
1985-86	274.05*	41100.13	2215	149.97	1399

Source: GOK, SPB, op.cit.

* Rs. in lakhs.

Table 3

Cost of Education Per Pupil from 1966-67 to 1985-'86

Year	Primary stage	% increase from previous year	Secondary stage	% increase from previous year
1966-67	54.17	..	103.81	..
1980-81	265.24	..	454.25	..
1981-82	298.18	12.41	536.37	18.08
1982-83	326.13	9.37	589.41	9.89
1983-84	372.62	14.25	657.60	11.57
1984-85	414.43	11.22	737.31	12.12
1985-86	502.03	21.13	816.06	10.68

Source: GOK, SPB, *op.cit.*

Table 4

Literacy Rate in Kerala - Age-wise and Sex-wise

1971 & 1981

Age group	Persons Males Females	1971 Total	1971 Rural	1971 Urban	1981 Total	1981 Rural	1981 Urban
All ages	Persons	60.4	59.3	66.4	70.4	69.1	76.1
	Males	66.5	65.6	72.0	75.3	74.1	80.1
	Females	54.3	53.1	60.6	65.7	64.3	72.2
5+	Persons	69.8	68.5	75.9	78.9	77.6	84.5
	Males	77.1	76.1	82.5	84.7	83.6	89.3
	Females	62.5	61.2	69.3	73.4	71.9	79.9
10+	Persons	72.8	71.7	78.8	81.0	79.7	86.5
	Males	81.6	80.6	86.6	87.7	86.7	92.1
	Females	64.3	63.0	71.1	74.6	73.0	81.2
15+	Persons	69.2	67.8	76.0	78.1	76.6	86.5
	Males	79.4	78.2	85.1	86.0	84.7	92.1
	Females	59.4	57.8	67.1	70.8	68.9	81.2
35+	Persons	55.7	54.1	63.4	63.9	61.8	73.0
	Males	70.2	68.7	77.7	77.2	75.3	85.2
	Females	41.4	39.9	49.4	51.4	49.0	61.6

Source: Census Reports.

Table 5

District-wise Literacy Rates of Scheduled Castes, Scheduled Tribes and Total Population in Kerala --1981

District	Literacy Rate		
	Scheduled Castes	Scheduled Tribes	Total Population
Trivandrum	59.01	58.06	70.50
Quilon	57.67	50.30	74.11
Alleppey	67.95	55.71	78.52
Kottayam	71.79	73.63	81.66
Idukki	48.76	43.55	67.44
Ernakulam	63.10	52.60	76.82
Trichur	58.16	29.90	73.59
Palghat	41.93	12.04	58.00
Malappuram	47.71	16.33	60.50
Kozhikode	62.26	21.45	70.12
Wynad	48.09	20.74	58.33
Cannannore	47.06	33.18	65.74
State	55.90	31.79	70.42

Source: Census of India 1981

Table 6

Percentage Distribution of Persons in Kerala Attending School/College

by Age and Sex 1981

Age group	Total			Rural			Urban		
	Persons	Males	Females	Persons	Males	Females	Persons	Males	Females
5 - 9	75.1	75.1	75.1	74.1	74.2	74.3	79.1	79.3	78.8
10 - 14	86.0	88.0	84.0	85.4	87.6	83.1	88.7	89.4	87.9
15 - 19	44.4	48.7	40.5	43.3	48.0	39.0	49.0	51.4	46.9
20 - 24	10.0	11.6	8.0	8.9	10.8	7.1	12.8	14.7	11.1
25- 34	1.1	1.4	0.8	1.0	1.2	0.7	1.6	2.0	1.3
35 +	0.3	0.4	0.2	0.3	0.4	0.2	0.4	0.5	0.3
10 +	22.5	24.2	20.9	22.3	24.1	20.6	23.2	24.4	22.1
5 +	29.3	31.0	27.6	29.1	30.9	27.3	29.9	31.2	28.7

Source: Census of India 1981

Table 7

Trends in State Taxes and Duties - Kerala (Rs. in lakhs) - Accounts

Items	II Plan (1957-'61)	III Plan (1961-'66)	Annual Plans (1966-'67 to 1968-'69)	IV Plan (1969-'74)	V Plan (1974-'79)	Annual Plans (1978-'79 to 1983-'84)	VI Plan * (1980-'81 to 1983-'84)	Total (1957-'58 to 1983-'84)
1. Taxes on Agricultural Income	756 (12.1)	1137 (7.5)	936 (6.0)	1586 (4.2)	2779 (4.1)	2171 (4.0)	4176 (2.6)	13581 (3.8)
2. Land Revenue	537 (8.1)	857 (4.7)	546 (3.5)	1064 (2.8)	1250 (1.0)	710 (1.2)	1203 (0.9)	6167 (1.7)
3. Stamps and Registration	688 (10.1)	1599 (10.6)	1499 (9.6)	3801 (10.1)	5778 (8.5)	4504 (8.3)	12278 (7.6)	30147 (8.4)
4. State Excise Duties	938 (14.6)	2034 (13.5)	2494 (16.0)	5018 (13.3)	10720 (15.6)	10329 (19.0)	25222 (15.3)	56755 (15.7)
5. Sales Tax	2755 (42.0)	7137 (47.2)	7794 (50.0)	21197 (56.1)	39958 (58.5)	30951 (56.7)	102963 (63.3)	212760 (59.0)
6. Taxes on Vehicles	755 (11.8)	1751 (11.6)	1498 (9.6)	3365 (8.9)	5194 (7.6)	4002 (7.2)	9365 (5.8)	25950 (7.2)
7. Taxes on goods & Passengers	--	--	--	--	674 (1.0)	15	6	695 (0.2)
8. Taxes & Duties on Electricity	15 (0.2)	180 (1.2)	--	1416 (3.7)	1655 (2.4)	1674 (3.0)	7148 (4.4)	12188 (3.4)
9. Other Taxes & Duties on Commodities and Services	49 (0.8)	417 (2.7)	828 (5.3)	362 (0.9)	304 (0.5)	147 (0.6)	149 (0.1)	2256 (0.6)
10. Total	6553 (100.0)	15112 (100.0)	15595 (100.0)	37809 (100.0)	68312 (100.0)	54503 (100.0)	162615 (100.0)	360499 (100.0)

Source: Kerala Budgets in Brief

* For four years only

Figures in brackets : percentages

Figures rounded to lakhs.

Table 8

Age Distribution of Population in Kerala 1981

(Population in '000s)

Age group	Persons	Percentage	Males	Percentage	Females	Percentage
0 - 14	8913	35.02	4521	36.08	4392	33.97
15 - 19	3010	11.83	1444	11.52	1566	12.12
20 - 24	2620	10.29	1250	9.98	1370	10.60
25 - 29	2082	8.18	1001	7.98	1081	8.37
30 - 34	1578	6.20	789	6.30	789	6.10
35 - 39	1401	5.50	674	5.38	727	5.62
40 - 49	2303	9.05	1138	9.09	1165	9.01
50 - 59	1626	6.39	815	6.51	811	6.28
60 +	1917	7.52	895	7.15	1022	7.91
ANS	4	0.02	1	0.01	3	0.02
Total	25454	100.0	12528	100.0	12926	100.0

Source: Census of India 1981 - Part II Special

ANS : Age not specified.

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