

S.S.e.15. LIZY, M.A.—Federal Financial Relations with Special Reference to Kerala—1989—Dr. K.C. Sankaranarayanan

Introduction

In India as in other Federal Countries, States are endowed with less elastic sources of revenue while they have to perform a large number of functions. Consequently all the states invariably experience revenue gaps in their budgets. In the case of Kerala also such a trend is visible. Each State experiences problems of vertical fiscal imbalance differently owing to the presence of horizontal fiscal imbalances which arise from varying levels of development, levels of fiscal need, fiscal potential and performance. Even though transfer of resources from the Centre to the States increased during the study period, the available data indicate that in the case of Kerala there is imbalance between fiscal requirements and resource availability. Problems of persistent poverty and unemployment along with high literacy level and high density of population continue in the State without any serious challenge from any quarter.

Importance of the Study

The appointment of the Commission on Centre-State relations (Sarkaria Commission) highlighted the problems in federal state relations in India. There is a large volume of literature on the federal financial relations in other federations.

The literature on Indian federal financial relations is also quite sizeable. But there has been no major detailed study on the financial relations of Kerala with the Centre.

The transfer of resources from the Centre to the State of Kerala has attracted much academic attention. But this was limited to a specific aspect or to a particular agency of transfer. Likewise issues related to various aspects of development of the State have been studied, but none of them looked into the finances of the State and its relation with the Centre. The present study tries to fill this gap by examining the devolution of resources according to its form (viz. tax shares, grants and loans) through agencies like the Finance Commission, the Planning Commission and various ministries and also by making an attempt to unveil the composition of State Finances and expenditure. The study is likely to have relevance to policy formulation.

Objectives of the Study

1. To examine the nature of the financial plans (budgets) of the State of Kerala.
2. To study the composition and growth pattern of statutory transfer of financial resources from the Centre to the State.
3. To examine the trends, growth rate of plan grants, non-plan grants, shared taxes and loans.
4. To study the taxation and expenditure pattern in the State as also duties in relation to variables like income and transfer of resources from the Centre to the State.
5. To study the behaviour of intra state resources allocation.

Methodology and Data Collection

This is a historical study evaluative in nature. The study analysed the trends in revenue and expenditure of the State Government during the period 1956-57 to 1984-85. The study is largely based on secondary data collected from the reports of the Finance Commission, Planning Commissions, Reserve Bank of India Bulletin, Budgets of the State Government, Combined finances and revenue Accounts, Minutes of the National Development Council meetings.

Limitations

This study is however subjected to some limitations. The major limitation is owing to the nature of the data. The study period is limited to 1956 - 1985. The study period is coterminous with the second five year plan and second Finance Commission to sixth five year plan and seventh Finance Commission. It has not been possible to compare the Kerala situation with all the other States in all the stages of study due to changes in number of States and non-availability of data.

Plan of the Study

This study is divided into seven chapters. The first chapter is introductory in nature. It consists of the general characteristics of the State economy, statements of the objectives, methodology, limitations and a brief review of literature.

The second chapter reviews the annual budgets of the State of Kerala for a period of 28 years with a view to understand the nature of the financial plans over the period.

The composition of statutory transfer of resources from the Centre to the State and also the adequacy of financial transfer was analysed in terms of variables

which are more relevant to the State of Kerala.

The fourth chapter deals with trends of growth rates of plan grants, non-plan grants, loans, shared taxes from the Centre to the State.

Chapter five focuses on State taxes, duties and expenditure and the relationship between per capita transfer of resources from the Centre to the State etc.

The sixth chapter is an endeavour to analyse the development of regions in Kerala and the nature of plan allocations to these regions.

Summary, Conclusion and prospects of the study are presented in the last chapter.

Conclusions

1. Even though several variables were considered for transferring financial resources from the Centre to the States, it is observed that most of these variables do not represent the specific needs of the State of Kerala.
2. An analysis of State taxes and duties shows that State's taxation has registered perceptible structural shifts a shift from direct to indirect taxes.
3. A region-wise analysis of plan allocations in the State has been done. The analysis revealed that plan allocations do not favour the backward regions.
4. The study highlights the nature of the financial plans of the State of Kerala. It further revealed that shortfall in Kerala's total revenue during the period under study was not exclusively due to the fall in Central transfers. It was partly due to the fall in State's own revenue.

Recommendations

For having healthy financial relations between the Centre and the States the following aspects may be considered.

For selecting criteria for resource transfer, variables should be selected in such a manner that the selected variables should not have high correlation between each other but should represent the specific needs of the State.

The lion's share of the State's non-developmental expenditure is incurred for paying interest charges. The Centre should not charge interest on the loans given to the State Government. Though it is not analysed, it seems relevant in the case of Centre-State relations.

For the efficient devolution of financial resources from the Centre to the States, either the uniform application of selected variables through different agencies or the setting up of permanent agency is the need of the hour.

While determining the share of Central assistance to each State, the Centre has to take into consideration the impact of its own policy regarding pay revision, granting of additional dearness allowance, salary etc.

The devolution of financial transfers in the constitution is based on the 1935 Act. Unless the constitution is changed stock, lock and barrel the present discrepancy will continue.

Contribution of the Researcher

Issues relating to various aspects of the developments of the State have been studied by various agencies and individuals. But none of them looked into the financial relations of the State of Kerala with the Centre. This study is an attempt to fill this gap by examining the devolution of resources from the Centre to

the State. It endeavours to unfold the issues involved in the problems referred, and urges the planners and policy makers to think on the lines suggested in order that a healthy relationship may result between the Centre and States in the matter of financial relation.