



CPPR India | **REBUILD KERALA**
POLICY BRIEF 2018

REBUILD KERALA

EXECUTIVE SUMMARY

Kerala witnessed the worst natural calamity in a century, claiming around 500 lives. The floods brought in a huge loss to the economy putting fiscal pressure on the state which is already passing through a phase of fiscal crisis. The situation calls for an immediate evaluation and rethink on the policy actions for rebuilding the state. The major issues faced by the Kerala economy are high unemployment rate, lack of adequate job creation, and high fiscal deficit. The government should take this as a golden opportunity to review the existing governance style in the state. It should take urgent measures to rein on fiscal deficit that includes minimising the size of the government and disinvesting on loss making PSUs. Reforms in the labour market is the need of the hour to attract more investments to the state.

Kerala Economy- Important Facts

- GSDP of Kerala is estimated at 6.1 lakh crore in 2016-17, registering a growth rate of 7.1 per cent at constant prices
- Share of primary, secondary and tertiary sector to the GSVA of the state at constant prices was 11.27 per cent, 25.59 per cent and 63.14 per cent respectively
- As per Quick Estimates (Q) in 2016-17, primary sector registered a growth rate of 5.19 per cent, secondary sector and tertiary sector at 2.88 per cent and 6.70 per cent respectively at constant prices
- Per capita income of the state is also one of the highest in the country at ₹1, 28,347 against the national average of ₹82,269
- With around 20 lakh emigrants, the state receives 19 per cent share of the total remittances to India
- Remittances registers a share of 36 per cent to state's GDP
- The unemployment rate in the country is 12.5 per cent against the all India level of 5 per cent
- In 2016-17, fiscal deficit and revenue deficit as a share of GSDP stands at 4.28 per cent and 2.51 per cent respectively
- The total debt of the state stands at ₹186453.86 crore

STATEMENT OF THE PROBLEM

The floods have aggravated the issues faced by the economy of Kerala. The huge loss caused to the economy has also brought in more pressure to the government which already passing through a phase of fiscal crisis.

CHALLENGES FACED BY KERALA ECONOMY

1. Strained Fiscal Position

In 2016-17, fiscal deficit as per cent of GSDP stands at 4.29 per cent which is above the permissible level of 3 per cent as mandated by the 14th Finance Commission. Revenue deficit of the state stands at 2.51 per cent against the target of zero percent.

- Decomposition of fiscal deficit shows that revenue deficit has a share of around 60 per cent to the total fiscal deficit.
- Salary, pension, and interest payment expenditure constituted around 60 per cent of the total revenue expenditure in 2016-17. The high share of salary and pension expenditure is due to the increasing size of the government.
- At present, there are 121 departments with around 5 lakh employees. Each month government spends around ₹3000 crore on just 1.6 per cent total population for paying salaries

Economic loss due to floods

- Cost of rebuilding Kerala is estimated at \$3.2 billion.
- Nearly 10,000 km of national state highways and over 60,000 km of Panchayat roads have been damaged.
- Around 22,000 houses have been reported as destroyed or damaged.
- The wage loss due to floods have been pegged at around ₹4000 crore for the month of August, 2018

2. Loss Making PSUs Bringing In More Fiscal Strain Leaving Less Space For Infrastructural Development

In Kerala, there are 117 PSUs of which 96 are functional. Of the total working 96 PSUs, 62 units are wholly owned by Government of Kerala. The total accumulated loss of the PSUs in the state stands at ₹11,757.58 crore in 2014-15.

3. Kerala Registers Highest Unemployment Rate

The state registers one of the highest unemployment rate in the country at 12.5 per cent against the national average of 5 per cent. Unemployment rate among the youth is at a much higher rate compared to the overall population. The unemployment rate of the youth is 21.7 per cent in rural areas and 18 per cent in urban areas. The onset of floods has aggravated the unemployment issue in the state. For instance, the unemployment rate in rural areas stood at 15.79 per cent in August 2018 above the average rate.

4. Tag of Investment Unfriendly State

Kerala holds the tag of investment unfriendly state, mainly due to the trade unionism and rigid labour laws. It adversely affects job creation in the state, which is plaguing with issue of high unemployment rate.

PROPOSED POLICY RECOMMENDATIONS

1. Kerala has the highest smart phone penetration in the country, 65 per cent against the national average of 47 per cent. The state has 42.94 million wireless subscribers, with one of the highest wireless teledensity in the country at 118.86 against the national average of 88.00. The total number of internet subscribers in the state stands at 20.99 million with

“strengthen e-governance that would indirectly help in minimizing the size of the government and better service delivery to the citizens.”

57.96 internet subscribers per 100 population. The numbers clearly show that Kerala has the adequate infrastructure to strengthen e-governance that would indirectly help in minimizing the size of the government and better service delivery to the citizens.

2. Disinvestment of loss-making units in the state should be initiated in an urgent manner. To start with the government can take the route of minority stake sale followed by a strategic sale to bring in more efficiency to the units. Minority stake sale will help government to mobilise resources by retaining the management control. The top ten enterprises in terms of accumulated loss are listed in the table below:

"minority stake sale followed by a strategic sale to bring in more efficiency"

Table 1.1 List of Enterprises with Accumulated loss

Kerala State Road Transport Corporation
 Kerala Water Authority
 Kerala State Electricity Board Limited
 Kerala State Cashew Development Corporation Limited
 Kerala State Housing Board
 The Kerala State Civil Supplies Corporation Limited
 Kerala State Electronics Development Corporation Limited
 Kerala State Textile Corporation Limited
 Autokast Limited
 Kerala Electrical & Allied Engineering Company Limited

3. Kerala should push in reforms in the higher education sector by encouraging private universities. There is a great scope for the state to transform into a knowledge economy. There should be adequate policy reforms in the sector to project the state as the educational destination in the country. If the state is successful in attracting students, it will be a boost to the local economy and a source of revenue generation for the government. The existence of private universities could also act as a checkmate to the public universities which could lead to overall improvement in the quality of education.
4. There should be concerted effort to push in reforms in the labour market that could lead to job creation. Labour laws in the state should be made more employer-friendly that could attract more investments in the state. Major reforms needed in the labour market are :
- Revisiting Minimum Wage Act,1948
 - Relaxation in Hire and Fire provisions, Industrial Disputes Act,1947

"project Kerala as the educational destination of India"

- Relaxation in layoff rules, Industrial Disputes Act, 1947
 - Adoption of the labour code
5. Flexibility in labour laws can promote gig economy thereby encouraging more labour force participation. More labour force participation can lead to an overall increase in income which can stimulate the consumption of the state. It can act as a stepping stone in reviving the consumption-led growth of the state. The state relies more on consumption-led growth and a concerted effort should be taken in this direction.

“employer friendly labour laws to attract more investment”

“flexibility in labour laws to promote gig economy to encourage more employment”

CONCLUSION

The deluge of 2018 has brought in huge economic loss to the state. Government should use this as an opportunity to revisit its policies to build a 'New Kerala' and not confine to the infrastructure development required aftermath of the floods alone. Measures should be taken to bring in more fiscal discipline by minimising the size of the government and it should withdraw from the paternal style of functioning. The policies in the state should be amended to bring in more investment that could help in reducing the unemployment rate. The policies can also act as a stepping stone in reviving the economy badly affected by floods.

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