New approach to planning in Tamil Nadu: Targeting the growth process

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29 December 2006

Planning with 'Human Face'
Tamil Nadu's Approach towards 'Correctives'

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An abridged version of this paper is Published in
The Hindu Business Line
29 December, 2006

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Abstracts

The Approach Paper to 11^{th} Five Year Plan (2007-2012) prepared by the Tamil Nadu State Planning Commission (SPC, 2006) has made a marked and pertinent shift from the past. While the Approach Paper implicitly recognizes the deteriorated development scenario in the Tamil Nadu since early nineties, it has come out with a ‘human centered’ alternative approach that precisely aims to ‘correct’ the dismal fall out of the ‘growth centered’ ‘fiscal corrective’ measures launched in the state. It is not ‘growth target’ as such but 'growth process' will be the objective of the 11^{th} Plan, according to the new developmental approach of Tamil Nadu, an Indian state. The approach is technically sound and practically more relevant to address the economic fall out of ‘fiscal correctives” of early 2001. The paper suggests an all out effort to increase public expenditure on the sectors identified by the Approach Paper. The paper has also made an appeal to the Union Planning Commission to emulate the Tamil Nadu’s model for the 11th Plan to the challenges of agriculture, social sector and distributive justice in the rest of India and to avoid any democratic backlash as happened to the former governments at central and state levels.

Key words : Planning – Human Face – Five Year Plan – Growth Process – Social Sectors – Tamil Nadu - India

Planning with ‘Human Face’
Tamil Nadu’s Approach towards ‘Correctives’

The Approach Paper to 11^{th} Plan (2007-2012) released for wider discussion by the Tamil Nadu State Planning Commission (SPC, 2006) has made a marked and pertinent shift from the past. While the Approach Paper implicitly recognizes the deteriorated development scenario in the state since early nineties, it has come out with a ‘human centered’ alternative approach that precisely aims to ‘correct’ the dismal fall out of the ‘growth centered’ ‘fiscal corrective’ measures launched in the state. It is not ‘growth target’ as such but 'growth process' will be the objective of the 11^{th} Plan, according to the new developmental approach of the state. The approach is technically sound and practically more relevant to address the economic fall out of ‘fiscal correctives” of early 2001.

The Approach Paper has made an in depth and comprehensive sector wise analysis of the Tamil Nadu economy since 1993-94. It is evident that the ever elusive nature of the automatic link between growth and distribution that has not been witnessed in many countries and regions both at higher and lower growth trajectories has also been confirmed in Tamil Nadu. Hence, the emphasis is on the ‘growth process’ implying a growth in the living standards.

Further, the pursuit of neo-liberal fiscal reforms, having failed to place the state’s economy on higher growth trajectories as promised, have suddenly squeezed the public expenditure to an unprecedented extent and impaired the ability of the state government in providing even its committed social sector deliveries. The failure to provide the essential rural infrastructure like irrigation had taken its toll on rural and agricultural front. The immediate relevance of the new approach is clear to be seen in terms of the general deterioration of the state's development scenario.

The then ruling AIADMK government launched a wide-ranging 'fiscal course correction exercise' since early 2001 under the aegis of World Bank with a promise to bring 'the economy back on the rails'. However, all of them have been reduced to a single *manthra* viz. deficit reduction; and the 'exercise' relied fully on the expenditure compression rather than revenue mobilisation to reduce the 'not so alarming' deficit levels. A series of huge cuts in public expenditure has been made including the scaling down of the Tenth Plan outlay. Subsequently, the Tamil Nadu Fiscal Responsibility Act (FRA) has been implemented to ensure the targeted reduction of fiscal deficit and virtual elimination of revenue deficit; the avowed objective of the MTFP pursued in lieu of FRA was to achieve a higher level of economic growth on a sustained basis'.

However, the immediate development implication[1] of the contractionary fiscal policies was a fall in the GSDP from Rs. 91011 crore in 2000-01 to 89011 crore in 2001-02 recording a negative growth rate of – 2.2 percent (Table 1). The fall out was equally visible by a marked decline in the state's share of GSDP in the GDP.

The crowding in has not taken place and instead the industry has suffered a whooping -9.6 percent decline during the same period. The revised and the quick estimates for the subsequent years, though inconclusive, are pointers to the industrial sector's instability, leave alone shifting the trajectory to a higher level.

The growth of tertiary sector being the general phenomenon in India can benefit the states only when the union government makes the much demanded legislation to assign the service taxes fully to the states in order to avoid the consummate neglect of almost half of the state's taxable capacity.

The agriculture sector has suffered heavily with high level of negative growth rates. The mounting inter-state water conflicts, water scarcity, increasing cost of cultivation added with less remunerative prices for agricultural produces, poor credit facilities and above all insufficient or virtual absence of rural infrastructure facilities are some of the major challenges facing the state economy.

The Approach Paper argued that agriculture being the critical sector for the overall growth, income levels and well being of the people has been in a crisis through the period 1993-94 - 2005-06. While the relative share of agriculture to the GSDP has declined from about 25 percent in 1993-94 to 13.3 percent in 2005-06, more than half of the population (56 percent) continues to depend on it for livelihood. The fact that nearly 56 per cent of the population living in rural areas is dependent on less than one-seventh of the state income raises a serious concern regarding distribution of income, argues the approach paper.

Having recognized the problem right, the strategy of the approach calls for a 'crucial direct role' to be played by the state. Further, for the revival of agricultural sector, the focus will be on the 'farmer and his welfare' rather than on the 'farm and/or technology' as done before. It also laid down specific areas of intervention like access to land, credit, market, support prices, etc. Similar 'inclusive' strategies are spelt out for all other sectors viz. social sector, service, industry, etc. with a marked and direct focus on issues of direct human well being.

The development record of Tamil Nadu during the post-independent era shows that the unique process of development is mostly inherited from the first quarter of the 20th century. Since then, social justice has been accepted as one of the cardinal development objectives to be pursued. Many innovative social sector schemes (protective as well as promotional) have been designed by the ruling D.M.K. government aimed at direct redressal of human problems viz. social security, food security, nutrition, literacy, primary health, social welfare, welfare of women, children, and weaker sections, housing, poverty and unemployment (S. Guhan, 1991; M. Naganathan, 2002; K. Jothi Sivagnanam and M. Sivaraj, 2002).

Most of these schemes are targeted towards specific income and/or social groups with social justice objectives. Some of them were widely appreciated and some of them were even emulated at the national level. The degree with which such policies are being pursued is further evident from the fact that unlike its northern counterparts, almost half of the public expenditure in Tamil Nadu is being spent on social sector. However, none of the earlier plans over six decades had recognized the distributional considerations as explicitly as did by the Approach Paper to 11th Plan for the state.

The new approach, with its equity overtone, basically relies on more public expenditure on social, agricultural and rural sectors in order to directly influence the process of growth. However, the falling level of social sector expenditure since nineties has raised serious concerns. The state's average annual revenue expenditure was 19.1 percent of GSDP during early nineties. Within that, as GSDP ratio, 7.2 percent, 3.4 percent and 0.9 percent were spent respectively on social, agricultural (including irrigation) and rural sectors. All together including civil supplies, the state has spent around 62 percent of its revenue expenditure (11.8 percent of GSDP) on these crucial 'human centered' sectors during early nineties (Table 2).

However, since then the share of all such crucial public expenditure has steadily declined until it reached its lowest average of 7.1 percent during the years 2002-03 to 2004-05 on the revenue account resulting in a massive cut of around 40 percent.

Though the level of capital expenditure on social sector has increased minusculy over the years, the absolute level is very meager at les than 0.4 per cent of GSDP. The total capital expenditure on social, agricultural and rural development has been at less than one percent of the state GSDP. The dire fiscal developments of the reform years has emerged as the leading problem of the economy that plagued the other sectors marked by a distinct phase of declining public expenditure for social and development sectors.

The state Budget for 2006-07 has rightly hiked the allocation to social sectors by 17 percent over the revised revenue expenditure estimate of 2005-06 and the government has come out with many new schemes in the above areas and made many policy reversals including that of public recruitment. Still the share of social sector yet to reach its pre-reform level as it constitutes only 35 percent of the revenue expenditure that too only as the budget estimate.

The magnitude of the problem accumulated in the recent years is much greater. The crippling effect of the sustained cut in the statutory federal transfers and the resultant mounting debt and its servicing burden, in ruining the state finance of Tamil Nadu is now very clear (Table 3). The finances of Tamil Nadu, with the best relative tax effort possible are fast deteriorating with mounting debt servicing commitment which is almost equivalent to the proportionate federal cut.

The revenue expenditure, being the base for social sector expenditure in Tamil Nadu, had taken a deep dive by loosing around 4 points (as GSDP ratio) since early nineties. Now the huge overhang of public debt and mounting interest payment effectively crippled the ability the state to undertake even the traditional level of socially necessary and committed expenditure. Further, the amended MTFP, presented along with the State Budget 2006-07 *in lieu* of FRA requires eliminating revenue deficit by 2008-09. Under these conditions, a clear shift from 'expenditure compression' to 'revenue mobilisation' should be the focus of any further fiscal initiatives; but it is a challenging task.

It requires an immediate revamp of union transfer policies, first to compensate the statutory revenue forgone (either by increasing the transfers or by adequate debt relief) and then to increase the required public spending as well. After having insisted for the reversal federal transfers, the Approach Paper pleads the State Government to strongly pursue the case for the Union Government to allow States to levy taxes on the service sector which is the highest contributor to the GSDP in order to overcome problem of limited tax base and shrinking federal transfer.

Another immediate concern on the plan account is the persistence of our Planning Commission to continue with the Gadgil formula. According to this formula plan transfers will consist 30 percent plan grant component on the revenue account and 70 percent as loan. The total irrelevance of the 30:70 ratio emanate first from the fact that it was arrived at a time when state finances did not suffer as much of their current debt burden. Secondly, when the state of Tamil Nadu spends around 62 per cent of its revenue expenditure on 'human centered' sectors, it is the right time for the Planning Commission to reconsider the (ir)relevance of its plan transfer approach and revise it with more revenue grant component than that of loan. The ratio can at least be revised as 50:50 during the 11th plan period.

On the own revenue front, the fiscal concessions extended in lieu of the perceived benefits of FDI have raised causes of concern. How far the cost in terms of the liberal fiscal sops (including the allotment of vast tracts of lands, provision of power and other infrastructure facilities) offered *in lieu* of FDI are in commensuration with the benefits. This linkage between the actual cost and perceived benefits of FDI is crucial in Tamil Nadu in lieu of the fact that the state is one of the leading states that attract more FDI but the development outcomes are not equally encouraging. Hence, detailed cost-benefit analysis about the development implications, particularly in terms of income, employment and improved fiscal health of the states (or otherwise), needs to be carried out on a project to project basis.

The, proximate and ultimate objective of the Eleventh Plan of Tamil Nadu as declared by the approach paper is ' to safeguard the livelihood of the population and improve their living conditions'. 'This would require adequate attention not just to the rate of economic growth, but also to the nature and pattern of the growth' emphasizes the approach. And all out effort is needed to increase public expenditure on the sectors identified. Thus, the approach paper is very clear, and appropriate; there is no ambiguity between the 'ends' and 'means' as they have became one and the same.

The 'benefits' that have failed to ‘trickle down’ for so long and even at eight percent growth rates during the last three consecutive years at the national level may prefer to be 'invisible' eternally, for reasons best known to our die-hard neo-liberals. Hence, it is the right time for the Yojana Bhawan to have a thorough re-looks at their basic approach for the 11th Plan. This appeal deserves significance on two counts: first that the challenges of agriculture, social sector and distributive justice in the rest of India are almost similar to that of Tamil Nadu or even worse in some parts; then it needs to be noted that democracy has repeatedly rejected the growth centered neo-liberal reforms through the electoral verdicts of people both at the state (including Tamil Nadu) and national levels sternly defying any ‘shine’ or ‘hype’ of the campaign.

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(I thank R. Srinivasan, Full Time Member, Tamil Nadu State Planning Commission, for the suggestions and valuable inputs he rendered in his personal capacity).

Note

1. The immediate political fall out of the fiscal reforms was evident from the electoral verdict of the parliamentary election held in 2004. The ruling AIADMK party was defeated in all the forty seats contested in the state. The democratic response of the people in Tamil Nadu is more lethal than that of their counterparts at the state as well as national levels. The immediate reaction of the then ruling establishment was the announcement of a series of quick reversal of almost all the fiscal ‘corrective measures’ that earned the wrath of the people in two consecutive elections.

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Table 1 Growth and Structure of GSDP at Constant Prices

	Primary Sector		Secondary Sector		Tertiary Sector		GSDP		
	Growth	Share	Growth	Share	Growth	Share	Rs in Crore	Growth	Share in GDP
1993-94		25		34		42	57549		7.4
1994-95	11.3	24	15.7	35	10.8	41	64784	12.6	7.7
1995-96	-12.6	21	8.8	36	8.5	43	67021	3.5	7.5
1996-97	-0.8	20	2.0	35	10.3	45	70336	4.9	7.3
1997-98	8.5	20	1.9	33	13.0	47	76105	8.2	7.5
1998-99	9.0	20	0.6	32	5.9	48	79703	4.7	7.4
1999-00	-4.8	18	10.8	33	7.6	48	84575	6.1	7.4
2000-01	4.5	18	7.9	34	8.5	49	91011	7.6	7.6
2001-02	0.1	18	-9.6	31	2.1	51	89011	-2.2	7.0
2002-03 (R.E.)	-21.0	14	9.3	33	7.8	53	91703	3.0	6.9
2003-04 (Q.E.)	-1.6	13	-2.4	31	8.6	56	94960	3.6	6.6
2004-05 (A.E.)	14.3	14	5.1	30	9.4	56	103248	8.7	6.7

R.E. – Revised Estimate; Q.E. – Quick Estimate;

Source : Department of Economics and Statistics, Government of Tamil Nadu.

Notes : 1. The figures are based on 1993-94 series.
2. Growth rates are average annual growth rates and sectoral shares are in percentage terms

Table 2 Social Sector Expenditure in Tamil Nadu (R.A.)
(As three-yearly moving averages)

Years	Revenue Expen -diture	Social Sector Total	of which Education	of which Health	Civil Supplies	Rural Develo -pment	Agriculture & Irrigation	Grand Total
1	2	3	4	5	6	7	8	3+6+7+8 = 9
				As ratio of GSDP				
1990-91	-	-	-	-	-	-	-	-
1991-92	19.1	7.2	3.6	1.1	1.1	0.9	3.4	11.8
1992-93	18.5	6.8	3.3	1.0	1.0	0.8	3.4	11.3
1993-94	15.8	6.2	3.0	1.0	1.0	0.7	3.2	10.4
1994-95	14.4	5.8	2.9	0.9	0.8	0.5	2.5	9.1
1995-96	14.2	5.6	2.8	0.9	1.0	0.4	2.3	8.7
1996-97	14.3	5.5	2.8	0.9	1.0	0.4	2.1	8.5
1997-98	14.7	5.7	3.0	0.9	0.9	0.5	2.1	8.5
1998-99	15.3	5.8	3.2	0.9	0.7	0.5	2.2	8.6
1999-00	15.6	5.9	3.3	0.9	0.7	0.5	2.1	8.6
2000-01	15.6	5.6	3.2	0.8	0.9	0.4	2.0	8.4
2001-02	15.7	5.3	2.9	0.8	1.0	0.4	1.7	7.8
2002-03	15.5	5.2	2.7	0.8	0.8	0.4	1.7	7.4
2003-04	15.6	5.1	2.5	0.7	0.6	0.4	1.6	7.1
2004-05	-	-	-	-	-	-	-	-

Source: Budget Documents.

Table 3   Federal Fiscal Transfers to Tamil Nadu

	Union Transfer (Gross)	Tax Share	Union Grants	Union Loans	Union Transfer (Net)	Interest Payments
	As percentage of GSDP					
1987-89 Average	4.9	3.2	1.7	1.8	5.2	1.3
1990-92 Average	4.8	3.0	1.8	2.2	5.6	1.5
1993-95 Average	3.9	2.5	1.3	1.8	4.4	1.7
1996-98 Average	3.4	2.4	1.0	1.4	3.4	1.8
1999-01 Average	3.1	2.0	1.1	0.7	2.4	2.3
2002-04 Average	3.3	2.1	1.2	0.7	2.0	2.7

Source: As in Table 2

Note: Years are fiscal years. For instance 1987 is the fiscal year 1987-88.