

Talk on ‘The Finances of Karnataka State Government’

Date: April 07, 2016

Venue: CSTEP, Bengaluru

Shri S.V. Ranganath (IAS Retd.), Board Member – CSTEP, delivered a talk at CSTEP on ‘The Finances of Karnataka State Government’, as the second part of an ongoing series of lectures wherein he will delve into a range of governance-related issues. Shri Ranganath started off the talk by making two interesting remarks: i. Finances can be boring – even at the best of times, and ii. Many people harbour a myth that the government does not have enough money. When it comes to state finances, the key metric is efficiency of financial management (or the lack of it).

Initial sections of the talk focussed on the details of the Union Budget of India. The speaker believes that the Union Budget is immune to whims and fancies of any one individual, but it is also a tough place to introduce new schemes. For the benefit of researchers, the speaker advised them to cut through the enormous volume of Budget literature and focus on certain documents worth studying, such as the Finance Minister’s speech, the Medium Term Fiscal Plan and the Economic Survey of the Government of India.

The following major points were discussed during the talk:

- There has been a substantial drop in revenue surplus in the last 3-4 years, which is worrisome. How can the state maximize its revenue without compromising on certain non-negotiable expenses (such as salaries of government personnel)? The share of non-tax revenues is abysmal at present. Can it be increased substantially in certain sectors such as the water sector? An innovative recommendation was made with regard to regulating Stamp and Registration Duties: link up land plots using GIS to facilitate transparency and to reduce corruption resulting from discretionary powers of officials to apply duties.
- Subsidies are put in place to assist the growth of any targeted sector. However, subsidies cannot continue forever, and a ‘sunset clause’ should be incorporated within any subsidy program. Otherwise the burden of subsidies in certain sectors is expected to keep rising. There is a scope for intervention in this regard.
- State Plan Funding: The speaker believes that most state-level projects suffer from some aspect or the other. The recommendation was to implement a state project following the models of central government projects. This is because there is a potential for tapping into the cumulative experience of experts from across the nation who designed such projects. Development projects implemented in association with international partners such as the World Bank or the Asian Development Bank usually involve detailed and well thought out guidelines. It could be beneficial for the state-level projects to take a cue from such projects.
- Coming to the improvement of Karnataka state finances, the speaker highlighted certain ‘Big Ticket Items’ such as leveraging the financial importance of the city of Bangalore for the entire state, improving the effectiveness of irrigation projects and the need to increase the State’s GSDP.
- It is important for researchers to explore the relationship between efficiency and equity. There is a need to identify criteria that clearly define efficiency of public finance.

- The speaker urged CSTEP researchers to explore avenues for applying technology and mathematical modelling to assist decision making in the government. There are a large number of areas in public financing where researchers can potentially create impact.
- Towards the end, the speaker as well as the audience agreed on the fact that inefficiency cannot be tolerated, whether in the public or the private sector. There is a need to look at state finances in a holistic manner, i.e. budgeting should be based on measurable outcomes and outputs, and not solely on inputs.

In summary, Shri Ranganath encouraged CSTEP researchers to think about how to improve the outputs of public finance and how to make it more outcome-based.