Public expenditure may be regarded as a regulator of the index of aggregate economic performance. It is a magic wand in the hands of fiscal managers who can use the expenditure programmes to cause the necessary variation in consumption, saving and investment depending on the economic compulsions of the situation.

This is an age of big government doling out millions of rupees to the aged and the physically handicapped to promote health and sanitation, education and to other social security programmes and to promote investment in asset-building. Added to it, the size of population and the intensity of its demand for increased goods and services have tremendously contributed to the enormous growth in public expenditure. In view of the mounting demand for public expenditure there is a need for "the most effective utilisation of existing tax resources for promoting the community's welfare and development before new and higher burdens are imposed on the people." (1)

It is in this context that we are interested in knowing how the total economic pie is cut-up into income shares each year and that is perhaps the most important and at the same time the most difficult issue at present. This arises from the fact that needs are not satisfied if incomes are unequally
spread or without keeping to the norms of marginal utility principle in all public expenditures. This is, of course, an arduous task requiring adjustments between the Marginal Social Cost (MSC) and Marginal Social Benefits (MSB). Such an equimarginal satisfaction may be possible only when "a community were literally a unitary being, with the government as its brain." Hence we have to work on the premise that no economic system would be able to satisfy the needs of everybody. Hence the message, "the greatest good to the greatest number." Keeping this in view the modern governments wedded to the ideals of welfare state earmark a large percentage of expenditure for economic, social and developmental services in order to accelerate the pace of welfare maximisation and development as a whole. This is because the public opinion in most societies has recognised "this as the lowest common denominator of government action."(3)

The problem of public expenditure is complicated in a democratic country like ours in which there is decentralisation of budgetary powers among the federal government and the federating governments coupled with the absence of precise market values to assess the merit of each unit of public expenditure. This does not mean that we can sacrifice the canons of budgeting which entails the measurement and comparison of alternative public outlays, balancing the interests of different
groups and the responsibility of judging the pros and cons of the budgetary proposals in relation to the requirements of the community. Keeping these norms in view we have to examine how far the budgetary ideals are realised by the government of Karnataka. As a background to such a study we would like first to provide an overview of the trends of revenue and expenditure in the state.

A. Expenditure Trends - Revenue Account

Table-I reveals the enormous growth in total expenditure indicating a more than fifteen fold increase during the past 25 years. It has increased from Rs.5310.89 lakhs in 1957-58 to Rs.77,279.50 lakhs in 1979-80 in absolute terms. While the growth in public expenditure under revenue head accounts for nearly 800 per cent increase expenditure under capital head accounts for more than 350 per cent increase. However, viewed from the angle of its proportion to State Domestic Product (SDP) there was, by and large, no increase in public expenditure for the period between 1960-61 and 1970-71 taking less than 13 per cent of SDP the same has steadily risen after 1975-76 resulting in 17.59 per cent of state domestic product during 1979-80 as shown in Table-II.

It may be noted that the budgetary structure of expenditure comprises notably of recurring items under revenue account and non-recurring items under capital account. Under each head
of these two expenditure items there are two other sub-divisions called development and non-development expenditure. On the basis of this classification it is generally held that the expenditure under the head of development is productive and that under other heads is non-productive although this characterisation of it as non-productive is debatable.

However, it is interesting to note that the development expenditure as a proportion of total expenditure has declined steadily from 72.13 in 1957-58 to 63.61 in 1970-71. Again there is some marginal improvement during the 1970's but it is yet to reach the level of that in the 1950's. Non-development expenditure as a proportion of total expenditure has shown a declining trend although except for the period between 1965-66 and 1970-71 when it rose to 36.39. While the declining trend under non-development expenditure indicates a measure of restraint on non-productive items the similar downward trend observed under development expenditure does indicate the lack of dynamism in regard to expenditure on items which directly and tangibly contribute to the growth of state income.

If we go still further and observe the itemwise expenditure trends we observe a considerable degree of dithering in the budgetary allocations from one period to another and from one item of expenditure to another item, over a period of time. While co-operation, agriculture, and irrigation account for
less than 2.3 per cent of total expenditure in 1957-58 it was as high as 26.93 per cent for industries and 16.95 per cent for education during the same period. While the percentage of allocation on education was not maintained upto 1961-62 it was marginally increased to 17.47 per cent in 1962-63 and to 19.14 per cent in 1963-64, the percentage of expenditure on industry was reduced to the rockbottom level reaching an all time low of 13.61 per cent in 1968-69. Thereafter, there was only some marginal improvement in the allocation of resources for the development of the industrial sector; the development of departmental industries which received nearly 52.33 per cent of the total outlay during 1957-58 gradually fell to less than 20.63 in 1963-64 and to 11.46 per cent in 1968-69 and thereafter the increase in allocation to the sector was negligible. This shows that the development of industries was given the pride of place during the latter half of the 1950's but this trend was a short-lived one since the development of this sector was relegated to the secondary position during the subsequent years.

In the meanwhile the development of multipurpose projects and electricity generation started receiving major attention when allocation to them was raised from 6.98 per cent in 1957-58 to 10.83 per cent in 1961-62 and there on to 20.46 per cent in 1967-68. While it was an added fillip to the development
of river valley schemes because of stepping up of allocation to an all time high of 38.71 per cent in 1968-69 it was almost given a short-shrift in the year 1969-70. From then on its share is on the decline.

Expenditure under social services indicates that the major share has been earmarked for education while public health and labour and employment have been accorded the second and third places. Even here the order of priority was changed whimsically. The most perplexing situation under social welfare expenditure is the low percentage of allocation for labour and employment which has, on the average, not gone beyond a meagre 1.5 per cent of total expenditure for the last 30 years.

Coming to the non-development expenditure the disturbing trend is the increasing debt servicing charges plus the cost of administration, the two major contributory factors for the rise in this items of expenditure. Expenditure on the former has, as shown in Table-III increased from ₹.76.5 lakhs in 1960-61 to ₹.54.9 lakhs in 1970-71 and thereon to a phenomenal figure of ₹.78.6 lakhs in 1980-81. In terms of percentage the total non-development expenditure rose from 20.26 per cent in 1957-58, to 50.81 per cent in 1969-70. This accounted for more than 50 per cent of non-development expenditure on debt servicing charges
alone. However, this was lessened to 30.05 per cent by 1973-74. This was, of course, a temporary phenomenon caused by the small rise in public debt during the latter half of the 1960's and the beginning of 1970's. This phenomenon was, however, not an indication of any efficient management of public debt. Having failed to mobilise resources through public debt or having avoided resource to the public debt, the government has had to resort to reappropriation of money from the contingency fund. The commitment on this account rose from ₹185.00 lakhs in 1960-61 to ₹2026.31 lakhs in 1970-71 and thereafter it rose from ₹1769.00 lakhs in 1975-76 to ₹30,002.00 lakhs in 1978-79. This by all implications is tantamount to diversion of resources to unintended purposes which smacks of fiscal jugglery. But this did not work long. The reason is the alarming rise in debt-servicing charges accounting for a rise from ₹20,812.37 lakhs in 1974-75 to ₹45,296.94 lakhs in 1980-81. As a result the debt commitment would be definitely on the rise unless the debt management policy is recast suitably. The second major factor in the rise in non-development expenditure is expenditures on government services. The proportion of non-development expenditure on general services has come down from 45.23 per cent in 1957-58 to 16.22 per cent in 1973-74 indicating that the percentage of non-development expenditure on other services, notably debt servicing charges is on the
rise as compared to the expenditure on general administration. This phenomenon could be attributed to the lack of effective control over unproductive expenditure.

**B. Expenditure Trends—Capital Account**

Unlike expenditure under revenue account in which there is the assured source of income flow to the government, expenditure under capital account depends on various imponderables like the flotation of debt in the open market, mobilisation of small savings, availability of credit from the financial intermediaries, flow of grants-in-aid, loans and advances from the government of India etc. Relying on some of these imponderables the government would embark on capital outlay devoted mainly to the building up of capital assets which would go a long way in supplementing the asset creating activities undertaken under the revenue account. Even here, as under revenue account, there are two items of expenditure viz., development and non-development, the former dominating the latter. Accordingly, as seen from Table-IV it has risen from ₹.3053.16 lakhs in 1960-61 to ₹.16,084.66 lakhs in 1980-81, indicating a more than 5 fold increase (both development and non-development) over the last two decades. This is indeed a poor performance of the capital budget compared to the magnitude of growth of expenditure under revenue account.
These budgetary trends both under revenue and capital accounts reflect the pattern of expenditure undertaken in conformity with a set of objectives - a set pattern which reflects the social and economic needs of society. These needs reflected in the objectives of budget are transformed into action in the form of plan schemes and programmes. Thus, the budgetary objectives are nothing but the objectives mirrored through plan documents of different plan periods envisaging the orderly realisation of the budgetary objectives within the set span of time.

Trends in Sectoral Allocations Under I, II, III, IV and V Five Year Plan Periods

The data shown in Table-V indicate that while the proposed plan outlays during the First and Second Five Year Plan periods have fallen short of the actual expenditure, the trend was, however reversed in the subsequent plan periods indicating the greater demand made for coping-up with the increased needs of planned development in the state. Admittedly, these figures conceal the true change in the extent of the government's claim on the public purse as the purchasing power of money has been falling over time. Nevertheless, they bring out clearly the remarkable growth in the public sector expenditure over the past three decades. Accordingly the mounting demands of the public sector have inevitably
had their impact on the structure and dimension of the budget of Karnataka.

The budgeted outlay for the execution of different plan programmes of the First Five Year Plan was estimated at ₹36.60 crores but it was revised to ₹47.00 crores during the last year of the Plan. However, the actual expenditure i.e. ₹40.55 crores was less than the budgeted outlay. (5) During this plan period electricity generation was given the top priority with an allocation as high as 78.99 per cent of the total outlay. Next in the order of priority were irrigation, agriculture and transport and communication sharing 33.81 percent, 10.57 per cent and 10.36 per cent respectively of the total outlay. This order of priority was slightly altered during the Second Five Year Plan period when irrigation and social services were accorded the first and the second place getting a share of 22.73 per cent and 21.65 per cent of the total outlay. Next in the order of priority during the Second Plan Period were electricity and agriculture sharing 18.80 per cent and 13.84 per cent respectively of the total proposed outlay of ₹145.13 crores. (6)

During the Third Five Year Plan period the proposed outlay for different sectors was ₹246.22 crores whereas the actual expenditure was ₹264.14 crores. Although there was no major change in the sectoral allocations during this
plan period the percentage of outlay, as seen from Table-VII for different sectors excepting water and power development was considerably slashed down in spite of the fact that there was an increase in total outlay in absolute terms. However, agriculture and allied programmes, social services continued to receive the major share amounting to 66.69 per cent, and 41.09 per cent respectively of the total outlay.

Then came the annual plans which can at best be called "Contingent Plans" for the years 1966-67, 1967-68 and 1968-69 as a stop gap measure because of the outlay in launching the regular Fourth Five Year Plan. The proposed total outlay during these annual plans was of the order of Rs.53.07 crores, Rs.60.25 crores and 51.32 crores for the corresponding periods. But the resource allocation during these annual plans was so meagre that the tempo of development had perforce to be kept at a low key.

Thereafter the Fourth Plan was started and the total proposed outlay for the period was of the order of Rs.350.00 crores as compared to the actual expenditure of Rs.399.17 crores. It was only in this Plan period that agriculture was treated, with some marginal difference, on par with irrigation and electricity accounting for 22.08 per cent, 25.07 per cent and 25.00 per cent respectively. This order of priority was maintained even during the Fifth Five Year Plan period.
when the actual expenditure which exceeded the proposed outlay was of the order of ₹.1148.38 crores. It was this enlarged outlay during the Fifth Plan period that gave a major thrust which was not there during the last several years of planning in Karnataka. This was so because the percentage of plan expenditure was reduced from 250.85 in the period between 1956-57 and 1964-62 to 85.66 during 1961-62 and 1965-66. This situation deteriorated further with a plan expenditure of 27.70 per cent during 1966-67 and 1968-69. The percentage increase improved during 1969-70 and 1973-74 when it rose from 88.44 per cent to 219.13 per cent. This leads us to the conclusion that the government was able to make some appreciable progress in development only after a lapse of nearly two decades of planned development.

**Revenue Trends**

While in absolute terms the tax revenue has risen from ₹.2042.76 lakhs in 1957-58 to ₹.56,762.16 lakhs in 1979-80 the percentage having risen from 41.32 to 67.66. The annual growth rate (as indicated in Table VIIA) of this revenue shows the upward movement from 9.9 per cent in 1957-58 to 25.8 per cent in 1975-76. This growth rate has come down to 18.8 per cent during 1975-76 and 1979-80. On the other hand, the non tax revenue has risen slowly from ₹.3411.90 lakhs in 1957-58
to ₹27,129.84 lakhs in 1979-80. While the percentage of tax revenue to the total revenue of the government has been on the increase the percentage of non-tax revenue to the total tax revenue has continuously declined from 63.59 per cent in 1960-61 to 32.34 per cent in 1979-80. Even in terms of annual growth rate, vide TableVIIA it has displayed great variation from 17.9 per cent during 1957-58 to 1960-61 to 0.1 per cent during 1960-61 to 1965-66. This, however, moved up to 15.8 per cent during 1965-66 to 1970-71 and there on to 16.2 per cent during 1970-71 to 1975-76 but declined again to 10.7 per cent during 1975-76 to 1979-80.

However, it is observed that the total tax revenue of the state from different sources inclusive of the central share has registered an impressive increase since it has risen from ₹2402.76 lakhs in 1957-58 to 83,892.00 lakhs in 1979-80. Further, the state revenue as a proportion of SDP, vide Table-II, has risen from 12.46 to 19.95 during the period between 1970-71 to 1979-80 preceded by certain sharp variations during 1960-61 to 1965-66. When we look at the total tax contribution as a proportion of SDP as compared to the contributions of individual items of tax there appears to be need for making the tax structure more revenue elastic. This is obvious from the fact that the
growth of tax revenue as a percentage of SDP has been
tardy accounting for less than 7 per cent of the state
domestic product for the last 20 years. Again, the share
of almost all taxes with the exception of sales tax has
been steadily declining with only a marginal recovery in
some items in recent years. The problem of declining
trend is more conspicuous in regard to land revenue. The
share of land revenue which was 16.81 per cent of the total
tax revenue of the government in 1957-58 has gradually
reached an uncomfortably low level of 1.63 per cent in
1976-77. Similarly, the share of agricultural income tax
in total tax collection which had come down from 2.25 per
cent in 1957-58 to 0.78 per cent in 1973-74, slightly
increased thereafter from 0.95 per cent in 1973-74 to 1.57
per cent in 1976-77.

In the case of stamp and registration fee there was
stagnancy at about 6.5 per cent from 1957-58 to 1967-68
and thereafter there was a slight fall to 4.11 per cent in
1976-77. Similarly the contribution of state excises is
not encouraging. While it was as much as 12.03 per cent
in 1957-58 it fell to 6.01 per cent in 1966-67 and since
then the trend is slightly improving because of liberal
policy regarding prohibition. As regards the tax on vehicles
there was some appreciable improvement from 9.16 per cent in
1957-58 to 13.29 in 1963-64 but since then it is continuously falling and its contribution came down to 6.38 per cent in 1973-74.

When we look at the contribution of sales tax which is the mainstay of the state government, we find a continuous increase from 20.67 per cent in 1957-58 to an all time high of 35.93 per cent in 1966-67. But during the subsequent period between 1967-68 and 1971-72 it came down from 32.62 per cent to 31.76 per cent. This trend has, however, been reversed since its contribution has again risen from 43.74 per cent in 1973-74 to 51.58 in 1976-77.

Some of the above trends indicate the vagaries of tax performance thus underlining the need for restructuring the same to make the tax structure buoyant. Sooner it is done the better it is for the state in view of the fact that the share from central divisible pool, though it has risen in absolute terms from ₹.641.88 lakhs in 1957-58 to ₹.17,793.16 lakhs in 1979-80, the same in terms of percentage contribution to the total tax revenue of the state has been stagnant at around 26 per cent on the average for the last three decades - vide Table-VI.

Quite apart from this, an over riding reason for restructuring the state tax system is the increasing magnitude of
budgetary deficits particularly during the late 1970's. The overall budgetary position (both revenue and capital account put together) has been one of chronic deficit except for a brief period between 1973 and 1975. Although this budgetary gap was within manageable limits from 1957-58 to 1970-71 (and in fact was overcome during 1973-75) it has again raised its head particularly since the mid 1970's. Hence the need for restructuring the tax system and for mobilising more revenue to avoid the need for budget deficits.