SUMMARY

AND

POLICY IMPLICATIONS
CHAPTER – V

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5.1 Introduction

Economic planning has been implemented in India since independence with the formulation of the First Five Year Plan in the year 1951. Five Year Plans were first introduced in the erstwhile Soviet Union in 1928 for achieving planned economic development at an accelerated pace. Draft plans were to be approved by the National Development Council, comprising the Planning Commission and the Chief Ministers of all the states. In 1951, India's First Five Year Plan (1951-56) was unveiled. While the First Plan placed greater emphasis on agriculture, the Second Five Year Plan (1956-61) sought to build up an industrial base for the country, particularly in the public sector. The Fourth Five Year Plan (1969-74) called for greater expenditure in the public sector. There were two more Annual Plans in 1978 and 1979. The Sixth Five Year Plan (1980-85) was different, perceived a more adaptable “rolling” approach and concentrated
on employment generation in rural areas and anti-poverty measures, while the Seventh Five Year Plan (1985-90) laid greater emphasis on energy and social development. It was a landmark in the sense that it encouraged private investment in major public sector undertakings, with emphasis on greater rural and agricultural development including removal of poverty and illiteracy measures. Under the decentralized planning process, rural development programmes have assumed greater significance as their planning and implementation has been transferred to Pachayati Raj Institutions (PRIs). The Department of Rural Development is responsible for effective implementation of many Centrally Sponsored Schemes (CSS) of Rural Development Ministry and state sector schemes of similar and complementary nature. In all the Centrally Sponsored Schemes, district wise physical and financial targets are decided by the ministry Rural Development Government of India.

Poverty alleviation programmes received considerable attention both at national level and at the state level during plan period. Official poverty estimates at the national and state level are periodically prepared by the government of India's Planning
Commission using detailed household consumption and expenditure data from the National Sample Survey Organisation's (NSSO) quinquennial consumer expenditure surveys. While there is considerable evidence available of regional (i.e., sub-state) variation in poverty, typically the GOI Planning Commission does not compute poverty estimates at the state level because of limitations of survey sample sizes. Evidence on regional differences in poverty can be a basis for allocating resources and development efforts according to local needs. Area development is another approach where the Government and the Planning process are especially concerned. This requires the concerted attention of the Government in their policies and Plans.

Infrastructure plays a crucial role and strong determinant of growth and hence successive plans attempted to create and develop infrastructure. Conventional wisdom traces the growth acceleration to the neo-liberal economic reforms implemented by the government under the leadership of Shri Narasimha Rao as Prime Minister. Roads, ports, railways, airports, special economic zones, power, irrigation, telecom, urban infrastructure
and rural infrastructure are the major areas of infrastructure having significant impact on economic development. Increase emphasis is given for public private participation (PPP) for reducing transition costs, ensuring transparency and improving the quality of investments.

The government approved a new Special Economic Zone (SEZ) Law in the year 2005. This spurred investment in the sector and has the potential of creating a very good employment opportunity and much-needed investment in infrastructure, which the Government can not afford to spend.

The power ministry has set upon the onerous task of commissioning as many as 53 generation projects totaling 20,608 MW in 2006-07 as part of the Tenth Plan (2002-07) compared to the 19,015- MW generation capacity installed in the Ninth Plan period (1997-2002). The rate of return for the state power sector is still negative 26 per cent (2005-06) compared to negative 32 per cent (2004-05). The National Electricity Plan, an integral part of the Eleventh Five Year Plan (2007-12), has targeted a generation capacity addition of 67,000 MW and
around 60,000 MW in the Twelfth Five Year Plan (2012–17). In order to achieve the plan target the Eleventh Five Year Plan will contain several positive measures for strengthening power sector.

The Expert Committee on Integrated Energy Policy has set out a comprehensive energy plan for India in the long-term. Plans have been initiated to harness wind energy too. In the Seventh Five Year Plan Rs.626 billion amounting to 28 per cent of the total plan expenditure was incurred on the energy sector.

Agriculture being the major occupation of the state, irrigation plays a significant role in obtaining increased yields from the land. The development of irrigation in the state was slow and unsystematic during the pre-independence era. However, there were some notable irrigation works undertaken and completed during the pre-independence, such as Krishnaraja Sagar (which was the only major project completed prior to independence), Vijayanagar canals, Cauvery anicut Channels, Gokak canal, Vanivilasa Sagar, Markonahalli and Anjanapura. Though major projects like Tungabhadra, Bhadra and Ghataprabha stage-I
were commenced prior to the plan period, their progress was slow and they got impetus only after their inclusion in the First Five Year Plan.

The total investment up-to the end of March 2000 on irrigation in the state is Rs. 14,267 crores comprising Rs.13,399 crores on major & medium irrigation and Rs. 868 crores on minor irrigation (using surface waters).

In formulating the Five Year Plan, the Planning Commission coordinates and oversees the development programmes of the Central Ministries and State Governments and integrates them in a national Plan covering both the public and private sectors. At the Centre, the role of the Planning Commission in investment planning is crucial as the Commission provides an objective method of resource allocation reconciling claims of various Ministries taking into account the broad national objectives and priorities. Similarly, the Commission through the Annual Plans, which are the operational plans, seeks to ensure that the sum total of outlays of the Centre and the State is consistent with the estimates of resources available to the public economy.
Resources match the plan outlays in both the public and private sectors in order to ensure orderly growth in conditions of relative stability, without introducing any distortions in investments or the production pattern.

5.2 Significance of the study

A detailed analysis of Karnataka's budget with a time perspective is needed to understand the process of preparation of the five-year plans and the manner in which allocations are made to the various sectors. The abiding concern of all Five Year Plans is to help the backward sectors so that harmonious and self-sustaining growth takes place in the economy. This will happen only if all the sectors are balanced. Imbalances in the economy are bound to exist; the planning process is meant to overcome these constraints by allocating resources accordingly or inducing private sector investment. Added to this, new paradigms of growth will emerge from time to time, which are to be addressed by the planning process to convert opportunities into reality. In the final analysis, the planning process should encourage growth
in the economy and the concerns should be addressed comprehensively.

The public spending by various governments including India has shown that structural adjustment programmes have increased the size of government spending but not all sectors received equal treatment. The impact of different approaches of government spending on economic development is mixed. In Africa, Government spending on Agriculture and health was particularly strong in promoting economic growth. In general, investments in agriculture, education and infrastructure had positions growth promoting effects in Asian Countries. However, all types of Government spending except health were statistically significant in Latin America. In India, it was found fiscal decentralization is positively and significantly associated with state economic growth. The state allocation of public spending in various sectors is broadly consistent with growth maximization. It is also true that increased central allocation in it’s budget amount development projects, non development projects and social and community services by cutting the administrative, ad hoc and populist schemes.
The growth in agriculture production is most crucial for poverty alleviation in rural areas. Increase investments in agriculture sector such as irrigation, research and development, land development, extension, marketing and warehousing, rural infrastructure etc., have contributed strongly to the economic growth. A systematic analysis of the Plan expenditure and its impact on various sectors would be great value in the allocation of limited resources among the various alternatives. So far, no systematic attempts have been made to analyse the effectiveness and impact of development expenditure incurred by the state over the plan period and hence this study is modest attempt in this direction. The study will shed light on the strengths and weaknesses of the state's Planning and allocation of funds to various sectors. The finding of the study will be useful for improving the effectiveness planning and optimal allocation of resources in achieving the development objectives of the state.

With the aforesaid issues and concerns in mind, this study has been formulated with the following specific objectives:
1. To document the changing pattern of budgetary expenditure of the state since independence and identify the changing priorities.

2. To analyse the sources of revenue to finance the development projects in the budgets.

3. To analyse the efficiency of fiscal management of state.

4. To study the impact of budgetary outlays on the development of the various sectors of the State's economy.

5. To analyse the financial stability of the State's finances.

5.3 Methodology

Management of Finances by State Governments in Karnataka has played an important role in ushering economic development through Ten Five Year Plans and annual plans since the inception of planning. The broad directions of policy can be deciphered through the study of the various plans. This study seeks to examine in detail, the period of economic growth since 1950. This study probes the policies and programmes and expenditure pattern of followed by Five Year Plans in each of the major heads of expenditure in the Budget, for example (a) Agriculture and Rural Development, (b) Irrigation and Flood
Control and (c) Education and Social Services Category, (d) Energy and Power etc.

The study covers the structural changes in Public Expenditure and their impact on pace of Economic development, and extent of diversion of funds to subsidies and populist schemes that have great bearing on the utility of public expenditure. As a result, the study seeks to address the utility of Public Expenditure Management, as an useful instrument of development mechanism, mainly focusing the attention on the analysis of the plan and budgetary priorities, particularly growth, equity and balanced regional development of the States and the policy options available for the State Government to improve it's own resource mobilization and to increase efficiency of expenditure.

The related data for the study have been drawn from the budgetary documents of the State Governments, Reports of Planning Commission, Finance Ministry, Finance Commission and the RBI, supplemented by published literature in the RBI Bulletins. Data include all the macro economic variables like
share of income source wise, index of industrial production, agricultural production, infrastructure development like roads, markets, etc., Irrigation development, etc., data pertained to the period 1955 to 2007, that is the plan period from the I Five Year Plan to the X Five Year Plan.

The study uses simple statistical techniques like growth rates, averages and Markov Chain Analysis to examine the objectives set out in the proposal.

5.4 Trends in Outlays and Expenditure in Various Plans

The outlays made in major sectors such as agriculture and allied activities, irrigation and flood control, energy, transport, education, health, housing and urban development, industries and minerals and social welfare have been analysed Plan wise in order to understand the trends in outlays and expenditure and their impact on the growth and development of different sectors of the state economy. The First Five Year Plan was introduced in the year 1951 with a total outlay of 47.5 crores allocated over seven major sectors. Major and medium irrigation and power
sectors received high priority on allocation of 16.1 Per cent and 13.8 per cent respectively. Agriculture received a moderate share of 10.5 per cent allocation. 'Grow more Food' campaign and introduction of national extension schemes were the major developmental schemes launched with respect of agriculture.

The Second Five Year Plan was received Rs. 145.13 crores consequent to the reorganization of the state and emphasis was laid to Irrigation 22.73 per cent, Power 18.79 per cent and Social Welfare 0.37 per cent. Agriculture was allotted Rs. 19.99 crores and there was significant increase in production. Minor irrigation facility was extended by three lakh Acres and three major and twelve medium irrigation projects were taken up with an estimated cost Rs. 78.79 crores. Power generation was increased to extent of 269 million KWs.

The Third Five Year Plan launched in the year 1961, considered to be comprehensive and progressive. The total expenditure incurred was Rs. 264.79 crores as against the outlay of Rs. 246.22 crores. About 41 per cent was allocated to irrigation and power sector and continued to enjoy the priority. Agriculture and
allied activities receive a reasonable share of 18.46 per cent. The per capita expenditure went up to Rs. 106 against Rs. 64.5 in the Second Plan. The Third Five Year Plan was followed an Annual Plan in 1966-67 with an expenditure 54.58 crores.

The Fourth Five Year Plan incurred a total budget expenditure of Rs. 386.82 crores and this followed a mode objective approach to development. The main emphasis was regional development and adoption of district Plans. The strategy envisaged to achieve a growth rate of 5.6 per cent. The area under cultivation increased from 10,28,000 hectors to 17,50,400 hectors and food production from 5638000 tonnes to 6641000 tonnes.

The Fifth Five Year Plan outlay was Rs. 1073.33 crores with an expenditure of 852.39 crores for four years. The main emphasis was to achieve 8.5 per cent growth rate per annum by maximizing production, employment with an enlarged and more diversified and decentralized industrial base in the state. An impressive growth rate of 7.1 per cent at current prices and 6 per cent at constant prices was achieved.
The Seventh Five Year Plan outlay was Rs. 3595 crores and the expenditure was Rs. 4056.4 crores there was a set back in the economic performance during the Seventh Plan period. The growth in the state domestic product was low 5 per cent against an all India average of 5.6 per cent. This down fall was due to severe drought led to a meagre growth rate of 2.1 per cent only compare to 3.4 per cent at all India Level.

There was a steep increase the total outlay of Eight Five Year Plan to Rs. 12300 crores and at 1991-92 prices this was more than double the Seventh Plan outlay of 3595 crores. The Eight Plan registered an average growth rate of 5.6 per cent and bring down the people below the poverty line to 25 per cent from 38 per cent.

The Ninth Five Year Plan outlay was approved in the tune with on going structural adjustments in the economy with an approved outlay Rs. 23,400 crores at 1996-97 prices. The Ninth Plan has been formulated keeping in view the changed national scenario and consequent expected role of planning, identified strengths and weaknesses in the state's economy, as well as its
critical needs. The state's growth performance must keep face with national growth rates and overstep them; productivity in different sectors must also go up. The growing problem of unemployment needs to be addressed by reversing the observed phenomenon of the secondary and tertiary sectors not proportionately observing as much of the disguised unemployment in the primary sector as their growth would warrant. The dual goal set was reduction in poverty and improvement of quality of life. This is almost double (90 per cent higher than) the Eighth Plan approved outlay of Rs. 12,300 crores. At 1991-92 Prices and 57 per cent higher than Eighth Plan expenditure of Rs. 14,894 crores. The district Plan has been fixed at Rs. 3,957 crores keeping in mind the recommendations of the state finance commission. The outlay for externally aided projects is Rs. 2,883.10 crores. Rs 2242 crores (9.58 per cent of the outlay) is being spent under the special component plan for the welfare of SCs and 458 crores (1.96 per cent) of the outlay for the tribal sub plan as against 9.28 per cent and 1.52 per cent respectively in the Eighth Plan.
The Tenth Five Year Plan can be viewed as a 'reforms plan' rather than a 'resources plan'. Resources must be deployed optimally; implementation strategies assume crucial significance. Hence, the state government has undertaken reforms to reduce the strangle hold of red tape and dispel the opacity of government transactions. The transparency in Tenders and Procurement Act and Right to Information Act are initiatives in this direction. E-governance has successfully demystified the public and government interface and taken information technology to the grass roots. Significant steps include the computerization of the treasury. 'Mahiti' which enables the citizen to access online information about public services and 'Bhoomi' which has completely transformed the land records maintenance system in the State and made them accessible to farmers.

The outlay of the Tenth Plan was Rs. 43.558 crores at 2001-02 prices. Which was 86 per cent more than the Ninth Plan outlay of Rs. 23,400 crores. The Karnataka has been stepping up of the outlays at annual average of 14 per cent in the Tenth Plan. The expenditure has matched the outlays with an annual average
increase of 15 per cent. The state achieved a fair growth rate of 7.9 per cent during the Tenth Plan. The GSDP growth of Karnataka was estimated at 9.3 per cent in primary sector, 9.9 per cent secondary sector at current prices.

The Review of Trend in plan outlay should that among economic sectors, Irrigation and energy the major Infrastructure sector have been provided high priority since the beginning of the planning and the estimated the enjoy some status until now. However, there was substantial reduction in the allotments to the energy sector in the last Two Five Year Plans. But compared to the investments, the progress achieved seems to be moderate. The major portion of the land is under rainfed agriculture and the state relays heavily on monsoons for agriculture. At the end of the Tenth Plan, the installed capacity of power generation has reached 5624.79 MWs and still suffers from acute power shortages. Eventhough, 67 per cent state population depend on agriculture for their livelyhood, Agriculture continued to be a neglected sector and received low priority the long term gains for the rural poor are very significant from increased growth from agriculture both directly and through real agricultural wages.
Surprisingly the two production sectors agriculture and industry have received a relatively low outlay. The results reveal that government investment in agricultural research has the largest poverty reduction impact, followed by telephone, education, roads and electricity. Irrigation investment has the smallest impact on agricultural growth. It is clear that government spending has played an important role in agricultural growth and poverty reduction. To gain further growth and poverty reduction, the government has to gear up its investment in agricultural research, education and rural infrastructure.

It is also fact that the outlay on the economic services, which was as high as 70 to 86 per cent in the first six plans, showed a decline in the subsequent plans to a little over 50 per cent in the X Plan. As a policy, the Government should increase the allocation to agriculture and create yield and income enhancing infrastructure.

Many policies in India, including economic reform policies, are officially intended to alleviate poverty. A heartening feature of the state’s budget is the increased allocation to the social sector.
Spending in this sector from a paltry 4 per cent in the II Five Year Plan it has progressively increased to around 30 per cent, mostly been appropriated by housing and urban development. The government is seized of this problem, which is reflected in the budget.

Productive Infrastructure such as power, road and irrigation are essential for development and needs to be created in the public sector.

The average annual expenditure, which was around 34 crores in the IV Plan, has increased to about 3100 crores per annum in the X Plan. In the X Plan, expenditure on minor irrigation was of the order of Rs. 214 crores per annum.

Rural power supplier continues to be the major constraint facing the states economy. The power generation in the state has increased from 1240 million units in the Third Plan to 22100 units in the Tenth Plan registering a sequential growth in power generation of 42 per cent and a per annum growth of 6.8 per cent. This is indeed poor considering the industrial sector is growing at about 15 per cent per annum and the state economy
at the same rate. Unless investment is made in power, capacity generation of power at the required rate will not be forthcoming. There is a need to enhance the growth to 7.4 per cent per annum. The power situation in the state is not very encouraging as the state had an almost 33 per cent surplus in the VI plan, is now reduced to a deficit of around 3 per cent. Even though there was, a quantum jump in production during the IX Plan resulting in a surplus power of 11 per cent very situation changed to deficit state soon due to the rapid increase in power consumption in the state. Karnataka is witnessing a rapid growth in industrialization. The power consumption, which was around 17229 million units during the IX plan, increased to around 23,000 million units during the X Plan, while generating capacity which was 19163 million units could increase to only 22000 million units during the corresponding period leaving a power deficit of 3 per cent.

Due to welfare considerations, the state government has a policy of energizing highly subsidized rates. Since investment in bore wells is private, investment losses due to well failure can seriously affect the financial health of the farmers.
This increasing energy demand also translates into higher demand for electricity. It has been estimated that in order to support a growth rate of the gross domestic product (GDP) of around 7 per cent per annum, the rate of growth of power supply needs to be over 10 per cent annually. This calls for rapid development of the country’s power sector, taking into account, inter alia, considerations of long-term sustainability, environmental aspects and social concerns.

Roads provide the vital access for development. Road development has not received the attention it requires and the total roads created since this Third Plan has registered a modest 1.87 per cent growth per annum. It is vital in making tough choices on public spending priorities in the overall budgetary spending to public infrastructure.

The process of liberalization of the Indian economy began in the year 1985-86 when the Government of India adopted the philosophy of “supply side economics” in its planning. The various plans attempted to identify the strengths and weaknesses in the economy, so as to identify the critical needs of
achieving growth with development. The primary objective of the planning have been a) development of infrastructure like irrigation and power, b) reducing the fiscal deficit, c) improving the education standards and literacy, and d) strengthening the Research and Development base which together are the key ingredients for sustainable economic development.

### 5.5 Sectoral shifts in emphasis of the various plans

An attempt has been made to see how the expenditure in the plans has been shifting to determine whether these shifts are in line with the long-term goals of planned economic growth. The analysis has been carried out for two periods, i.e. from II Plan to the VI Plan and again from the VII Plan to the X Plan.

The analysis revealed that during the first six plans rural development has very consistent expenditure as evidenced by the transitional probability of 0.4697 and agriculture with a retention probability of 0.09. Shifts were noticed from agriculture, irrigation and flood control and transport to the energy sector. The other sector to gain over the plans was
education, which gained from irrigation, industries and social services.

The other sectors had practically no retention in budget outlays. The results revealed that the expenditure on irrigation and flood control had a tendency to shift to transport infrastructure and urban and rural development. These shifts are driven by the need to readjust the limited resources to other sectors and in line with the plan objectives. The sectoral allocation to the energy sector showed a strong tendency to shift to water supply and urban and rural development. The lack of consistent expenditure on energy is indeed a cause for concern as energy development in the state is inadequate to meet the power requirements of the state and its fast pace of industrial development. The tendency of budget outlays to shift from energy and power to urban and rural development may have been dictated by the exigencies of social and economic justice but in the long run power is the critical resource in so far as industrial and tertiary sector development is concerned. The outlay to agriculture is affected due to the shift of expenditure to urban and rural development programmes and welfare.
Irrigation development however has been receiving the priority attention of the Government, which is indeed a healthy sign.

Increasing the operational efficiency of irrigation and power is explicit in all the plans. The X Plan has taken cognizance of the changed global scenario brought by the WTO and targeted the relevant sectors of the economy.

Growth of the economy measured in terms of the net state domestic product and the same has been reviewed for the four plans under reference and presented in table 3 below. The growth in real terms has shown a stellar performance during the VIII Plan, i.e. during 1992-97, and the X Plan, recording high rates of growth in all the sectors, primary, secondary and tertiary. However, in the IX Plan the performance in all the sectors dropped significantly. Growth in the agriculture sector was negative during This Plan. The economy stagnated during this plan. Again, in the X Five Year Plan the overall economy grew at the rate of around 8 per cent per annum. The objective of planning in Karnataka has been fairly consistent centering on accelerated economic growth, reduction of poverty, improvement
in the quality education and improving literacy, development of infrastructure like irrigation and power. While during the initial stages of planning agriculture and rural development received an impetus and a consistent allocation of resources, in the subsequent period irrigation and flood control, industries and power were the major sectors for funding.

Agriculture is the dominant component recording very substantial growth except in the IX Plan. Rural development also lacked consistency and there was a good chance that outlay meant for rural development would get switched to transport and urban development. The highest consistency of expenditure in the various plans was seen in the irrigation sector. Retention of budgets from plan to plan to the irrigation sector was of the order of 0.32, and over the years, there was a distinct shift from energy to irrigation and flood control.

This helps to uphold the social commitment of the successive Governments of the State. Ideally, the Government should identify the critical sectors for development, which should be the outcome of long-range goal setting and pursue investment needs
of the sector relentlessly. The power sector in the state is a casualty of such an approach.

5.6 Impact of planning

The purpose of economic Planning is an overall improvement in the output parameters such as an increase in state income and to achieve overall growth objective of the state improvement in production. The State domestic product in real terms in the state has been growing sequentially from plan to plan at an average rate of between 35.09 and 109 per cent, in the secondary and tertiary sectors respectively. The agriculture sector has grown at 64 per cent per plan. During the corresponding period industrial growth has increased from Rs. 1224 crores to Rs.16,159 crores and Services from Rs. 2,372 crores to Rs. 38,826 crores. The staggering growth of the service sector can be seen from the figure where the service sector has contributed substantially after the VII Plan, which marked a shift to liberalized economic growth, initiated sometime during the mid-eighties. If one were to examine the pace of growth of the State's economy from the figure, an inflection point can be seen during the VII Plan which has reached maturity in the X Plan period wherein agricultural
growth and tertiary sector growth has reached a plateau while the service sector continued to grow.

The plan wise real rate of growth has been analysed and the results indicate that the highest rate of growth was witnessed in the III Plan where the growth rates were varied between 1.07 per cent in respect of the tertiary sector to 16.61 per cent for the agriculture sector in the Third Plan. During the period, industry grew at a modest pace of 5.32 per cent per annum. This was the highest growth ever recorded by the agricultural sector and thereafter the growth of the primary sector oscillated between - 5.84 to 8.18 per cent. The fastest growing sector is the tertiary sector. From the IV Plan, onwards the growth of the tertiary sector touched a high of 18.55 per cent per annum during the VIII Plan. The growth of the agricultural sector picked up after the VI Plan perhaps due to the green revolution and recorded growth rate of over 5 per cent per annum in all the plans except during the IX Plan where the growth was negative. In recent years, the highest growth of the primary sector was in the X Plan with an annual growth rate of rate of 8.18 per cent.
The growth of per capita income in real terms is a true indicator
of the progress of an economy in a developing region. It varied
from -1.45 per cent in the First Plan to 11.63 per cent in the VIII
Plan. The growth in the recent period was in the IX Plan was
dismal and almost stagnated. However, the growth picked up in
the X Plan and registered an impressive rate of 6.45 per cent per
annum. The erratic growth of the per capita income of the state
economy is indeed a worrisome feature and does not behoove a
developed state like Karnataka with its well developed
infrastructure and resourceful planners and implementers. As a
policy, the state should realise its responsibility to achieve a
consistent and high rate of growth, which will help to overcome
many of the problems facing the state's economy. The state has
moved into a high growth era since the VII Plan and has
performed well in all the plans barring the IX Plan when the
growth rate was almost stagnated during the entire plan period.

Food production is the main aspect of agricultural development
as the primary objective of agricultural development of the state
is to increase the food production to feed the extent possible the
entire population of the state and supply the surplus to the
central pool. Food production in the state has increased from 43.14 lakh tonnes in the III Plan to 92 lakh tonnes in the last Plan. The average annual growth rate of food production in Karnataka is hovering around 2 per cent per annum.

It is apparent that food production was the highest in IX Plan at 95.25 lakh tonnes, which reduced to 92 lakh tonnes in the X Plan. Crop diversification and many unsustainable and poor management practices are hindering agricultural growth and development.

5.7 Fiscal Management and Stability of the Plans.

Budget making is an elaborate process where the line departments and other governments prepare the budgets and this is consolidated in a budget. Later on supply side, management took center stage with perhaps the V Plan at the center.

Resource Mobilization in the state has been growing from plan to plan at the rate of 122 per cent per plan, which in annual term is growing at the rate of 16.24 per cent. The state's tax collection
during the X Plan period on an average was Rs.16316 crores per annum, which was just Rs.38 crores during the III Plan. The central government's contribution to taxes increased from Rs.12 crores in the III Plan to Rs.8696 crores per annum in the X Plan. The annual increase averaged around 16.76 per cent. The states tax collection effort is almost twice that of the central share. Non-tax revenues such as capital receipts amounted to about Rs.35316 crores per annum in the X Plan and it steadily been increasing from Rs.158 crores in the III Plan. While capital receipts increased at the rate of 13 per cent per annum, other tax receipts increased by around 10 per cent. On the whole resource mobilization for financing the various budgets rose at a compound annual growth rate of 14 per cent per annum.

The structure of funds in the budget has been under growing a rapid change over the plan periods. During the III Plan tax, revenue contributed about 30 per cent of the total revenue and capital receipts contributed the rest. During the initial years of planning high tax, rates were seen as a means of financing the budgets.
The concept of supply side economics gained currency during the 1980’s when governments realized the positive impact that low rate of taxation would have boost on both production and tax revenues. This policy led to tax buoyancy making it easier for governments to meet their development objective with out relying on deficit finance. This concept is gathering momentum and in successive budgets government have been reducing taxes on income. Government should aim at determining the optimum tax rates so that the tax realization will be the highest.

It was around 25 per cent in the VII Plan, 40 per cent in the IX Plan and 32 per cent in the X Plan. This clearly shows that the period of aggressive growth in the economy also made the government aggressive in it’s spending as well which obviously increased in the spending as well and exceeded the budgeted outlays in each sector. Pronounced excesses were seen in rural development, irrigation and flood control, transportation, education, urban development and welfare measures in the VII Plan. However, the expenditure on labour welfare far exceeded the budget expenditure. Similarly, rural development also saw a significant excess spending.
The policy initiatives laid out in the plan should eventually result in higher income to the state and increase the vital parameters of the sectors they seek to impact. Planning is the process to achieve growth, improve the income distribution and welfare of the people without harming the environment in which we live. Fiscal responsibility binds future governments to a pre-specified path of fiscal consolidation. This covers only the finances of the Central Government. The matter regarding similar legislation at State level will be for State Governments to pursue. Laying before both Houses of Parliament, along with the annual Budget in each financial year the following statements of fiscal policy: (a) Medium-term Fiscal Policy Statement; (b) Fiscal Policy Strategy statement and; (c) Macro-economic Framework Statement.

The Fiscal Policy Strategy Statement shall, inter alia, contain:

(a) the strategic priorities of the Central Government for the ensuing financial year in the fiscal area;

(b) an evaluation as to how the current policies of the Central Government are in conformity with the fiscal management principles set out in Fiscal Policy Strategy Statement and the objectives set out in the Medium-term Fiscal Policy Statement.
The Annual budget provides tight controls over most areas of spending. Preparing more realistic budgets

Reducing reliance on supplementary budgets

1. Eliminating off-budget borrowing.
2. Shift to Departmental budgeting to program budgeting
3. Improving accounting
4. Improving Public Account accounting
5. Greater controls over capital projects

As far as public finances are concerned, the Government generally relied on domestic sources to finance the deficit. Thirdly, the RBI signaled initiation of steps for separation of Government debt management function from monetary policy.

1. To have Expenditure Reduction Act along with the Fiscal Responsibility and Budget Management Act.
2. To take suggestions from the Expenditure Reforms Commission to cut non-productive expenditure on government departments.
3. To stop State Government guarantees.
4. To change to accrual basis of accounting for all government departments.

5. To sequester government departments expenditure after specifying a ceiling on the non-productive departmental expenditure for each government department.

6. To give the RBI more autonomy in terms of independence from political, executive and legislative power.

**Conclusion**

A review of the various five plans of the Government of Karnataka since independence revealed that the outlays and expenditure were broadly consistent with the needs of the economy from time to time. Being a state with a low endowment of irrigation facilities, irrigation has received due attention in all the five-year plans. This trend should continue in future as well. However power sector development was found to be inadequate in relation to the requirement. There was a lack of consistency in spending on power over the various plans. This has resulted in the power supply falling behind demand in recent years. Power sector reforms needs to be urgently implemented to
attract investment to the sector. Power shortage will impeded the development of the economy in general in the medium term and consequently slow down the rate of growth of the economy. A realistic projection of demand of power in the state has to be made keeping in view the expected growth of the various sectors of the economy and efforts should be directed to achieve these goals. Karnataka is fast emerging, as a global destination of many hi-tech industries and to support this development power is the most important input.

Social sector spending has received constant attention in all the plans indeed a healthy sign. But populist schemes in the social sector should be avoided and budget outlay should make a frontal attack on rural and urban poverty, which is likely to reach alarming proportions in the wake of the fast pace of economic growth and the widening gap of income inequalities which should lead to social tensions between the have and the havenots. Rural destitution is at its peak, which manifests itself in the form of suicides, social unrests and socially rebellious activities. This needs to be addressed immediately.
It is noteworthy the importance given to transportation in the various plans has helped in creating a good public transport network in the public sector in the State which has to be strengthened in future plans as well. Any let up will put the transport sector back and it will be difficult to revive even with a huge outlay.

Roads are a strong determinant of development of the economy especially in rural areas as it facilitates the movement of goods to demand centers and the lowest possible cost. In a globalised economic era the requirement of movement of goods is even greater. Bad roads will push up the cost of transportation. Development of road has not improved in terms of quality and should receive the immediate and greater attention of the state in the future.

Fiscal prudence is being exercised and a system of FEMA has been introduced. It should be implemented relentlessly in future. The practice of relying more or tax revenue to finance budgets should be strengthened. E-governance and the application of Information Technology (IT) in development are lagging behind.
This has the potential to improve efficiency, accountability and transparency in Government. The few areas where IT has been implemented in administration like "Bhoomi" for land records has been extremely successful and hence needs to be replicated in more sectors in future plans.

In a global economic order that is shifting to knowledge based development, spending on Research and Development (R&D) should be given a great deal of importance. Presently the allocation to R&D is negligible and should be increased substantially to support the need of knowledge and information to increase the global competitiveness of the economy.

The spending on agriculture and rural development as a share of the total budget has dropped alarmingly to half of what it was receiving in the earlier plans. This is not a healthy sign considering that about 60 percent of the population depends on agriculture for their livelihood and contributes over 20 percent to the State Domestic Product (SDP). Emphasis should be given to the creation of yield and income enhancing infrastructure. Adequate efforts are not being made to make the state's farming
community WTO compliant and enable them to be globally competitive which is the order of the day. The anomaly also should be corrected through the planning process.

Finally it could be said the State has done very well on all economic parameters due to effective planning, but it cannot afford to rest on its past laurels as the world is fast changing and modernizing. Our future plans should focus on accelerating the pace of development and modernizing the economy of the State at the same time it should abide by its principle of "inclusive growth and growth for everyone" and avoid the temptation of pandering to any vested interests both global and national.