KARNATAKA'S NEW, YET DAUNTING, JOURNEY TO DEVELOPMENT

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'The big question remains as the incoming government moves forward to implement its guarantees' | Photo Credit: ANI

As the dust settles in Karnataka over what was seen by many as a foregone conclusion, it is now time to get down to the business of governance. Over a 35-year period, between August 1988 to May 2023, the State has had 18 different governments (many Chief Ministers more than once) and was under President's Rule four times. So, it is 22 different configurations across a 35-year period, leading to a not-so-healthy average of 18 months per configuration. Karnataka is a synonym for instability if data is to be believed. One wonders what this augurs for the State with this kind of a history.

Karnataka aspires to become a trillion-dollar economy by 2032 and needs a 17%-18% Compound Annual Growth Rate in its Gross State Domestic Product (GSDP) to make this happen over the next decade — the current CAGR is around 13% — thus, a steep ask. During 2022-23, Karnataka's per capita GSDP was around $4,000 which is almost twice that of India's per capita GDP. Its GDP is around $250 billion, but the distribution is skewed, with the bulk of the contribution from the services sector. Of this, the roughly $60 billion digital economy is largely centered in and around Bengaluru, straining the infrastructure of a city which simply was not built for such explosive growth; therefore, building satellite technology/other clusters on the lines of Cyberabad, Mohali, Oragadam (Tamil Nadu), Navi Mumbai, and Naya Raipur (Chhattisgarh) is critical. Bengaluru has about two million knowledge professionals; a simple back-of-the-envelope calculation will reveal the staggering number of buses which deposit and bring back this workforce, in two shifts, from the four or five clusters within the city, almost bringing these places to a virtual halt. No other city faces this issue on such a scale.

The services sector grew the most during this period, at 15.5%, followed by manufacturing at 10.8%, and agriculture at 11.8%. The services sector was also the largest contributor to Karnataka's GSDP, making up more than two-thirds of the economy. Thus, there is ample headroom to focus on manufacturing and agriculture in terms of productivity increases and to also grow the size of the cake. The path to a trillion-dollar economy cannot rest on the shoulders of services, and technology alone.

At a time when civil service tenures are notoriously short in almost all the States of the country, Karnataka's Finance Secretary has set a national record of sorts by being in his position since August 31, 2013, for an unbroken 10 years, presenting 13 Budgets. With an outstanding team of IAS officers in finance, this has helped keep Karnataka fiscally sane. The data again speaks louder than words. Karnataka is in the top 10 States when it comes to a tiny revenue surplus and this as a percentage of the GSDP is around 0.07%. Further, if you take the ratio of capital expenditure to total expenditure, the average figure between 2015 to 2020 Karnataka stands at 17% which again is among the top in the country. Likewise, the ratio of committed expenditure to revenue receipt stands at 39%, which is one of the lowest in the country, as compared to many other States such as Punjab and Kerala, which are beyond 75%. Furthermore, outstanding liabilities as a percentage of GSDP are at a low of 20%, which is amongst the lowest four of all States in the country.

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What is even more interesting is that based on the available data, on all the above parameters, the other four southern States broadly perform worse than Karnataka, except in the case of the growth of outstanding liabilities as a percentage of GSDP where Kerala and Andhra Pradesh do slightly better.

The big question remains as the incoming government moves forward to implement its guarantees: how much, for how long and how deep would the dent be on the State's fiscal deficit, which should not go beyond 3% of GSDP if one were to follow the Fiscal Responsibility and Budget Management norms? This will be a very tough mission impossible; for, if all the promises need to be fulfilled, then the fiscal deficit to GSDP ratio could well cross 4.5% (up from 2.6% currently).

Karnataka owes about 4,000-plus crore to power generation companies, which is of course much less than what Maharashtra and Tamil Ndu owe them (of the order of magnitude of 20,000-plus crore). Also, various government departments owe about 6,000-plus crore to various electricity distribution utilities. With the free power promise, these numbers can deteriorate. There is a little known and used clause through which CPSE dues can be recovered from the tax devolution to States by the Government of India. We can only hope that it does not come to that, for many other States are in a far worse position vis-à-vis power sector dues.

Skills is one engine that needs to be revved up by creating industry-relevant skills, which are of value commercially. Telangana offers a good model to emulate, where the Telangana Academy for Skill and Knowledge (TASK) has trained and deployed an over 1,80,000 skilled workforce in the electronics industry. Karnataka needs to do this in electronics, software/Software-as-a-Service, and product management, to name a few areas. It must establish a greenfield skills and entrepreneurship university with intense partnerships with the private sector, on the lines of the institutes of eminence (outside University Grants Commission control).

Karnataka has had a history of broadly successful private-public task forces such as BATF, the Karnataka IT and biotechnology vision groups, all aimed at channelising private sector ideas and resources to enhance government effectiveness. Why not also establish a taskforce to oversee the design and rollout of government skill development initiatives? This will help get the right kind of skills that industry needs (and not the skills that government thinks that industry needs) and close the demand-supply gap of talent across sectors.

Karnataka has done some interesting reforms in agriculture, including in marketing and procurement, but the deepening of the value chain has not happened completely; otherwise it would not stagnate at around 11%-12% of GSDP. Value addition in different parts of the value chain is what brings more income to farmers. Karnataka should implement the agriculture startup policy to engender better funding, develop incubation infrastructure including branding and marketing, foster industry partnerships, and provide sensible state support in the form of market-aligned incentives. Further, it needs to amend the Co-Operative Societies Act to permit some kind of a pari-passu charge to rocket ship agriculture credit which remains low.

Finally, the IT capital of India and Asia needs to have a modern start-up policy in line with the demands of the times. This should come among the first five priorities of the new government to make the sector, currently embattled, roar again. It is rather anachronistic and strange that Karnataka does not have one, even though it is one of the world's largest startup ecosystems.

One estimate of the government suggests that getting to one trillion economy requires cumulative investments of 150 lakh crore (of which the government's capex needs to be about 25 lakh crore over the next 10 to 12 years. Where the private and government capex will come from is the real trillion-dollar question as Karnataka begins a new journey.

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