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Comparative Study of Public Debt of Andhra Pradesh, Karnataka, and Punjab

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SELF-DECLARATION

This is to certify that the thesis titled Comparative Study of Public Debt of Andhra Pradesh, Karnataka, and Punjab is my original work and has not previously formed the basis for the award of any Degree, Diploma, Associateship or Fellowship to this or any other University.

Pinaki Gakhar

07th April 2025

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GLOSSARY

Term	Definition
Public Debt	The total amount of money that a government owes to lenders, both internal (within the country) and external (foreign countries or institutions).
Industrialisation	The process by which an economy transforms from primarily agricultural to one based on manufacturing and industry.
Low-Income Countries	Nations with a low gross national income (GNI) per capita, as classified by organizations like the World Bank. These countries often face poverty, limited infrastructure, and slower economic development.
Planning Commission	A former institution of the Indian government (replaced by NITI Aayog in 2015) that was responsible for formulating five-year plans for economic development.
Fiscal Deficit	The difference between the government's total expenditure and its total revenue (excluding borrowings). It shows how much the government needs to borrow to meet its expenses.
Welfare	Government-provided support intended to ensure a basic standard of living, especially for the poor and vulnerable sections of society.
Revenue	Expenses that do not lead to asset creation or reduction in liabilities—like

Expenditure	salaries, subsidies, or interest payments. These are regular, recurring costs.
Capital Expenditure	Government spending that creates assets (like infrastructure, buildings) or reduces liabilities. These are investments for long-term development.
Tax	A compulsory financial charge imposed by the government on individuals or businesses to fund public services.
Tax Revenue	The income collected by the government from taxes like income tax, GST, customs duties, etc.
Non-Tax Revenue	Income earned by the government from sources other than taxes, like interest receipts, dividends from public enterprises, or fees and fines.
Public Debt Management	The strategies and actions taken by a government to manage its debt efficiently and sustainably, including borrowing, repayment, and interest payment.
Fiscal Consolidation	Efforts by the government to reduce its fiscal deficit and stabilize public debt, often by increasing revenues and reducing expenditures.
Debt to GSDP Ratio	A measure that compares a state's total debt to its Gross State Domestic Product. It indicates the financial health of the state.
Marxist School of Economics	A school of thought based on the ideas of Karl Marx, focusing on class struggle, exploitation of labor, and advocating for a classless, socialist economy.

ABBREVIATIONS

Abbreviation	**Full Form**
BJP	Bharatiya Janata Party
FRBM	Fiscal Responsibility and Budget Management
GDP	Gross Domestic Product
GSDP	Gross State Domestic Product
IMF	International Monetary Fund
INC	Indian National Congress
JD(S)	Janata Dal (Secular)
RBI	Reserve Bank of India
SAD	Shiromani Akali Dal
TDP	Telugu Desam Party
TRS/ BRS	Telangana Rashtra Samithi (now Bharat Rashtra Samithi - BRS)
YSRCP	Yuvajana Sramika Rythu Congress Party

ABSTRACT

Public debt has emerged as a growing issue which Indian states face in the past ten years as they attempt to reconcile their development needs with their financial sustainability requirements. Several states experience mounting debt from increasing expenditure against constrained revenue collection which raises doubts about their sustainable financing strategies. This comparative research examines public debt patterns across Andhra Pradesh, Punjab and Karnataka from 2013 until 2023. The three states provide distinct environments which help understand both debt accumulation patterns and fiscal management practices.

The state of Andhra Pradesh depended extensively on borrowing money after its partition to rebuild its infrastructure and expand welfare programs which permanently increased its debt levels. Punjab endures enduring financial difficulty mainly because past decades accumulated debt while the state struggles to enhance revenues and maintain high compulsory spending. The state government of Karnataka maintained better fiscal control alongside lower debt proportions relative to Gross State Domestic Product despite facing periodic political turmoil which caused increasing financial strain during recent years.

This research combines both quantitative as well as qualitative data collection tools throughout its methodology. Over ten years of data analysis about revenue collection and public expenditure and debt levels draws from state budgets together with CAG reports and Finance Commission documents. The state budget data is positioned within statewide policies and leadership changes to reveal governmental decisions that steered fiscal results. Each state implements the Fiscal Responsibility and Budget Management (FRBM) Act as the framework to evaluate compliance together with budget discipline requirements.

INTRODUCTION

Countries take on debt to meet their expenditures when their revenue falls short to meet them. Debt can also be taken to invest in development projects and during calamities.There is an extensive debate of whether debt helps an economy or not and should debt even be incurred by the states. Various schools of economic thought have their own perspectives of what impact public debt has on the economy. It is however largely believed that public debt can make or break an economy. While incurring debt is not wrong its utilisation is of key importance. If not managed effectively, heavy expenditure and debt can lead a country's economy into a debt crisis like in the case of Greece in 2009. This makes effective fiscal management crucial.

India saw a significant increase in its debt levels post Covid-19 as each state of India tried to recover from the impact of the pandemic and to balance its future development and present day welfare programs. In India, the nature of fiscal federalism is such that state governments can take on debt from the internal markets and are provided loans and advances by the Central government. However it can be seen that several states in India are struggling with a potential heavy debt trap and utilising a massive share of their revenue on repayment of debt along with taking on more debt to pay off previous debt payments. This makes it essential to study the state level finances.

For this study three states have been taken namely, Andhra Pradesh, Karnataka and Punjab. All three states have a dominant agricultural sector and faced their own unique challenges in the decade between 2013-23 however only Karnataka has been able to maintain its fiscal health. This despite the fact that Karnataka saw a period of political instability with coalition governments forming and falling and a shift in government's priorities from welfare to industrial. On the other hand, Andhra Pradesh being a new state had to rebuild itself from an opening balance of -76 crores, while Punjab had to balance almost thirty years of piled up debt, welfare and development.

While there is debate on the deteriorating fiscal health of Karnataka post Covid-19 Pandemic, it has been effectively managing its finances and debt levels, and therefore can be used as a benchmark to understand its revenue, expenditure and debt along with studying of these parameters in Punjab and Andhra Pradesh to better understand issue of debt crisis in these states. The study aims to understand the fiscal health of the three states and understand where improvements can be made for them to align with the principles set out in their respective Fiscal Responsibility Acts as a means to understand the issue of public debt in these states.

BACKGROUND

Public debt is not a modern phenomenon, it has been around for a long time and has only been formalised in recent times. In post-independence India, the center and state adopted a federal relationship in terms of finances where both the Union government and states had the right to collect tax, spend on public welfare and incur debt. This gave states power to manage their finances as per their policy priorities.

History of Public Debt

Public debt as a phenomena has a long history tied to it. As an instrument of state, public debt has been in existence for two thousand years. The International Monetary Fund (2019) states that it has been discovered that borrowing agreements with states were conducted regularly and the debt contracts with the sovereigns became standardized.

The loans extended to monarchs in late medieval Europe were short term with high interest rates. It was only post 16th century that the states could borrow long term. By the 13th and 14th centuries the small city-states were able to borrow for longer duration. The reason why the city-states were able to borrow long term was because they were small, and their politics were driven by merchants that could monitor the sovereign.

The need of financing wars also served as a cause of incurring debt for the states. The Church during the Holy Roman Empire would require means to maintain an army and thus relied on attracting wealthy individuals and corporate firms to take to selling and buying of shares. The

Church needed a way to finance the military of its Italian allies. It anticipated the income that was generated from Church property and religious dues along with encouraging banks to incorporate themselves as joint stock companies. This created a way of stabilising financial intermediation. These firms had transferable shares and allowed them to increase their capital base and improve their lending capacity through selling of shares and attracting deposits from wealthy people. These formed the advances made to the Church.

In the Italian city-states, the debt took a new form of ‘perpetuities’ that became the foundation of the modern day model of incurring debt. Debt contracts took a new form of annuities and were called “rentes” or “renten”. These contracts specified that the lenders would receive interest payments throughout their lifetimes or in perpetuity, however the principle was never paid back.

By the mid-17th century, the government debt took the form close to what modern day debt incurring looks like in case of their percentage to GDP, which means about 20 to 60 percent of the national income. In 1694, the Bank of England was announced as the banker of the government. The relationship between the State and the bank had moved from funding governments with long term debt to becoming a bank to the government itself while maintaining money supply and floating debt. This is how the current system of central banks, monetary policy and fiscal policy came into existence.

Over time the government borrowings shifted from financing wars to providing public goods. With the advent of industrialisation, the need for public services like education, sanitation and so forth increased and governments started financing these through borrowings. However some governments struggled to manage their growing debt levels. While the debt was being raised to fund public goods, not all emerging economies were able to manage their growing debt levels in order to avoid insolvency. By the nineteenth century, defaulting on external debts became a common phenomenon.

The debt to GDP ratio of advanced countries from 1900 to 2015 averaged around 63%. "By 1914 advanced-country debt had fallen to 23 percent of GDP, the 115-year low. World War I, the Great Depression and World War II then created new demands for public spending. Together they drove debt up to about 140 percent of GDP in 1946, the highest level in the 11 decades" (IMF, 2019). By the 1960s the debt ratio had fallen to 50 percent. However it saw a rise again in the 1970s and 1980s. This coincided with high interest rates, a growing number of welfare states and a slowdown in productivity growth.

As the USA banks attracted emerging economies for loans, Latin American countries' public debt increased. In the 1930s the debt ratios fell from their peak as debts were restructured and GDP recovered and budgets got broadly balanced. The composition of debt in emerging economies was volatile.

In low income countries, the public debt skyrocketed by the 1990s. The governments initiated externally financed projects with the hope to strengthen their economies and further growth. However the results were not as expected, as a major part of external borrowings were used to finance current day to day expenditure rather than on developing and investing in the manufacturing sector and infrastructure. These countries were on a path to defaulting.

Public Debt in Indian Context

The history of public debt in India post-independence is an interesting one and has been broken down by the Reserve Bank of India (RBI) in different phases.

RBI (n.d.) mentions the three phases. The first phase was from 1947 to 1951 which represented the period after the war and partition when the economy was unsettled. The Government of India had then failed to achieve borrowings it had estimated for which it had already taken credit for in the annual budgets.

The next phase was 1951-85 during which the public debt was determined by the five-year plans. The phase following it was when the government attempted to align the interest rates on government securities with market interest rates. This attempt was made on the recommendation of the Chakraborti Committee Report from 1985-91.

The phase post this is the one that has been going on, from 1991 to present day. In this phase comprehensive reforms have been undertaken to reform the government securities market and an active debt management policy has been adopted by the government.

Center - State Financial Relationship

Reddy and Reddy (2019) talk about the origins of fiscal federalism in India in their book 'Indian Fiscal Federalism.' The fiscal federalism as seen in present day government found its origin in the era of British Rule. The 1833 Charter Act centralised all legislative and financial control under the Governor- General of India. Areas such as Bombay, Madras and Calcutta became Presidencies.

When India was taken under the British crown, England's financial system was implemented in India as well. Revenue was divided into three categories of union, provincial and divided. About fifty years later, in 1904, a new system emerged. Five year reviews of revenue sharing emerged and the provincial revenues became fixed. The Government of India Act of 1919 divided provincial subjects into transferred and reserved categories.

Different Commissions were established to recommend a federal structure for India. These included the Simon Commission (1927) and Peel Committee (1931). These equitable tax distribution, shared income tax, and financial grants based on population. Under Government of India Act, 1935 the fiscal structure was divided into three lists, namely, Federal, Provincial, and Concurrent legislative lists. This however did not include the Princely States. The Act also had provisions of taxes, financial aid and write-offs for debt. This formed the bases of modern day fiscal federalism in India. After India's independence in 1947 the Constitution of India was formulated which shed light on the new financial system. It divided the government structure into Union and State governments along with local governments. The Constitution of India elucidates the relationship between the Union government and State government in regards to finances.

Commission On Centre-State Relations Report (2010) mentions that the article 246 of the constitution consists of three lists by dividing responsibilities to be taken up by the union government, state government and shared subjects. The subject matter of the list determines the major themes of the expenditure of the governments.

Commission On Centre-State Relations Report (2010) further mentions that the Central government is allocated the taxes of high revenue potential while the State governments have more functional responsibilities. The taxes allocated to the Union government include those imposed on duties of custom and corporation tax. "The important taxes listed in the Union List or those assigned to the Centre are taxes on income other than agricultural land… terminal taxes on goods and passengers carried by railways, sea or air, taxes other than stamp duty on transactions in stock exchanges and futures markets and taxes on sale and purchase of goods other than newspapers, when such sale takes place in the course of inter-State trade or commerce" (Commission On Centre-State Relations Report, 2010). The States have been allocated nineteen taxes including taxes on land revenue, agricultural income, land and buildings, luxuries including entertainment, on entry of goods into a local area and sale and purchase of goods other than newspapers.

Commission On Centre-State Relations Report (2010) explains that Article 270 incorporates the division of cesses between the center and the state governments, which was later amended on the recommendation of the Tenth Finance Commission; this amendment led to rational distribution of net proceeds between Center and State. Article 280 of the Constitution mentions a Finance Commission be formed every five years on the request of the President. The aim of the Finance Commission would be to (1) distribute the taxes effectively among the State governments and Union government, (2) define the principles regarding grants-in-aids being received by the states, (3) provide measures to augment the Consolidated Fund of the State and (4) any other matter suggested by the President. Article 282 gives the Union or State governments to make grants for any purposes that may serve the public at large. Article 275 elaborates on the grants-in-aids provided to the state governments. The Constitution also mentions the borrowing powers of the Union and the States in articles 292 and 293. Article 293 mentions "Subject to the provisions of this article, the executive power of a State extends to borrowing within the territory of India upon the security of the Consolidated Fund of the State within such limits, if any, as may from time to time be fixed by the Legislature of such State by law and to the giving of guarantees within such limits, if any, as may be so fixed" (Constitution of India, 1950).

Reddy and Reddy (2019) elaborate on the changing nature of fiscal federalism. The Indian Constitution gives states financial support through tax sharing and grant-in-aids as per the recommendations given by the Finance Commission. Under Article 282, allows both Union and State governments to grant funds for public purposes. These transfers were largely done by the Planning Commission.

Until 1969, total allocations of finances to the States were done on the basis of the projects they had on going. The arbitrariness of such allocations raised concerns among them. To address this the then chairman of the Planning Commission formulated the Gadgil formula in 1990, which was later modified further to Gadgil- Mukharjee formula of allocation of finances.

The formula based grants allowed the ministers in the Union Government to launch various schemes as a means to allocate finances systematically. This new way of allocation was divided into two components, normal plan and scheme based assistance. Normal plan included predefined financial aid and scheme based was to support specific initiatives taken by the state governments.

Post the abolition of the Planning Commission, this system of allocation was discarded. This led to a significant shift in the relationship between the Center and the States. The discontinuation of the original distribution system led to heavy reliance on centrally sponsored schemes. This has given the Union Government more control over financial allocations which have been prioritised sector-specific development programs over general-purpose grants. This has made State governments adapt to the new nature of financial aid which is scheme based. Muralidharan (2024) mentions that in India almost 50% of transfers made for centrally sponsored schemes are delivered by the state governments.

Therefore, public finance in India is structured around various elements including the constitutional provisions, parliamentary procedures, and statutory regulations. It comprises revenue collection, fund allocations, and public expenditure. The budget process is carried forward as per articles 112–117, which involves the presentation of the Union Budget by the Finance Minister and must be approved by Parliament. The Parliament also approves government spending through Financial and Appropriation Bills. Article 280 mentions the Finance Commission. Under Article 148, the Comptroller and Auditor General (CAG) audits public finances of the union and state governments to ensure transparency. The FRBM Act, 2003, guides the union and state governments in regards to fiscal discipline and even sets targets for deficits and public debt. Public Sector Undertakings (PSUs), both at the Central and State levels, borrow to finance their capital needs. Their debt may be market-based, institutional, or external. Contingent liabilities to the state include both non-guaranteed (based on PSU credibility) or guaranteed (backed by the government). Rising PSU debt risks hidden fiscal stress on the states.

13th, 14th and 15th Finance Commissions

The 13th, 14th, and 15th Finance Commissions (FCs) of India were established with the aim of recommending how central tax revenues should be shared with states and how fiscal needs could be equitably met. The 13th FC (2010–15) allocated 32% of central taxes to states, focusing on fiscal discipline and need-based grants. The 14th FC (2015–20) increased it to 42%, promoting greater fiscal autonomy and reducing centrally sponsored schemes. The 15th FC (2021–26) slightly reduced it to 41%, since the formation of the UT of Jammu & Kashmir, while introducing incentives for tax effort and demographics.

Andhra Pradesh received a larger share in the 13th FC because of split-related problems, but that share dropped to 4.05% when new criteria were used in the 15th FC. Although Karnataka's share reached 4.71% during the 14th FC by relying on its tax efforts and forest cover, it dropped to 3.65% in the following round. Although its indicators meant Punjab received underrepresentation in the early commissions, it steadily rose from 1.39% to 1.79% over the following three. The way funds are allocated is influenced by what's important in the country and what each state does well in money management and population policies.

Removal of Plan and Non Plan Expenditure Budgeting

Until 2016, the country's budget identified Plan and Non-Plan sections. Developmental budgets covered spending on infrastructure and programs designed for welfare and were agreed in line with Five-Year plans. Routine costs under non-Plan spending included salaries, pension payments, interest payments and defense. Yet, this system was no longer effective after the Planning Commission was ended in 2014 and replaced with NITI Aayog. The difference was confusing—lots of important activities such as maintaining schools or hospitals, were marked as non-developmental although they clearly contributed to development.

To deal with these problems, the Union Budget 2017–18 abandoned using Plan/Non-Plan classification and chose to use the internationally respected classification: Revenue Expenditure vs. Capital Expenditure. While revenue expenditure is for daily government activities (salary, subsidies, pensions), capital expenditure is needed for projects that build new assets (roads, railways, infrastructure).

The resulting change made spending more transparent and helped us analyze it more carefully. It made sure that previously, when too much Plan money was spent, it didn't affect crucial non-Plan funds. The way funds are now managed directly supports what is achieved which makes budgeting more effective and results in better control over spending. In general, the reform helped bring India's financial management system into modern times and made its use of resources more accountable.

While there are white papers and status papers along with some studies on different elements on state government finances, a comparative study has not been conducted on Karnataka, Punjab and Andhra Pradesh as case studies to understand the issue of public debt.

Political and Economic Background of Three States from 2013-23

1. **Andhra Pradesh**

The bifurcation of Andhra Pradesh in 2014 was not a sudden event. It was the outcome of deep-rooted regional imbalances that had simmered for decades. These differences began during British rule. Coastal Andhra was part of the Madras Presidency, while Telangana was under the Nizam of Hyderabad. The two regions had different systems, cultures, and growth patterns.

In 1956, they were united under the States Reorganisation Act, forming Andhra Pradesh based on the common Telugu language. But the promise of unity was tested early. Telangana residents soon felt sidelined. This was especially true of jobs, education, and resource distribution. They fretted over the fact that the promises to protect their interests remained more on paper than becoming a reality.

By 1969, their discontent exploded into the "Jai Telangana" movement. People demanded a separate state. They cited broken promises and slow progress. In response, Coastal Andhra responded with the "Jai Andhra" movement in 1972. It opposed the division and called for a united Telugu identity. But the gap between the regions only widened with time.Over the next few decades, the idea of a separate Telangana never really disappeared. Various political groups and activists carried on with the movement. They kept it alive by pointing to the same core issues of development lag, political neglect, and identity.

A turning point came in 2001. K. Chandrashekar Rao (KCR) founded the Telangana Rashtra Samithi (TRS), giving the movement a strong political voice. His party connected emotionally with the people. He highlighted years of neglect and promised that a separate Telangana would lead to better governance. (Reddy, 2016) The movement kept gaining momentum such that by the late 2000s, major national parties could no longer ignore it. In 2009, KCR went on a hunger strike. It ignited public sentiment and he received massive support with protests dominating the streets. It created a situation wherein the central government was forced to act. A committee was set up to explore the demand. After years of debates and pushback, the Parliament passed the Andhra Pradesh Reorganisation Act in 2014. (Government of India.,2014).The Act split the state into Telangana and Andhra Pradesh. Hyderabad became the joint capital for 10 years. However, the Andhra Pradesh Reorganisation Act laid out that liabilities of the undivided state would be shared in proportion to the population. Telangana’s share was supposed to be 41.6%, based on its population share. Telangana leaders protested this because they asserted that Telangana did not benefit proportionally from the projects or expenditures funded by that debt.

Nonetheless, post-bifurcation, both states took different paths. Andhra Pradesh, under N. Chandrababu Naidu (TDP-BJP alliance), focused on building a new capital at Amaravati. He pitched the state as an investment destination. But with the rise of Y. S. Jagan Mohan Reddy (YSRCP), plans shifted. The new government proposed three capitals, sparking fresh debates about governance and equity. In 2024, Naidu returned to power. This signaled another shift in the development agenda, which continues to unfold.

N.C. Naidu's government was development focused while taking welfare along as a means of growth while Y.S. Jagan Mohan Reddy's government followed a welfare first model that focused on direct benefit transfers .

As per the Finance Commission State Evaluation Report (2019) the bifurcation of Andhra Pradesh in 2014 impacted its economy on several fronts. Seven out of thirteen states were backward. The state faced a lack of institutions of natural importance. Post this bifurcation the opening budget of the state was -76 crores. Since then the debt of Andhra Pradesh has increased. The public debt receipts were found to have increased along with an increase in the repayment of debt.

Punjab

Punjab has faced struggles like drug trafficking, protests, unemployment etc throughout the past few decades. It has a long standing history of public debt crisis since the mid 1980s. Punjab's debt has soared to over 40% of the GSDP. Amidst this in the decade between 2013-23, it has seen two major political shifts.

In 2013, the SAD-BJP alliance was in power, it faced farmers protests in 2015, and a switch in power in 2017 state assembly elections. In 2017, the Indian National Congress came into power. During its run it faced the Covid-19 pandemic and Punjab becoming the epicenter of farmer protests in 2020. In 2022, AAP won a landslide victory and Bhagwant Singh Man became Punjab's Chief Minister.

Punjab is a debt stressed state with a weak fiscal position. The issue of public debt in Punjab has been one that has sustained through a long period of time. Kaur (2021) found the issue of outstanding debt started in 1980 and brings to notice how Punjab still struggles with the issue of outstanding debt. The internal debt and public account liabilities account for a major portion of Punjab's debt throughout the years. Punjab incurs high cost loans which reduces its debt serviceability. Throughout the years the increasing debt at high interest rates started chewing away the revenue receipts of the government. The debt profile of Punjab showcases heavy repayment liabilities for the next 30 years for the government. The outstanding debt of Punjab skyrocketed in the 10 years between 2011-12 to 2020-11. There is an increase in market loans and a sharp decline in the loans and advances given by the Central government. She recommends that the government adhere to hard budgeting options such as improving tax buoyancy, enhancing the efficiency of its administration, mobilizing additional revenues, reforming its public sector utilities, reducing its non productive expenditures, curtailing salaries and pensions, and being rational about the subsidies it gives out including free electricity to improve Punjab's fiscal health. The Government of Punjab's White Paper on State Finances

(2022) states that Punjab's debt indicators are the one of the worst in the country. It also mentioned a structural weakness with the growing dependence on grants from the Center rather than its own revenue. It also found that there is little scope for expenditure on development due to high revenue expenditure. It also recommended reworking the expenditure commitments and creating new avenues for direct revenue for the state.

Karnataka

The decade between 2013-23 was one of political instability for Karnataka. During this period it saw the rise of coalition and fall of governments. In 2013, the government was under the leadership of Siddaramaiah of INC. In 2018 state elections BJP won the majority seats but fell short to form a government, meanwhile INC along with JD(S) formulated a coalition government. Due to differences this government fell in a year and in 2019, BJP came into power under the leadership of B.S. Yeddyurappa. This government dealt with the Covid-19 Pandemic and even changed its FRBM Act of 2002 to increase the limit of fiscal deficit to 5%. In 2023, INC won a majority led by Siddharamaiah.

The 14th Finance Commission Evaluation of State Finances of Karnataka (n.d.) mentions a significant change in the fiscal front for the state as it reformed itself from fiscal stress in the 1990s. It undertook the strategy of fiscal consolidation after the submission of a white paper on state finances in the year 2000. This strategy included Karnataka ceiling on government Guarantee Act, Karnataka Transparency in Public Procurement Act (KTPP) and Karnataka Fiscal Responsibility Act (KFRA) 2002. While Karnataka witnessed a recovery on the fiscal front it still faced challenges. It identified that effective utilisation of state’s resources and focusing on socio-economic development is the need of the hour for Karnataka. Despite the recovery there are areas where Karnataka can do better.

These states present interesting case studies of how public finance and specifically public debt is shaped by the determinants of political economy. Each state presents its own unique characteristics and approaches to balance both welfare and development while being primarily dependent on agriculture. Andhra Pradesh faced a huge challenge of rebuilding itself and therefore relied on debt. It despite opening with a negative balance chose to spend on both development and welfare. Punjab carries a debt piled over three decades and chooses to spend on free power for farmers. Karnataka has effectively managed its finances while spending on welfare and meeting its fiscal deficit targets. It later saw a shift in government priorities from welfare to development. To better understand. Therefore, in this study, the focus will be on these three states trying to understand their revenue, expenditure and debt along with the government priorities.

LITERATURE REVIEW

Public debt has come up as a source for governments to finance themselves for both their current day to day expenses as well as means to invest in infrastructure and developmental projects. Public debt is also seen as a justified step to deal with the economic crisis. Murlidharan (2024) states that for countries with limited resources and urgent demands to meet, optimising public funds as a moral imperative and not just an economic one. He further elaborates that debt in itself is not problematic as long as it is used for investments that yield high rates of return. Debt therefore should primarily be used for productive investments not current expenditures or past inefficiencies. IMF (2001) holds that debt that is poorly structured can lead to economic crises.

Schools of Economic thought on Public Debt

Economics is the study of choices, to incur debt or not and how much to incur and how to pay back are all choices to be taken by the government. The different schools of economic theory present their own approaches about public debt. Classical Economics believes that markets are self correcting and require no government intervention. Roberts (1942) spoke about the early classicists. He observed that the classicists were mostly interested in stimulating private capital formation and believed in the real cost being incurred due to factors like unproductive spending. As per him, the classicists held that the government spending came at the cost of a sacrifice in private capital formation.

There are a few prominent economists in this school of thought, viz, Adam Smith, Thomas

Malthus, David Ricardo, and J.S. Mill. Each had their own opinions on public debt. Cifuentes-Faura & Simionescu (2023) mentions that as per Adam Smith, the debt is not for future investments but to meet present day expenditures. This has a negative impact on the long term economic growth. Tsolfidis (2007) mentions Smith's argument that governments should not run budget deficits, because the accumulation of debt is considered "pernicious" for the nation even if all of it is owed to domestic investors. This incurring of debt would eventually lead to higher taxation leading to domestic capital moving out and devaluation of the currency. This affects the domestic producers and retards the economic growth of a country. As per Smith, budget deficits were only justified in emergencies. For him, public borrowing meant reducing savings of households which translates to investment and thereby reducing productive investments and allocating money to unproductive and wasteful uses.

Cifuentes-Faura & Simionescu (2023) elaborates on Malthus' approach to public debt. Mathus believed that public debt could have a positive effect on the economy as it would allow for redistribution of income to consumption and thereby stimulate economic activity. For him the determinants of debt were purchasing power of money and income. Tsoulfidis (2007) described that Malthus thought that public debt helps economies since it inflates demand which helps counterbalance the overproduction of goods. Mathus therefore argued that governments should maintain public debt of an adequate level.

Roberts (1942) in his paper *Ricardo's theory of public debts* talks about David Ricardo's view of public debt. Ricardo believed that public debt was essentially payments made by the State to unproductive labourers and mentioned his premise regarding the same in his book 'The Principles'. Like the classical economists mentioned above, Ricardo too believed that public debt is unproductive. Roberts elaborates on how Ricardo therefore believed that countries with large debts are found in an artificial situation. The community is primarily burdened by the wasteful nature of public expenditure rather than the methods employed to finance those expenditures. Cifuentes-Faura & Simionescu (2023) elaborated that public debt cannot achieve what it is incurred for and simply creates financial burden for future generations who will have to pay higher taxes. Therefore, debt is not determined and has no macroeconomic consequences in the long term .

However, there are other opinions on the issue such as J.S. Mill was of the opinion that debt might not be harmful under some conditions but may lead to increased interest rates if it competes with the private sector. Tsoulfidis (2007) speaks about Mill's belief that public debt only reduces the private capital and leads to greater competition between workers which eventually results in a decrease in real wages. He "was disturbed not only by the cost arising when resources are transferred to the government, but also by the cost at a later date when interest payments are made-especially significant is the future cost of servicing the debt if the borrowing activities of the government increased the rate of interest" (Sharp, 1959).

Marx in his book, 'Das Kapital' called public debt a means of primitive accumulation. As per him, the governments convert the money in people's home not being used to capital, without any risk.

Carcanholo (2017) a marxist himself, explores the marxist approach to public debt. Marxism speaks of state executing collective interest and thus through a marxist lens public debt can be viewed as a collective debt. Its responsibility falls on the collective. Contrary to Smith, Marx believed that money lying in the hands of the people through public debt can be converted into capital without losing anything. The cash for them turns to a public bond that can be used by them as they would use cash, all the while that money taken by the government creates capital. He believed that public debt became the basis for the existence of joint stock companies. Carcanholo (2017) further mentions that Marxists believe that public debt plays a dual role of creating capital and regulating the credit system outside of just meeting public expenditure. In his paper *Marx(ism) and Public Debt: Thoughts on the Political Economy of Public Debt* Carcanholo (2017) opines that public finance does more than just provide means for public expenditure it also regulates the credit system and extends the areas of valuation of interest capital to absorb the mass of capital.

According to Phelps (2022) expands on the keynesian thought on public debt which holds that when a government is forced to borrow heavily due to economic conditions, the resulting public debt is not a major issue. This is because the extra taxes people pay to cover the interest on the debt are balanced out by the interest income they earn from holding government debt. This school of thought believes that economic activity is driven by demand, and therefore using public spending to stimulate aggregate demand. By engaging in public investment, consumption can be expanded. Cifuentes-Faura & Simionescu (2023) states that the investment aims to stimulate consumption by virtue of increased production which would lead to higher revenues and eventually reduced public debt. Public debt can therefore be used as a tool by the government, as the debt is what the people owe to themselves. Sharp (1959) elaborates on the Keynesian reasoning of people sacrificing also benefits them. The interest that is paid to the creditors of the government are paid by the national taxpayers who eventually reap the benefit of public spending for which debt had been incurred and thus the wealth of society does not change.

Neoclassical economists believe that government borrowing leads to a wedge between wealth and capital. If the government borrowings lead to reduced consumption in lieu of government bonds their wealth is said to increase and national capital remains unchanged, however if it leads to a shrinkage in purchasing of private companies shares thereby decreases the national capital.

Phelps (2022) also speaks on the approach of neoclassical economists who hold that an increase in public debt increases wealth. This leads to a period where there is a slowdown of capital accumulation and productivity growth.

Rationale for Public Debt

There is extensive debate on whether public debt should be taken by a state or not and if a state takes debt, under which circumstances is it acceptable to do so. Denison and Hackbart (2006) in their chapter 'State Debt Capacity and Debt Limits: Theories and Practices' of the book, 'Public Financial Management' speak on the conventional wisdom of state finances of public expenditure being financed from public revenue. All the while, debt being justified only for capital and infrastructure projects. The reasoning behind it being that the cost of these projects be borne not just by present taxpayers but the future ones as well. There are two possible funding strategies as per them, first is current revenues meeting current expenditures and the second being debt financing through sale of government bonds. He mentions that in a country revenues are limited and the debt issued to the state is also limited. The state's financial capacity to service debt determines the limit to which a state can incur debt. Debt which is used for capital projects is universally accepted. However it is important to ensure that the debt is monitored so as to ensure the lenders do not lose trust in the government.

Public Debt and Economic Growth

The relationship between public debt and economic growth and governance has been studied across different countries. Lee (2017) found that the effect of social expenditure was insignificant on the public debt levels in advanced economics. Musa et al. (2023) discovered that incurring debt does not impact developed nations as much as developing nations. However in developing countries the impact of public debt is different. Reinhart, Rogoff, & Savastano, (2003) found that developing countries exhibit low levels of tolerance for public debt. Yimer (2024) found that in the case of Ethiopia, public debt was found to have a positive short term impact and a negative long term impact. Aimola (2021) also found a positive correlation between public debt and inflation in Nigeria.

It was found by the International Monetary Fund or IMF (2022) that an unexpected increase in public debt to GDP ratio can hurt a country’s real GDP which has a high pre-existing debt level and a debt trajectory that has been rising for over five years. This can also boost real GDP for countries which have either a low income level.

Salmon (2021) conducted a survey review of literature on impact of public debt on economic growth found an overall trend of negative impact of public debt on growth, and suggested a possible threshold for debt which may not be a common one across different countries. He noted a pattern from existing research since the great financial crisis which pointed towards a common conclusion that high levels of public debt negatively impact economic growth. He also noted that there is empirical evidence for a debt-to-growth threshold which is nonlinear but it may not be common across all countries and would depend on factors like the level of development of a country and the quality of its institutions.

Public Debt Management

Public debt has been found to be justifiable under several circumstances like investing in capital projects and during calamities, however it is important to maintain the debt levels effectively so as to not burden the state and the economy with heavy debt levels. Denison and Hackbart (2006) expand on a possible approach to analysing and managing debt capacity through 'rules of thumb' based on debt indicators like debt service ratios, debt service payments as a percentage of government expenditures. According to them, an effective debt management policy balances the current revenues while maintaining credibility in the market. They further mention that availability is conventionally dependent on the economic factors, tax and revenue of the state. Along with these a crucial factor is the willingness to trade off present day discretionary expenditures to meet the debt service commitment.

The IMF finds public debt management as a means for the government to manage risk and cost benefits. Debt portfolio of a country is its largest financial portfolio and can lead to substantial risk to its stability. The IMF has given guidelines on public debt management that can be adopted by countries across the world. In its chapter titled 'Guidelines for Public Debt Management' in the book *Fiscal Management* (2005), it advises that debt levels must remain sustainable and a credible strategy be in place to reduce the levels of debt. Some indicators to measure this are: debt sustainability debt- servicing ratio and the ratios of public debt to GDP and debt to tax revenues. It believes that sound debt structures can help the government reduce its exposure to risk by playing a part in financial market development and financial deepening.

The IMF also found that several times countries face public debt management issues solely due to their inability to recognise the value of prudent debt management strategies which help reduce their vulnerability to economic shocks. Some of these strategies are weighing risk and cost considerations, coordinating and separating monetary and debt management related objectives. Others include limiting debt expansion and managing risks and interest rate burdens and building institutional structures that bring down operational risks.

The guidelines by the IMF are designed to assist policy makers in reforming and strengthening their public debt management strategies. It recommends there being transparency and accountability in debt management through an open process of formulating and reporting of debt management policies, making the information on the same publicly available. These efforts to manage debt must be audited regularly. While the government may enact certain policies it is essential to regularly review the debt management efforts to ensure compliance to those policies as well as effectiveness of the measures taken by the state. Proper systems should be in place to support accurate and safe management of debt. The inherent risks of a government's debt should be looked into carefully and monitored effectively. IMF further suggests there be a risk assessment framework to help in debt management. Portfolio diversification must be practiced. It also states that debt management policies have their limits and cannot replace sound fiscal and monetary management and advocates for sound macroeconomic policy to prevent risk itself.

Public Expenditure

The rationale behind the existence of the state as per economists is the requirement to intervene during market failures and the distribution of public goods. In order to achieve this the government earns revenue and spends. Premchand (2006) in his chapter, 'Public Expenditure

Management: Selected Themes and Issues' of the book, 'Public Financial Management' talks about the difference in fiscal policies and expenditure management in developed and developing countries. He mentions how developing countries lack automatic stabilisers and all government actions essentially being discretionary in nature. These processes are time consuming which often renders them meaningless by the time they are implemented due to changes in economic conditions. Developing countries face challenges in economic volatility and thus require a more cautionary approach to policy making. These economies are susceptible to massive changes due to inflow or outflow of money.

Hussain & Haque (2017) studied the relationship between fiscal deficits and economic growth in Bangladesh and emphasised on the importance of quality of expenditure and that it should be done after careful planning. Similar to this study, Murlidharan(2024) talks on the need of focusing on quality of public expenditure in India in his book, 'Accelerating India's Development.' He states central and state governments waste lakhs of crores of rupees annually. He believes that this ineffective spending reflects underinvestment in systems whose goal is assessing quality of public spending. The states account for more than 60% of public spending in India. India as a country spends around 50% of its borrowings to meet current expenditures rather than financing them from tax revenues. He states that more than half of public spending includes expenses of salaries, pensions and interest payments.

Another dilemma of the government is highlighted by Muralidharan of balancing spending on investments and welfare. While welfare improves the present quality of lives of citizens, investments give long term benefits, and for India it is crucial to maintain balance. He further provides some principles to improve the quality of public expenditure. Muralidharan recommends that the return on investment (ROI) be estimated on the public spending done. Governments can adopt high ROI public spendings and phase out low expenditures. More efforts should be directed to understand the ripple effects in the economy of the policies adopted along with the possible indirect costs of adopting those policies.

Revenue Collection

In order to provide citizens with necessary services and ensure functioning of government machinery, the state earns revenue through tax and non revenue. Wang (2006) talks about revenue shortage in his book, ‘Financial Management in the Public Sector.’ He states that there are three conditions for revenue shortage, namely, increase in expenditure, loss in revenue or a combination of both. Other factors include changes in socioeconomic environment, changes in population, economic depression etc. Revenue shortage can be short term and long term. He further elaborates on developing revenue options. These options include cutting spending, increasing taxes, borrowing and intergovernmental assistance. Other options include using financial reserves and making institutional or policy changes.

Muralidharan(2024) talks about the revenue of a country. He states that a crucial component of state capacity is the ability to raise required revenue with little inconvenience to the citizens and without disincentivizing productive effort. India faces significant trouble in this arena, it faces several challenges in raising revenues. These indicate inefficiencies in tax design and administration. Low revenue generation limits the ability to invest in crucial areas. While India meets the global benchmarks in revenue collection, there is scope for improving the quantity and quality of it.

He believes that the underlying potential of improving revenue collection can be tapped into by taking some actionable steps. These steps include improving the design of revenue collection instruments, reducing compliance costs, improving both quantity and quality of revenue collection and minimizing the negative effects of taxation. The weaknesses in the system of revenue collection need to be addressed, these contain both implementation and design related.

Taxation can hurt economic activity by disincentivizing working and investing. It leads to an increase in real cost which in turn leads to reduced economic activities. The taxes end up generating unseen costs too as people try to evade them. Once again the indirect costs become larger than the direct costs. By improving the quality of revenue collection by improving tax administration and reducing compliance costs can improve overall public finances. Taxing the activities that are bad for the society can increase welfare at the same time raise revenues to meet revenue targets. The government can tax inelastic factors of production like land, real estate and natural resources. A mechanism should be adopted by the government to incentivise value addition, all the while sharing risks and rewards between different stakeholders.

Literature Gap

While there have been individual assessments of state finances by the state governments in the form of white papers, there is no study that utilises states as case studies for fiscal management and mismanagement and their public debt through the lens of the political economy, policy priorities and through the analysis of revenue and expenditure.

Research Questions

The Research questions of the study are-

1. What are the growth trends of public debt of Andhra Pradesh, Karnataka, and Punjab over the last 10 years?
2. What are the trends and patterns of public expenditure of the three states over the last 10 years and how do they compare?
3. What strategies has Karnataka adopted to ensure its debt to GSDP ratio is low and within an expected range as compared to the high debt to GSDP of Punjab and Andhra Pradesh?

METHODOLOGY

To understand the nature of public debt of the three states, this study will employ a hybrid research of qualitative and quantitative research methods. The study will undertake the case study method of comparative policy analysis. “The case study approach is particularly useful to employ when there is a need to obtain an in-depth appreciation of an issue, event or phenomenon of interest, in its natural real-life context” (Crowe et al., 2011). The case study method can create better understanding of policy interventions and prevalent trends.

The Fiscal Responsibility Acts of all three states have been explored. While studying state level debt a comparative analysis can help identify patterns against existing benchmarks. “The comparative study of public policy is also crucial for the more practical aspects of policy analysis.” (Peters, 2020) This allows for a more holistic understanding of the trends in states. A trend analysis of the revenue, expenditure and public debt has been done over a period of 10 years from 2013-14 to 2022-23 to better understand the existing pattern of these and the financial health of the state. The sources used for the study include secondary sources such as annual financial statements, Comptroller and Auditor General’s State Finances Evaluation Reports, RBI reports, Finance Commission reports, academic papers, relevant policies, legal acts, and newspaper articles.The paper therefore will look at the trends in the three states along with the political changes, to better understand public debt from the angle of governmental priorities.

DISCUSSION

All three states seek to balance the need for welfare and development and have their own Fiscal Responsibility and Budget Management Acts with different targets to ensure good fiscal health. This project looked at the revenue collection and capital expenditure from a broader lens while diving deeper into the revenue expenditure of the three states to better understand government priorities and reasoning of incurring debt.

Andhra Pradesh

Andhra Pradesh Fiscal Responsibility and Budget Management Act of 2005

The Andhra Pradesh Fiscal Responsibility and Budget Management Act of 2005 was enacted with three fiscal management goals- first, eliminate revenue deficit and create revenue surplus; second, increase non tax revenue for cost recovery and equity; and third, create norms for prioritising capital expenditure with the aim of taking to expenditure that leads to economic growth, reduction in poverty and welfare. The act laid down principles of transparency, stability, responsibility and efficiency in design and implementation of fiscal policies. The act mandated that along with the annual budget the state government must present the macroeconomic framework, medium term fiscal policy statement and a fiscal policy strategy statement. It further requires the Finance Minister to exercise quarterly reviews and present the outcomes and budget estimates in front of the state legislature. The act contains provisions for relaxing the deficit reduction clause in case of calamities and to set up an independent review agency to assess the compliance. The Comptroller and Audit General State evaluation report found that since

2018-19 till 2022-23, Andhra Pradesh has been able to meet its targets as per the act while defaulting in some areas (Comptroller and Auditor General of India, 2023).

Revenue Collection in Andhra Pradesh

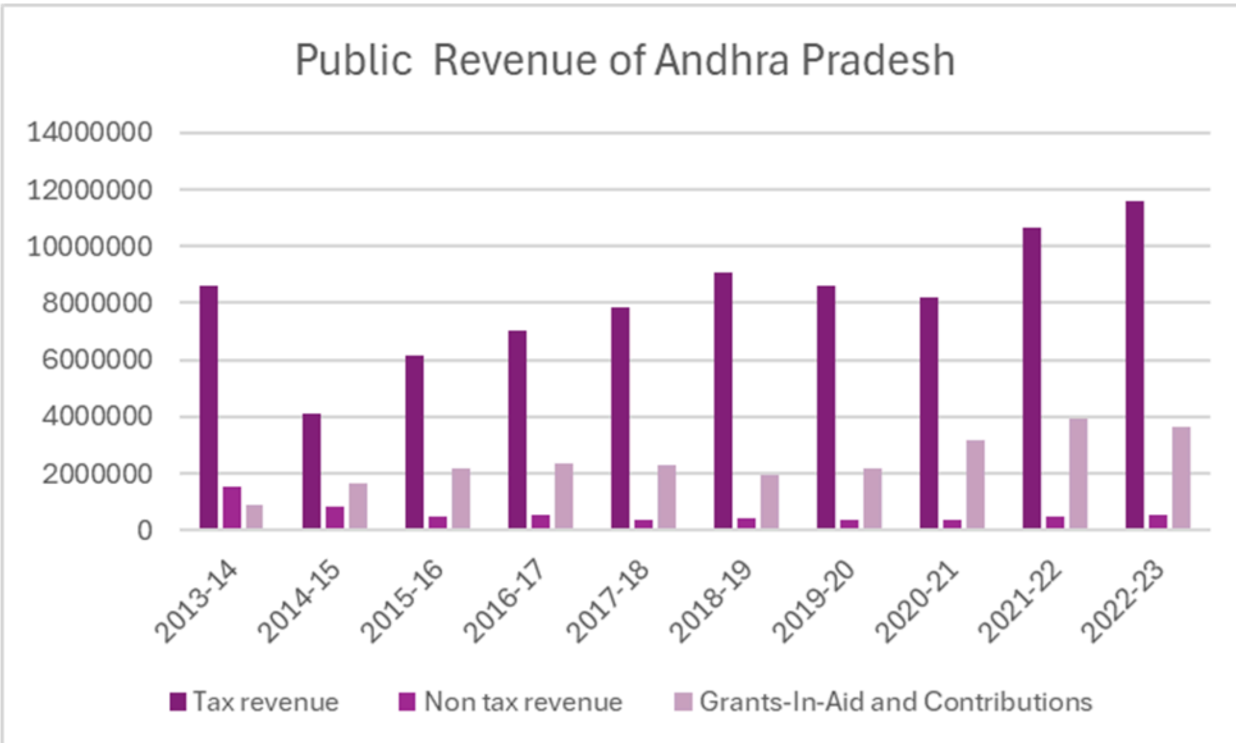

Figure 1: Public Revenue of Andhra Pradesh
Source: Annual Financial Statements of Andhra Pradesh from 2013-14 to 2022-23

Post Bifurcation in 2014-15, the tax revenue had come down to half of the tax revenue collected in 2013-14. Which was to be expected as around half of revenue about 55% of undivided Andhra Pradesh came from Hyderabad, Rangareddy and Medak Districts (Rao, 2013). Over the years, the tax revenue has seen a steady increase since the bifurcation of Andhra Pradesh and has increased from its pre bifurcation level. In 2018-19, the government announced a revenue surplus and a significant decrease in fiscal deficit (Janyala, 2018). Despite Covid-19 pandemic hitting in 2020-21 the tax revenues did decline but marginally. It bounces back from the slight decline by significant increase. The Comptroller and Audit General State evaluation report found that the state's own tax revenue has been approximately around 50% of the total revenue receipts which include state's share in central taxes, non tax revenue and grants in aid from the central government (Comptroller and Auditor General of India, 2023). A general increase can be seen in the grants in aid but with a significant rise after 2020. This can be attributed to the increased support from the Center post Covid 19 Pandemic to assist in the recovery of the state.

Revenue Expenditure in Andhra Pradesh

General Services

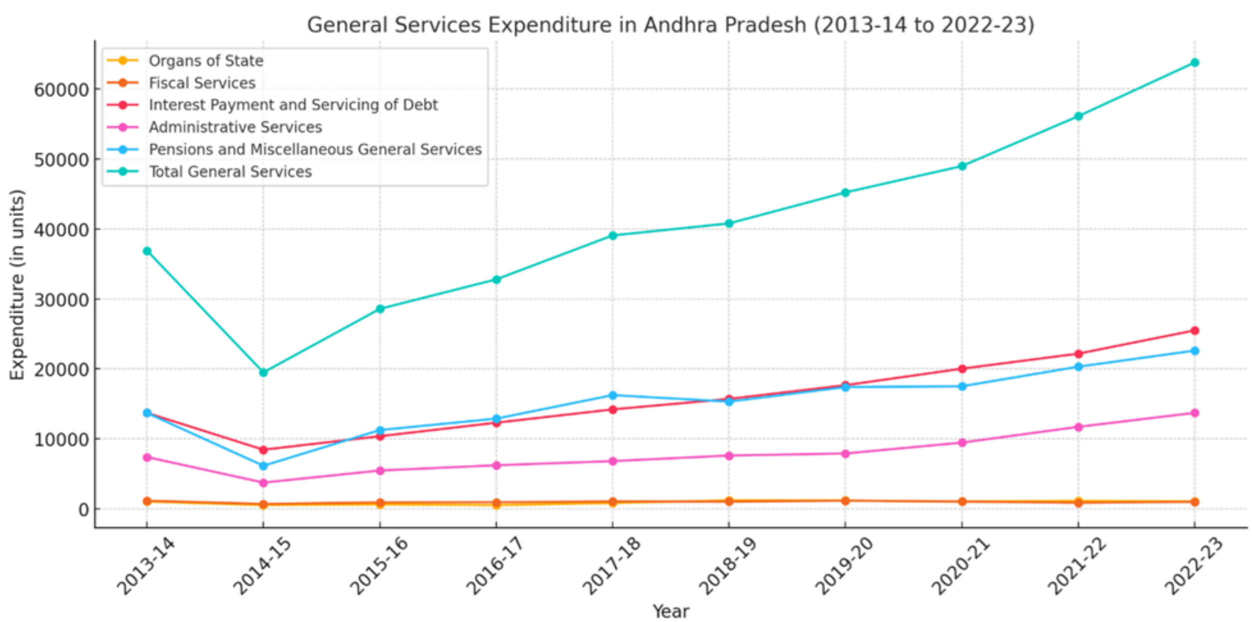

Figure 2: General Services Revenue Expenditure of Andhra Pradesh
Source: Annual Financial Statements of Andhra Pradesh from 2013-14 to 2022-23

Social Services

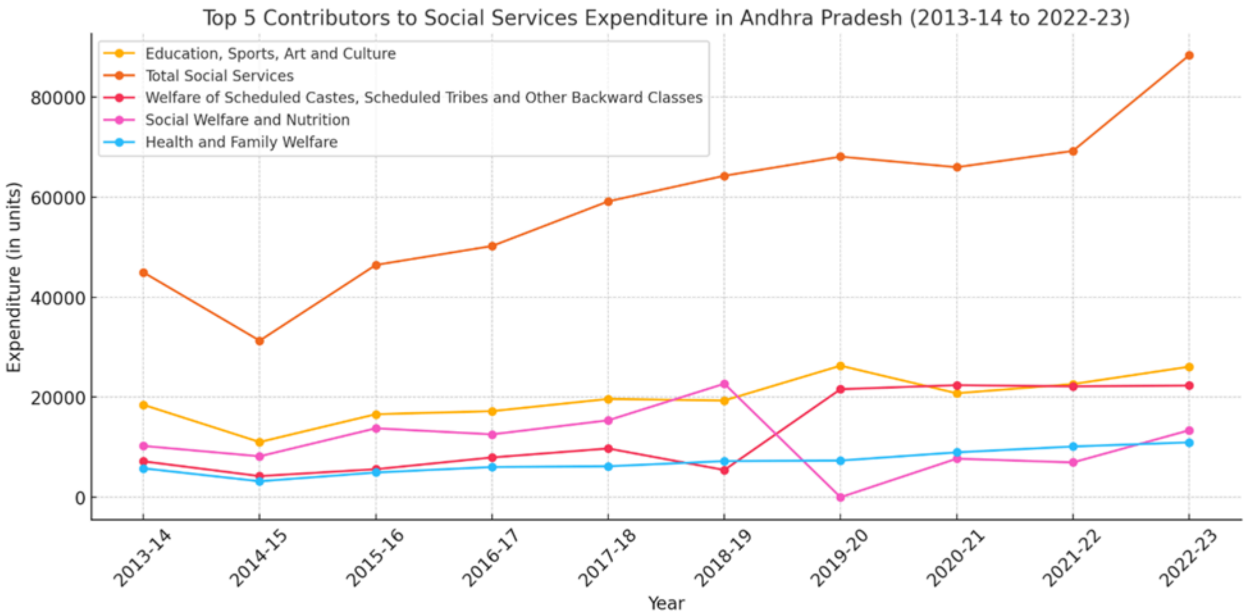

Figure 3: Social Service Revenue Expenditure of Andhra Pradesh
Source: Annual Financial Statements of Andhra Pradesh from 2013-14 to 2022-23

Economic Services

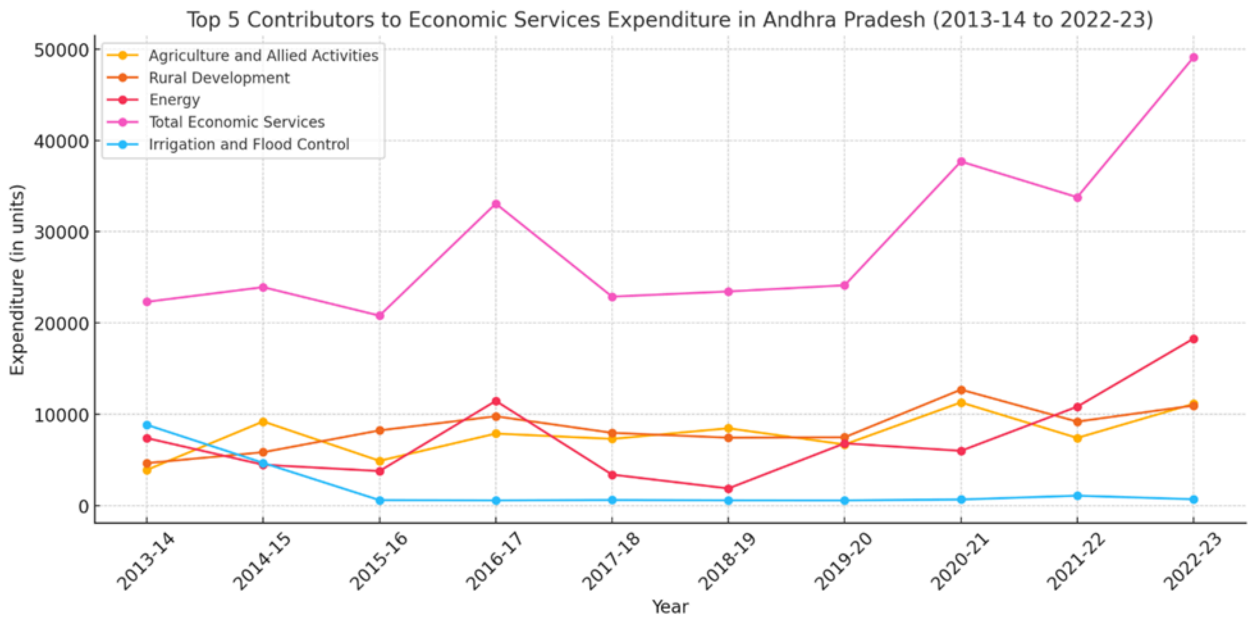

Figure 4: Economic Services Expenditure of Andhra Pradesh
Source: Annual Financial Statements of Andhra Pradesh from 2013-14 to 2022-23

Grants- in-aid and Contributions

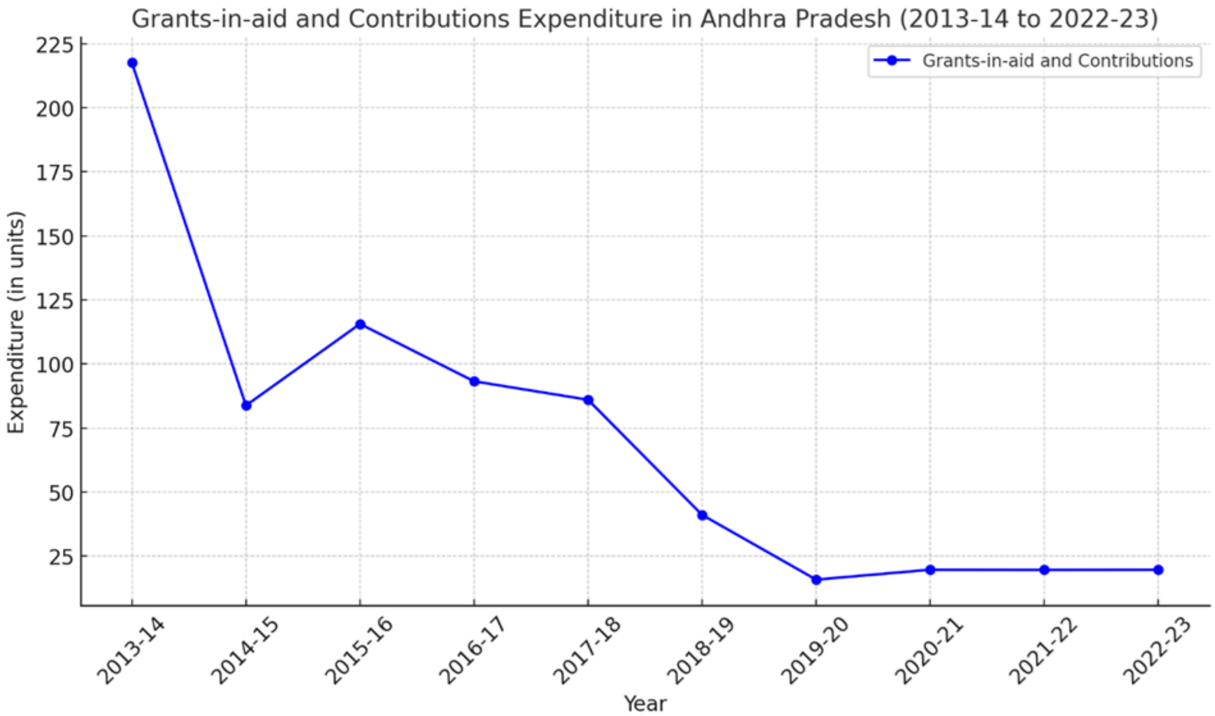

Figure 5: Grants-in-Aid of Andhra Pradesh
Source: Annual Financial Statements of Andhra Pradesh from 2013-14 to 2022-23

Total Revenue Expenditure

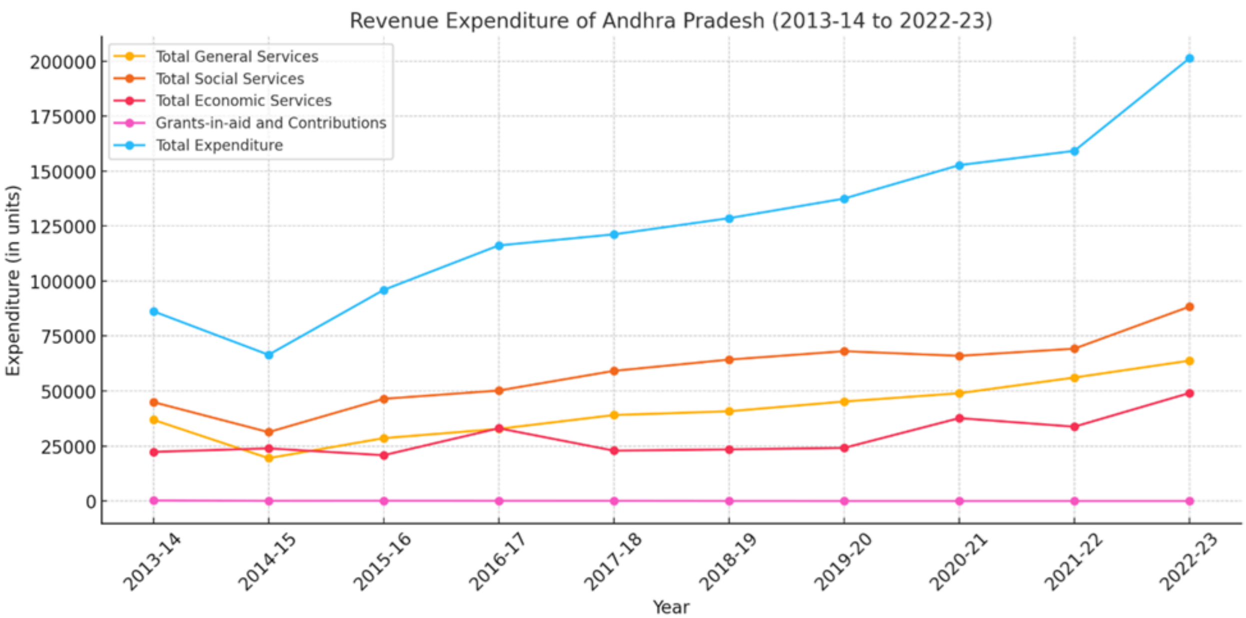

Figure 6: Total Revenue Expenditure of Andhra Pradesh
Source: Annual Financial Statements of Andhra Pradesh from 2013-14 to 2022-23

Revenue Expenditure in Andhra Pradesh

General Services

The general services throughout the decade have seen an increase with the only dip being in 2014-15 which can be attributed to the state bifurcation. An overall increase can be seen in the fiscal services, administrative services and pensions. There is an increase in expenditure for interest payment and servicing of debt.

Social Services

A general increase can be seen in the overall expenditure on social services. A sharp dip can be seen in social welfare and nutrition in the year 2019-20, after which it increases again. A rise can be seen in expenditure on welfare of scheduled castes, scheduled tribes and other backward classes. This might be due to the focus of the then government under Jagan Mohan Reddy (YSRCP) on welfare. His government majorly invested in welfare programs for minorities. While it made him popular, he was also criticised by the opposition for it. "Andhra Pradesh is one of the states where a significant proportion of the state revenue is spent on disbursing direct payments for numerous welfare schemes" (Bagchi, 2024).

Economic Services

The expenditure in economic services has seen several fluctuations in ten years. A spike was seen in 2016-17 followed by a dip and plateau till 2019-20. The approach of the YRSCP government towards welfare can be a possible reason for it. A rise was seen again in 2020-21, followed by a small decline and a sharp rise again in 2022-23. These fluctuations can be attributed to the changes in the expenditures in the energy sector. In 2016, the government aimed for the electrification of houses and replacing agricultural pumps to electric pumps. These expenditures were in line with the focus of the government in welfare initiatives.

Grants- in-aid and Contributions

A massive decline in grants in aid and contributions can be seen throughout the decade. A sharp decline in 2014-15 can be attributed to the bifurcation of the state, followed by a small rise in

2015-16. A gradual decline was seen past 2015-16 till 2019-20. A small increase was seen in 2020-21 and post which it has stayed almost consistent till 2022-23.

Total Revenue Expenditure

A general rise in total revenue expenditure can be seen. A rise in all components of the revenue expenditure can be seen, with a fall in grant in aid. A consistent increase in general services and a general focus of the government on employee benefit along with focus on agriculture and education as a means of rebuilding the state.

Capital Expenditure in Andhra Pradesh

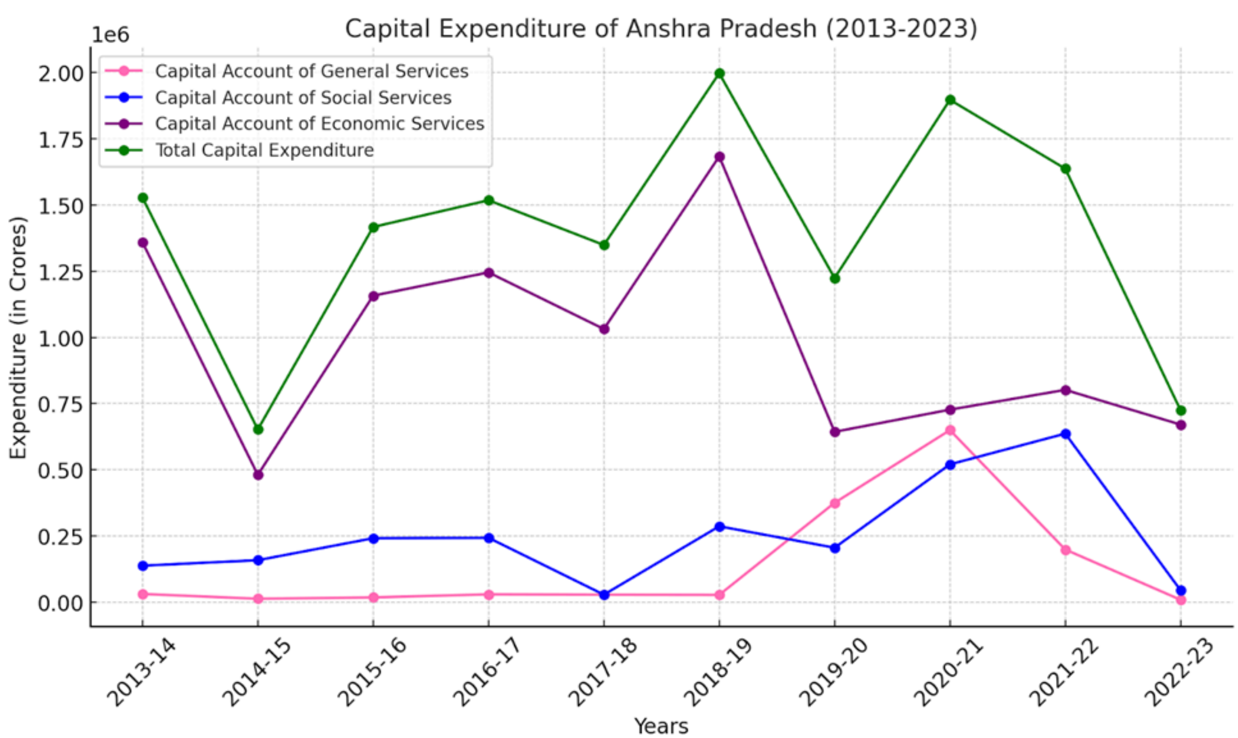

Figure 7: Capital Expenditure of Andhra Pradesh
Source: Annual Financial Statements of Andhra Pradesh from 2013-14 to 2022-23

There have been several fluctuations in capital expenditure. These fluctuations are caused by economic services till 2019-20 and post which the rise in capital expenditure was contributed by general and social services. The trend over the past over the decade was marked with massive rise and falls. The fall in 2014-15 can be attributed to bifurcation, post which a recovery occurs the following year. A sharp rise again occurs in 2018-19 and a massive fall in the falling year. The massive fall could be attributed to the change in government, one that focused heavily on welfare, however a significant recovery was seen in the total capital expenditure. In 2019-20, general and social services saw a significant increase as compared to an ongoing trend of increase in economic services. Overall a shift is witnessed in government priorities.

Public Debt of Andhra Pradesh

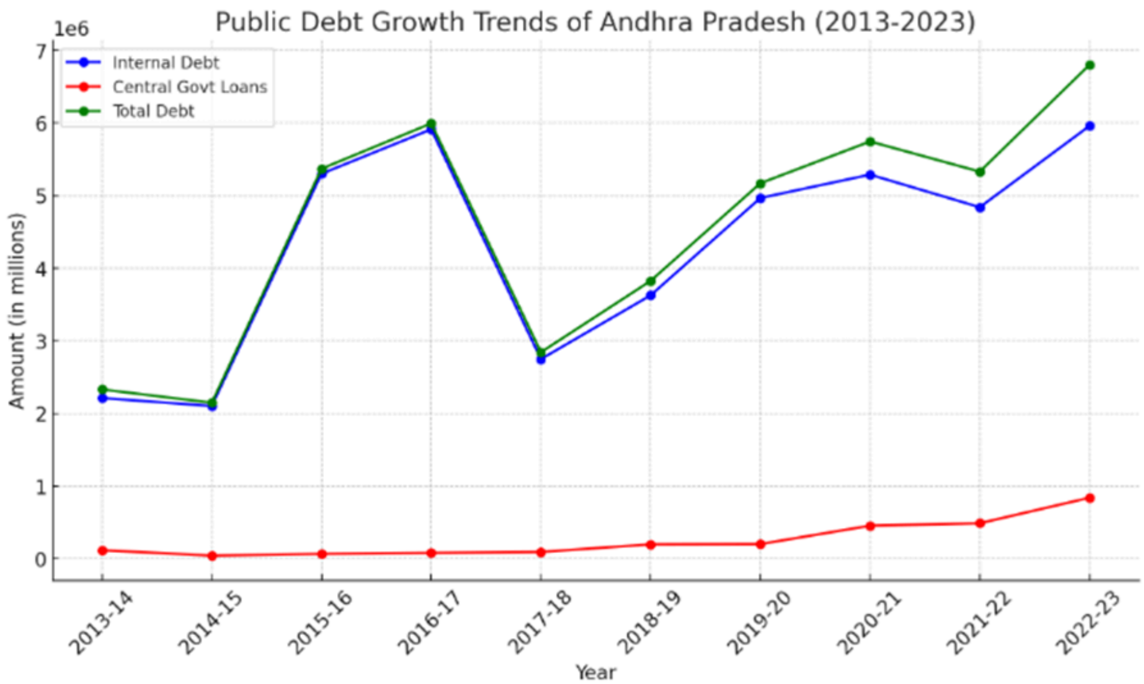

Figure 8: Public Debt of Andhra Pradesh
Source: Annual Financial Statements of Andhra Pradesh from 2013-14 to 2022-23

The Public Debt in Andhra Pradesh, saw a massive increase post its bifurcation. The heavy borrowing in 2015-16 can be attributed to stabilizing the finances and infrastructure development. This aligns with Muralidharan's words that for a state with limited revenue and urgent needs to be addressed, borrowing is not just a necessity but a "moral imperative" (2024). "This is indicative of the tight financial position of the State, which is already reeling under a huge revenue deficit as a consequence of bifurcation and a revenue shortfall of about Rs.3,000 crore in the first quarter" (Maitreyi, 2016). A further increase in 2016-17 shows further investment in capital projects. The debt incurred by the state saw a steep decline in 2017-18 post which an upward trend has been witnessed consistently. The only exception being in the year 2020. The state heavily relies on internal borrowings while the loans by the central government contribute little to the debt profile of the state. The loans provided by the central government only saw a noticeable increase from 2020-21 onwards which could indicate support for post-pandemic recovery.

Analysis

The state of Andhra Pradesh faced a major challenge of bifurcation which severely impacted its finances. The first budget after bifurcation, the budget for 2014-15 aimed to become just, human and dynamic. The expenditure was to be 58% more than of a united Andhra Pradesh due to increased debt, pensions etc. It faced a massive setback because the majority of revenue and critical infrastructure had been lost to Telangana.

The Naidu government following a development first approach, took several efforts to build Andhra Pradesh. To rebuild itself, the government formulated several missions in sectors of key importance. The government aimed at investing in skill building, efficient and prompt delivery of services etc. It also increased expenditure in areas like education and nutrition. The government heavily invested in water supply, urban development and housing through rural water supply programs, efforts towards improving irrigation and urban development missions.

It also heavily invested in the formation of the new capital of the state Amaravati and envisioned it as a world class city and a new administrative and economic center. It continued to invest in it despite limited funds and criticism faced by the government. Andhra Pradesh being an agriculture driven state required the government to engage in welfare and rural development, the government therefore invested heavily in irrigation a major project being the Pattiseema Lift Irrigation Project. This project linked Krishna and Godavari rivers and addressed the water scarcity in agriculture. The government also took to digital governance and became the first state to hold paper free cabinet meetings.

From 2019-20 onwards a shift in priorities is visible with heavy focus on farmer welfare, free crop loans and schemes like YSR Kalyan Kanuka which provided wedding gifts to brides belonging from SC, ST and backward classes. The government ran several schemes that provided direct benefit transfers. These were funded from borrowings and led to significant rise in debt levels. This challenges the marxist perspective that public borrowing turns ideal cash to capital. The government focused little on building capital providing short term relief by spending heavily on welfare only to create long term fiscal stress to the extent of getting criticised by the RBI for rising debt to GSDP ratio. While welfare is crucial for a country like India, Muralidharan (2024) refers to the dilemma faced by governments while balancing welfare and development and suggests an ROI must be evaluated while spending.

Andhra Pradesh faced a massive challenge to rebuild itself and manage its economy after bifurcation. Right from investing in developmental projects like its new capital, Amaravati and despite a negative opening balance providing welfare, the state has been able to not just generate revenue but also saw an increase in it. While the YSRCP government criticised its previous government, for its policies and rising debt levels, it played a significant role in setting the base for Andhra Pradesh. Effective planning of expenditure to manage unproductive spending like pensions and salaries and focusing debt management can bring Andhra Pradesh out of its debt issue.

The public debt taken allowed for the governments to run programmes for welfare and development as a means to rebuild the state, which can be seen as justified rationale for incurring debt and a "moral imperative" as suggested by Muralidharan (2024). This was reflected in the Naidu government getting re-elected in 2024 as people realised the value of joint efforts development and welfare. While the incurring of debt is justifiable for Andhra Pradesh it must take a look at Karnataka which has been able to balance both welfare and development while maintaining its fiscal health through targeted welfare schemes and greater focus on capital expenditure.

Punjab

Fiscal Responsibility and Budget Management Act of 2003

The Fiscal Responsibility and Budget Management Act of 2003 put forward key provisions such as medium term fiscal management framework and reducing revenue and fiscal deficit. When originally enacted the act aimed to reduce debt-to-GSDP ratio to 40%. This act was later amended in 2021. The act allowed for the fiscal deficit is allowed to be 4% as compared to 3% earlier. The act sought to reduce the revenue deficit by 5% to the total revenue receipts annually. It mandated presenting of the medium term fiscal policy statement along with the annual budget. The act mentions provisions to ensure transparency and compliance. The act contains a provision for an external review agency to assess compliance of the above provisions.

Revenue Collection in Punjab

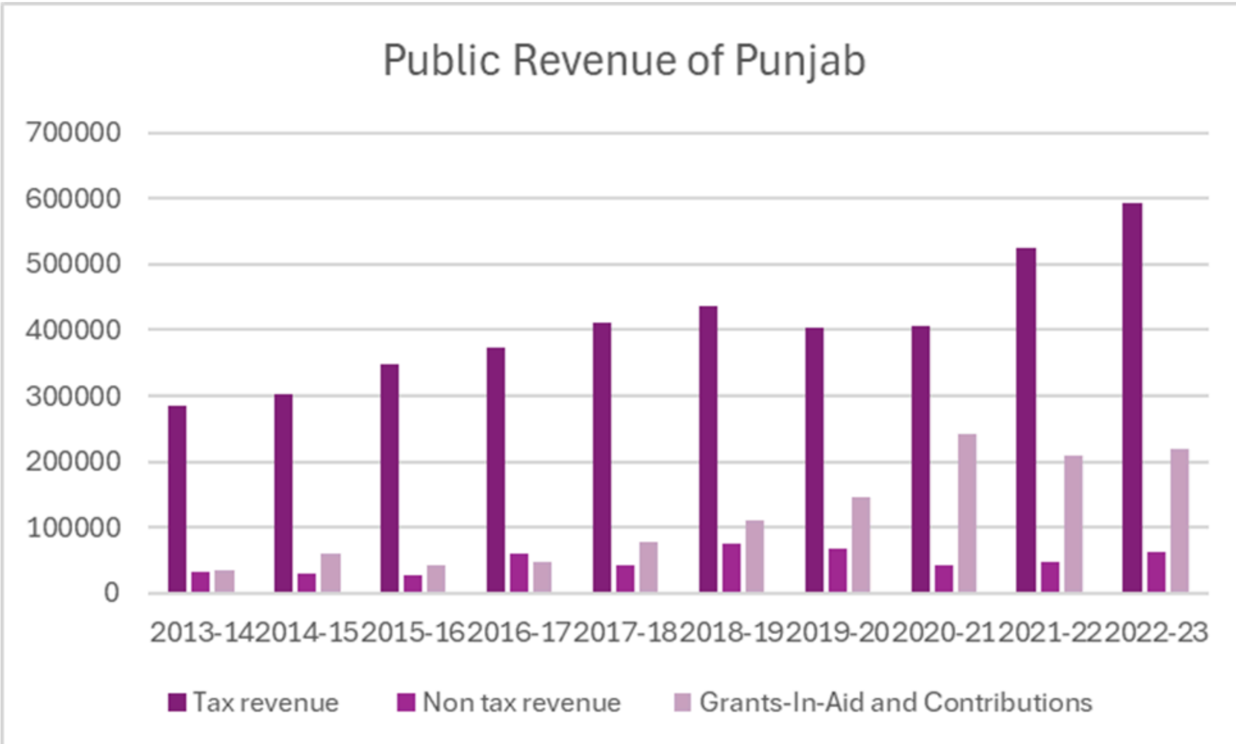

Figure 9: Revenue Collection of Punjab
Source: Annual Financial Statements of Punjab from 2013-14 to 2022-23

Despite the changes in governments of different political affiliations, over the decade there has been a steady increase in tax revenue except in 2019 and 2020 which could be attributed to the revenue loss due to change in base year and the Covid-19 pandemic. There has also been a significant increase in the grants in aid due to the loss in revenue from 2017-18 and 2018-19 due to the change in revenue of the base year 2015-16. In 2020, Punjab government received grants in aid of Rs. 1237 crores as compensation from the Center (ET bureau, 2020). These increased grants in aid continued in the 2021-22 and 2022-23. However it has been seen that states with high pre-existing debt levels tend to gravitate towards higher taxation and that is something the Punjab government should be on the lookout for.

Revenue Expenditure in Punjab

General Services

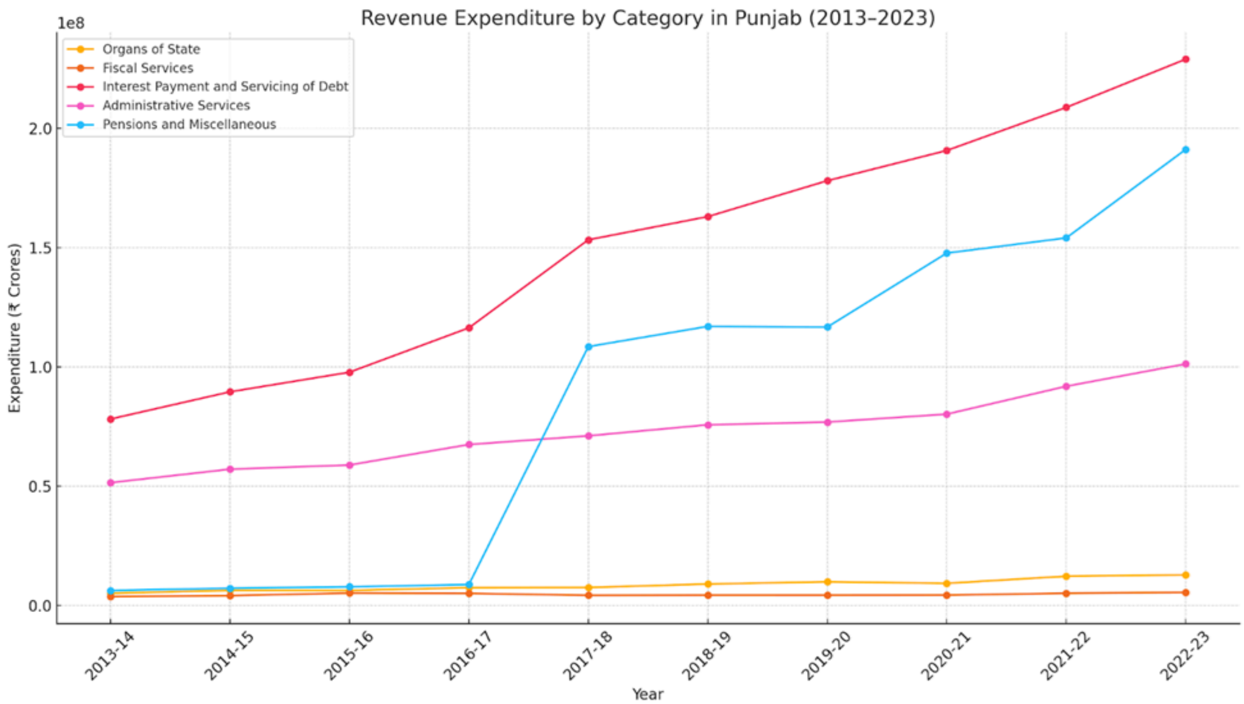

Figure 10: General Services Revenue Expenditure of Punjab
Source: Annual Financial Statements of Punjab from 2013-14 to 2022-23

Social Services

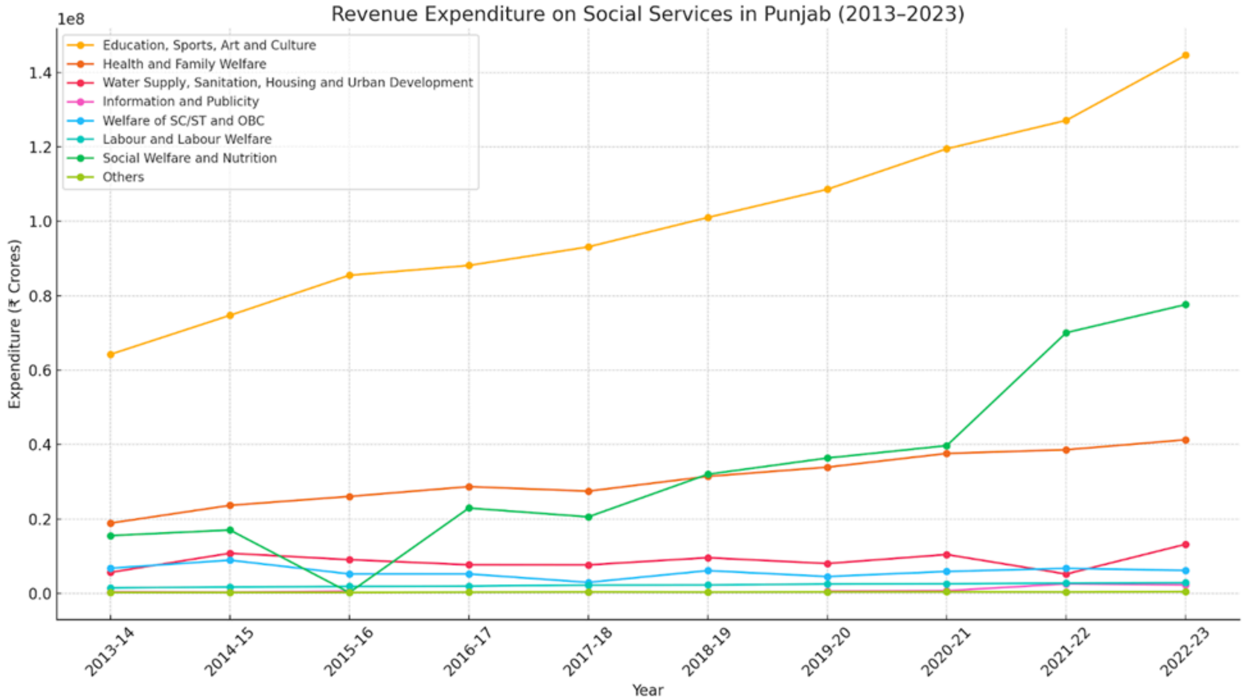

Figure 11: Social Services Revenue Expenditure of Punjab
Source: Annual Financial Statements of Punjab from 2013-14 to 2022-23

Economic Services

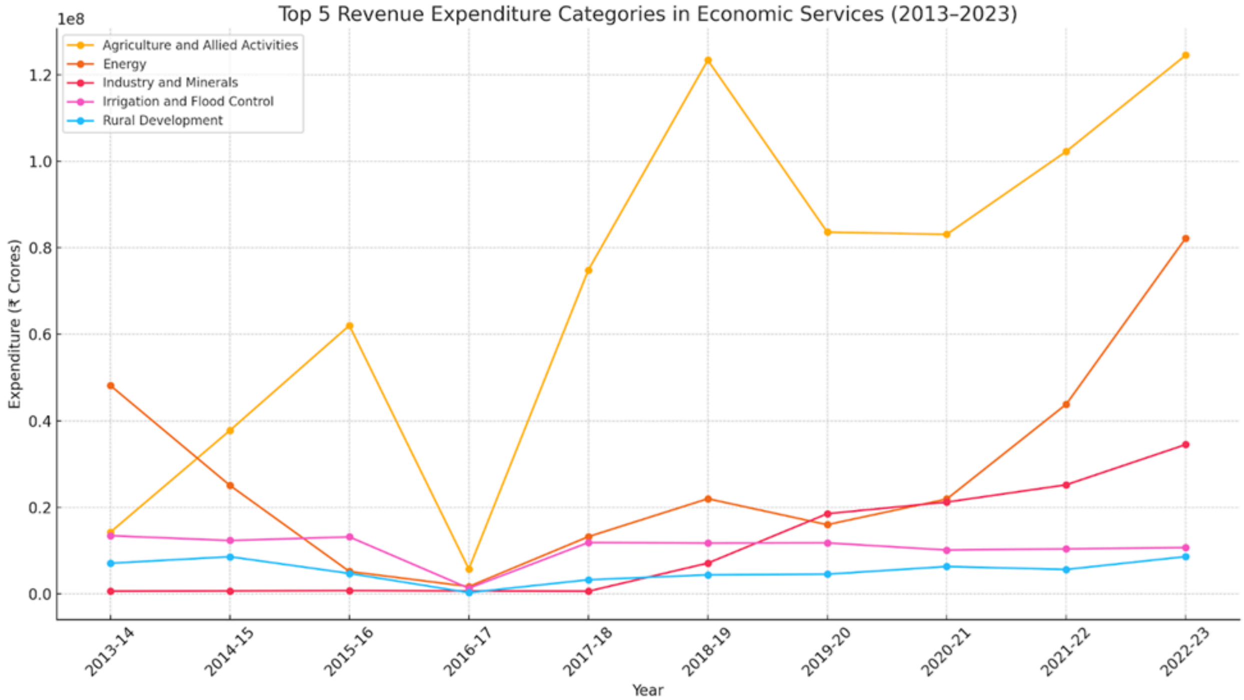

Figure 12: Economic Services Revenue Expenditure of Punjab
Source: Annual Financial Statements of Punjab from 2013-14 to 2022-23

Grants-in-aid and Contributions

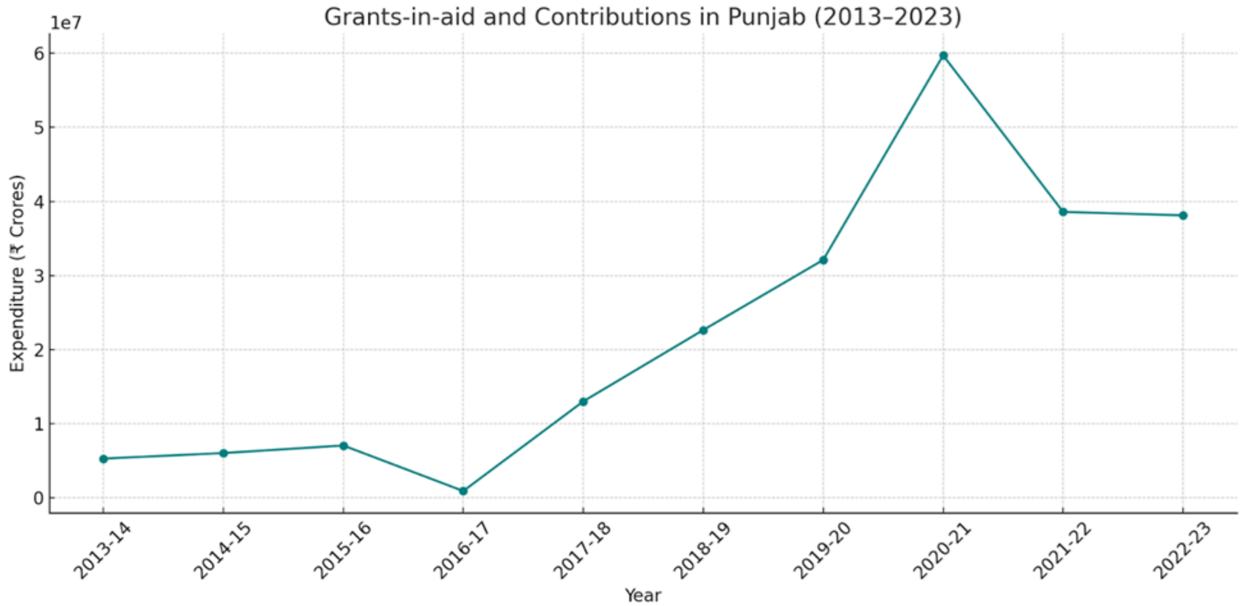

Figure 13: Grants-in-Aid of Punjab
Source: Annual Financial Statements of Punjab from 2013-14 to 2022-23

Total Revenue Expenditure

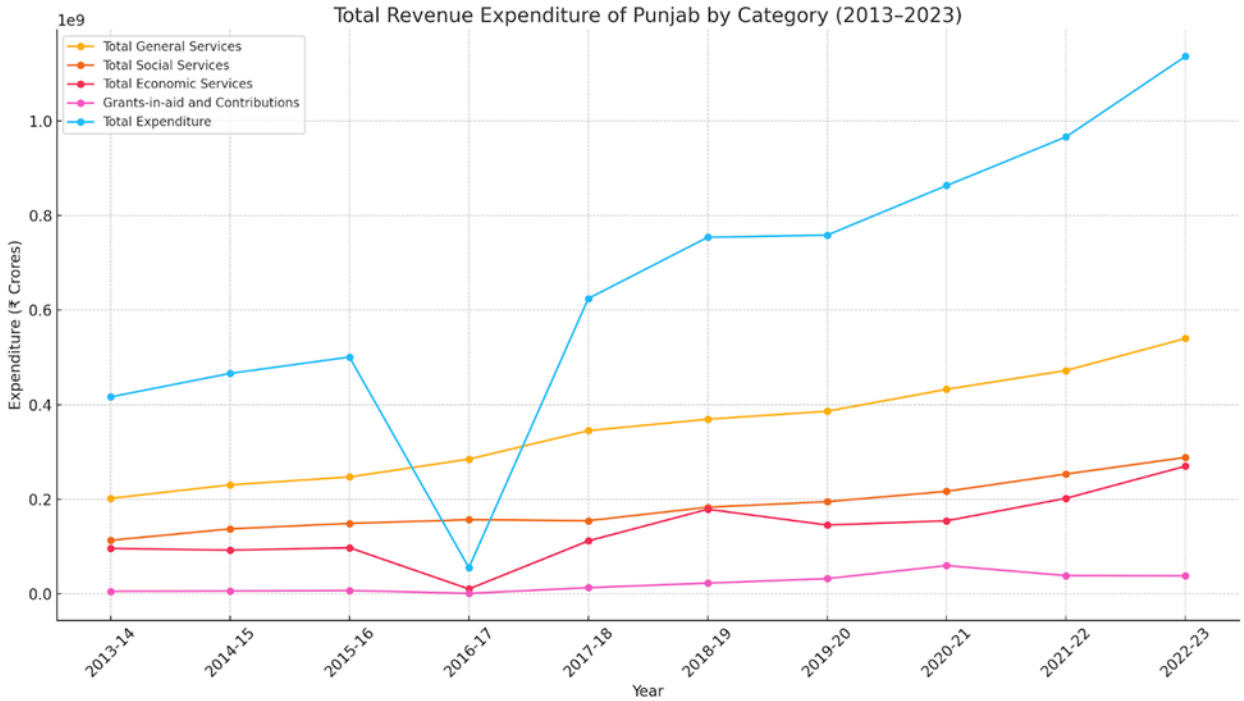

Figure 14: Total Revenue Expenditure of Punjab
Source: Annual Financial Statements of Punjab from 2013-14 to 2022-23

Revenue Expenditure of Punjab

General Services

An overall increase can be seen in the general services expenditure. The accumulated debt of Punjab has led to the repayment of debt becoming a major part of the expenditure. After the 2016-17 financial year Pensions and Miscellaneous Services expenses jumped dramatically. This is similar to Andhra Pradesh which heavily spends on pensions and miscellaneous spendings.

The opportunity cost of spending on these components is expenditure that could be better spent. This validates the opinion Muralidharan holds in his book, "Accelerating India's Development" regarding ineffective public spending in India (2024). The expenditure data shows Administrative Services as the third-largest growing segment which maintained a progressive upward trend. The growth patterns of Organs of State along with Fiscal Services remain relatively moderate and stable throughout the entire period of evaluation.

Social Services

In 2013-14 the government formed by the SAD-BJP alliance aimed to ensure water supply and sanitation in villages where these facilities were still not available. The expenditure for Water Supply and Sanitation together with Housing and Urban Development increased substantially during 2022-23 after experiencing a significant decrease in 2021-22. The Department of Welfare of SC/ST and OBC together with Labour and Labour Welfare received an increased budget allocation over time while maintaining consistent annual growth. Since 2019-20, there has been significant expenditure on information and broadcasting.

The Education Sports Art and Culture sector became the leading component of expenditure on social services. All governments throughout the decade spent generously on sports and to improve the education system. Health and family welfare expenditure increased steadily and social welfare and nutrition expenses increased dramatically since 2018-19. The INC government focused heavily on social welfare and the AAP government focused on healthcare.

Economic Services

The SAD-BJP government mainly focused on agriculture, industrializing and environmental concerns. The INC government that followed too focused on agriculture but also social welfare. Punjab has consistently provided free power to farmers, which has resulted in heavy spending on energy. The government also aimed to heavily spend on relieving farmers' debt. In 2013-14, the government found that approximately two thirds of farmers are under debt. Punjab being an agriculture dependent state had governments throughout the decade that focused on agriculture. In 2017, an agriculture policy was announced in the budget speech. Focus was also placed on rural development under the scheme 'Mukhya Mantri Pendu Vikas Yojana' and skill development. Debt waivers were announced for farmers and the allocation to agriculture saw a significant increase.

Grants-in-Aid and Contributions

Grants-in-aid and Contributions expenditures saw a steady growth from 2013-2019 followed by a sharp rise in the year 2020-21 due to Covid-19 and came down the following year.

Total Revenue Expenditure

The total revenue expenditures of Punjab experienced a remarkable growth from ₹416 crore in 2013–14 to ₹1,136 crore in 2022–23 leading to a nearly threefold increase during this period. The expenditure component of General Services maintained the highest allocation in each fiscal year with its annual totals steadily rising from ₹202 crore to ₹540 crore because debt servicing costs combined with pension payments and administrative operations formed the core expenses. The commitment to education and welfare increased significantly as Social Services expenditure rose by ₹175 crore from ₹113 crore in 2013–14 up to ₹288 crore in 2022–23. Economic Services demonstrated growth variability before showing significant increases after 2017–18 leading to a final total of ₹270 crore in 2022–23 because of step-up efforts in agriculture along with energy infrastructure and rural development programs. The financial grants received by institutions and local bodies through Grants-in-aid and Contributions rose significantly from 2018–19 to 2020–21 and stabilized afterwards. It is essential for Punjab to trade off its present day discretionary spending to meet its debt service commitment.

Capital Expenditure in Punjab

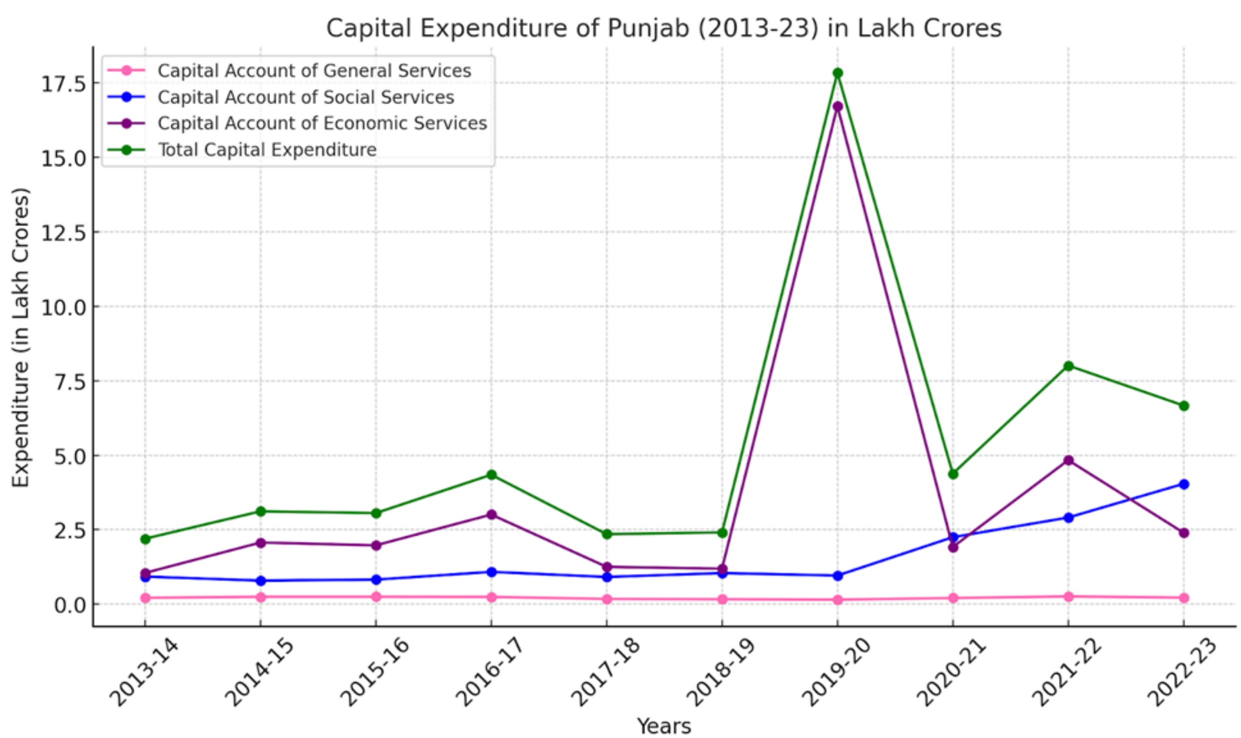

Figure 15: Capital Expenditure of Punjab
Source: Annual Financial Statements of Punjab from 2013-14 to 2022-23

The total capital expenditure saw a massive rise in 2019-20, and sharply fell in 2020-21 with an overall increase in 2022-23. This fluctuation is caused by the economic services. “Capital expenditure for 2019-20 is proposed to be Rs 68,296 crore, which is an increase of 51.4% over the revised estimates of 2018-19” (*Punjab Budget Analysis 2019-2020*, n.d.). The social services too rise gradually post 2018-19. This shows a shift towards more developmental projects beyond meeting day to day expenditures of the government. The INC and AAP governments focused on transport, infrastructure, healthcare clinics, education, and skill development centers. The Smart Cities Mission too contributed to the increase in capital expenditure.

Public debt in Punjab

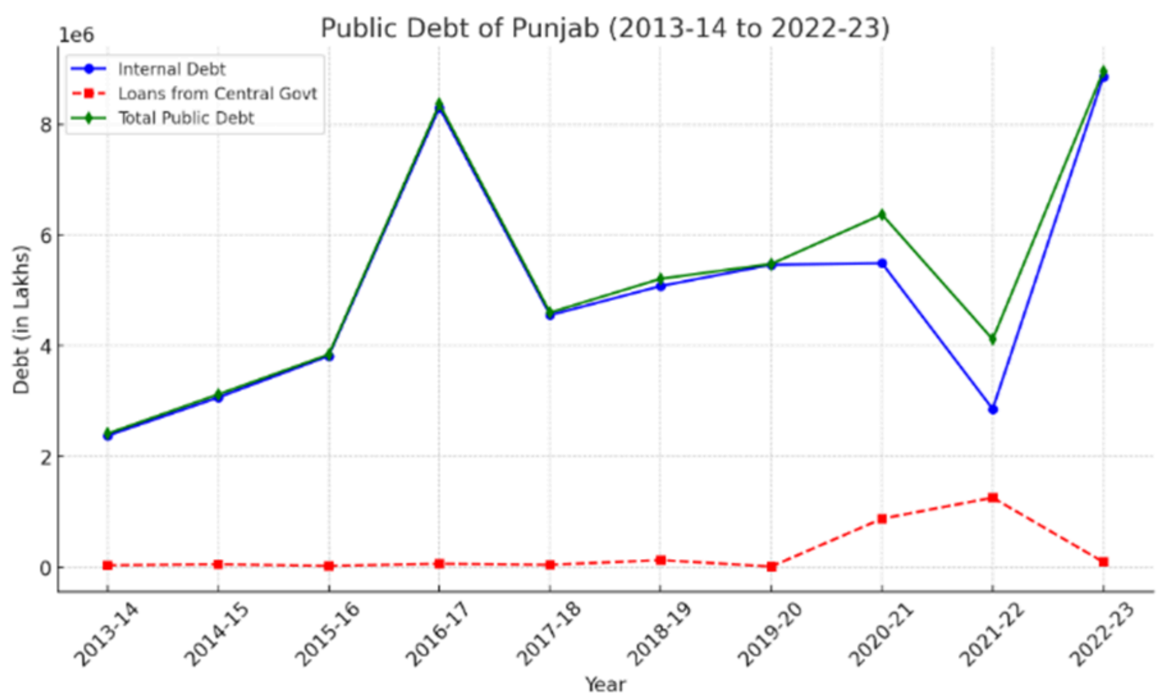

Figure 16: Public Debt of Punjab

Source: Annual Financial Statements of Punjab from 2013-14 to 2022-23

Throughout the decade a special mention has been given to debt levels, an issue finding its roots forty years ago. A gradual increase in debt is visible from 2013-14 to 2015-16 after which a massive spike in the total debt and internal debt can be seen in the year 2016-17. This was due to the conversion of around 30000 crore cash credit limit to loans in March 2017 (Business Today, 2019). Post this a sharp decline occurs in internal debt and consequently total debt however a gradual upward trend for it continues till 2020-21. In 2021-22, a sharp fall in debt is seen after which a significant rise in debt occurs in 2022-23. The central government's loans were consistently at the same level till 2019-20 post which an increase was seen which can be attributed to funds provided for post pandemic recovery. In 2022-23 the loans provided by the central government have declined. In 2022-23, several elements for improving public finance were introduced by the government including, fiscal risk statement, gender based budgeting, fiscal and institutional resilience project, tax intelligence unit and consolidated sinking fund.

Analysis

In the budget speech of 2013-14, the finance minister of Punjab mentioned that Punjab has been facing the issue of debt since the 1980s due to militancy, tax concessions to neighbouring states and lack of support from the Central Government. Public debt is an issue raised repeatedly in the budget speeches every year. A special focus is given to the debt position while the budget is being presented. The debt crisis has reduced the ability of the government to invest in development. There has been recognition of defaulting in meeting Punjab's FRBM Act of 2003 and governments emphasizing the need for fiscal prudence however a rising debt can be seen.

The SAD-BJP government like the YSRCP government in Andhra Pradesh provided welfare schemes including direct benefit transfers. Like the wedding gift scheme in Andhra Pradesh, Punjab too had Shagun scheme that provided assistance to underprivileged families. Being an agriculture based state, the government provided various subsidies and free power to the farmers. These measures taken by the government were criticised for adding additional burden to state finances. Following this came the INC government continued the welfare schemes and subsidies and the debt level kept rising. It continued providing free electricity to farmers and even announced initiating development projects. AAP further continued these and brought in greater focus on healthcare. The government spends a substantial portion of their budget on new debt to repay the previous ones which keeps it stuck in the vicious debt trap. Interest payments and debt repayments have become a major component of the revenue expenditure. Due to limited funds, focus on welfare has come at a cost of capital expenditure.

Despite the increase in revenue, Punjab still incurs debt to meet its revenue expenditure. While necessary, it demonstrates weak capacity to maintain its finances. A justification for public debt is its utilisation for productive projects however in the case of Punjab, more effective debt strategies are required which need not sideline welfare but better manage expenditure. Like Andhra Pradesh and Karnataka, Punjab can also take to transparency and dashboarding of debt as a means to manage it and practice target welfare schemes and rationalise them to be more fiscally prudent.

Karnataka

Karnataka Fiscal Responsibility Act, 2002

Karnataka was one of the first states to introduce a fiscal responsibility act. It enacted the Karnataka Fiscal Responsibility Act in 2002. This act was recently amended in 2020. The act promoted fiscal management principles, transparency, and measures to maintain revenue and fiscal deficits. The act mandated that the government must present a medium term fiscal plan along the annual budget. It also mandated the presentation of the half yearly reviews of the trends of receipts and expenditures by the Finance Minister in front of both houses of parliament. The Finance Minister must explain any deviations from obligations. The act has a provision of relaxation of deficit reduction efforts in case of calamities.

Revenue Collection in Karnataka

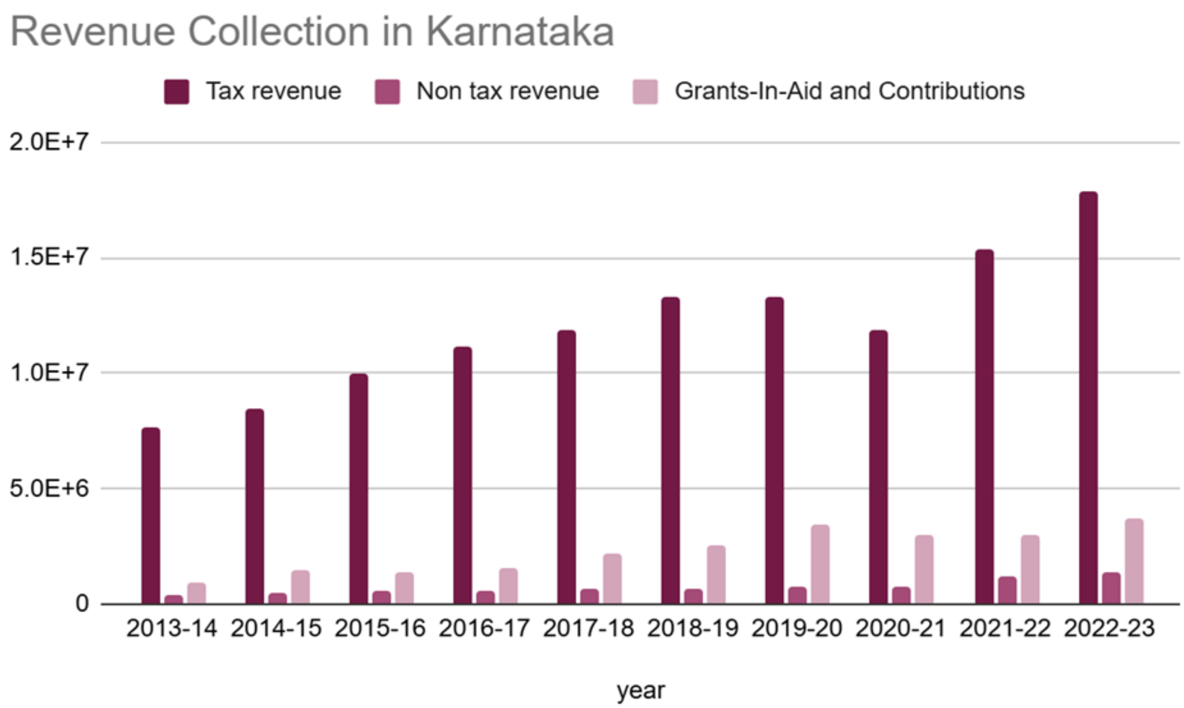

Figure 17: Revenue Collection of Karnataka
Source: Annual Financial Statements of Karnataka from 2013-14 to 2022-23

The tax revenue for the state of Karnataka has steadily increased over the decade with the exception of the financial year 2020-21 which can be attributed to Covid-19 Pandemic. Tax revenue has increased significantly in 2022-23. The non tax did not see much growth over the years but saw a stark growth in 2019-20 which continued in 2022-23. Similar trend can be seen in the case of grants in aid, post 2018-19 the grants in aid have grown significantly as compared to the financial year of 2013-14.

Revenue Expenditure in Karnataka

General Services

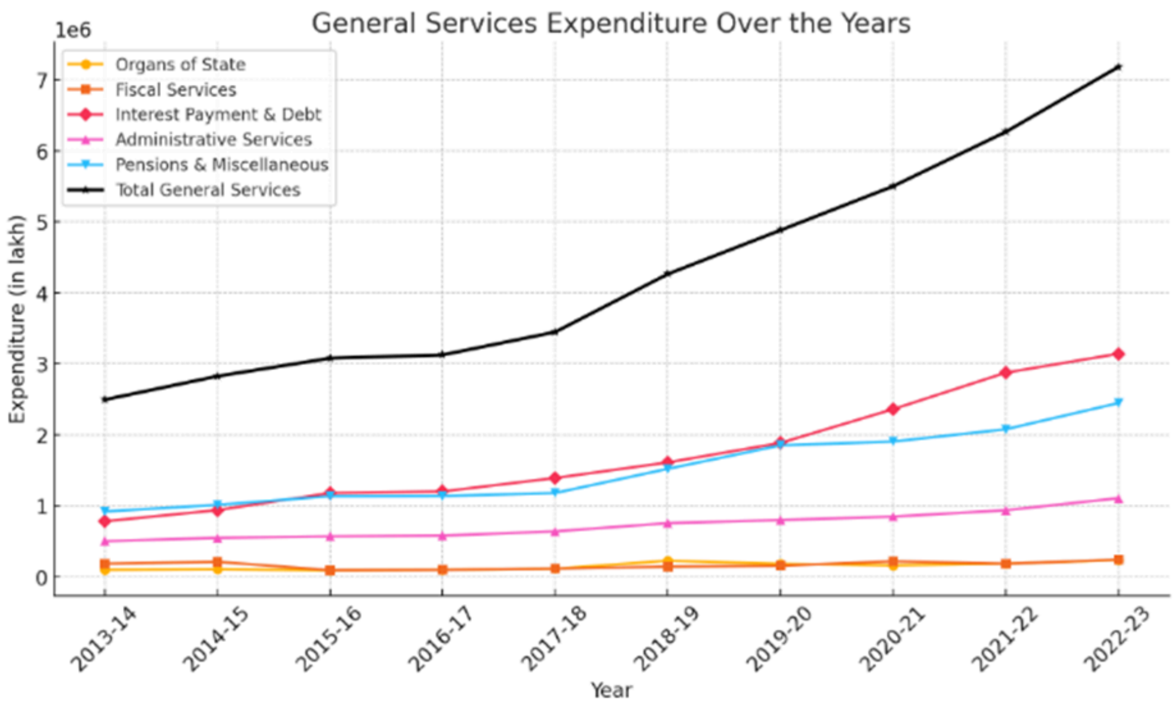

Figure 18: General Services Revenue Expenditure of Karnataka
Source: Annual Financial Statements of Karnataka from 2013-14 to 2022-23

Social Services

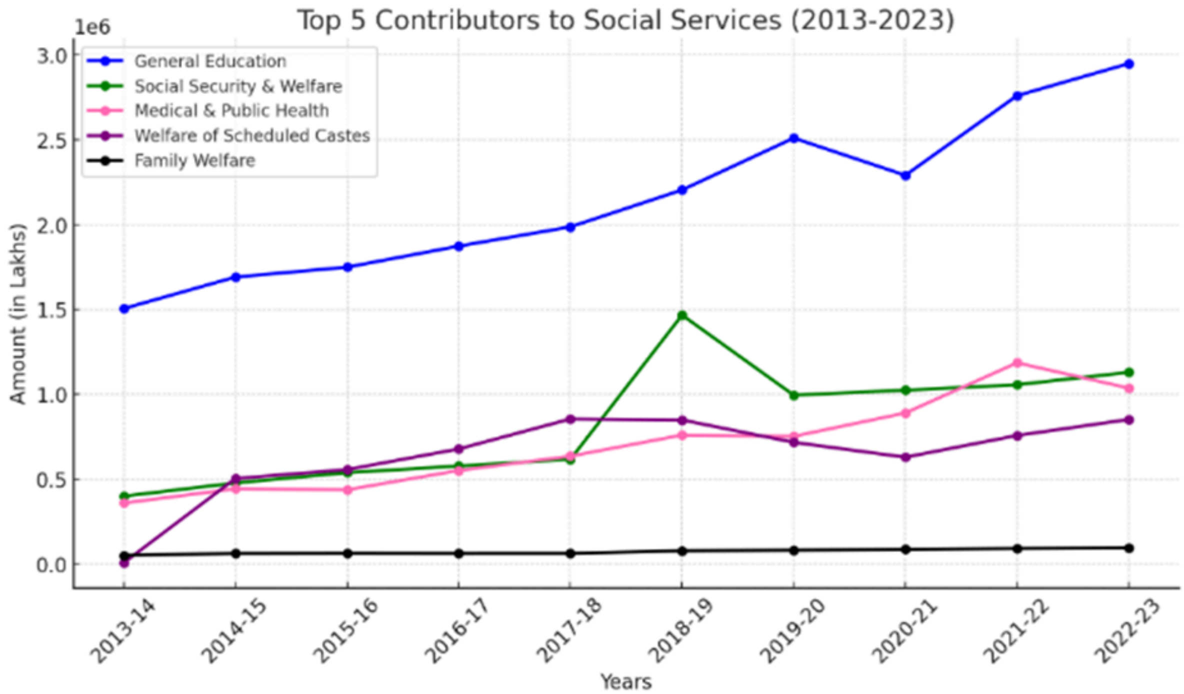

Figure 19: Social Services Revenue Expenditure of Karnataka
Source: Annual Financial Statements of Karnataka from 2013-14 to 2022-23

Economic Services

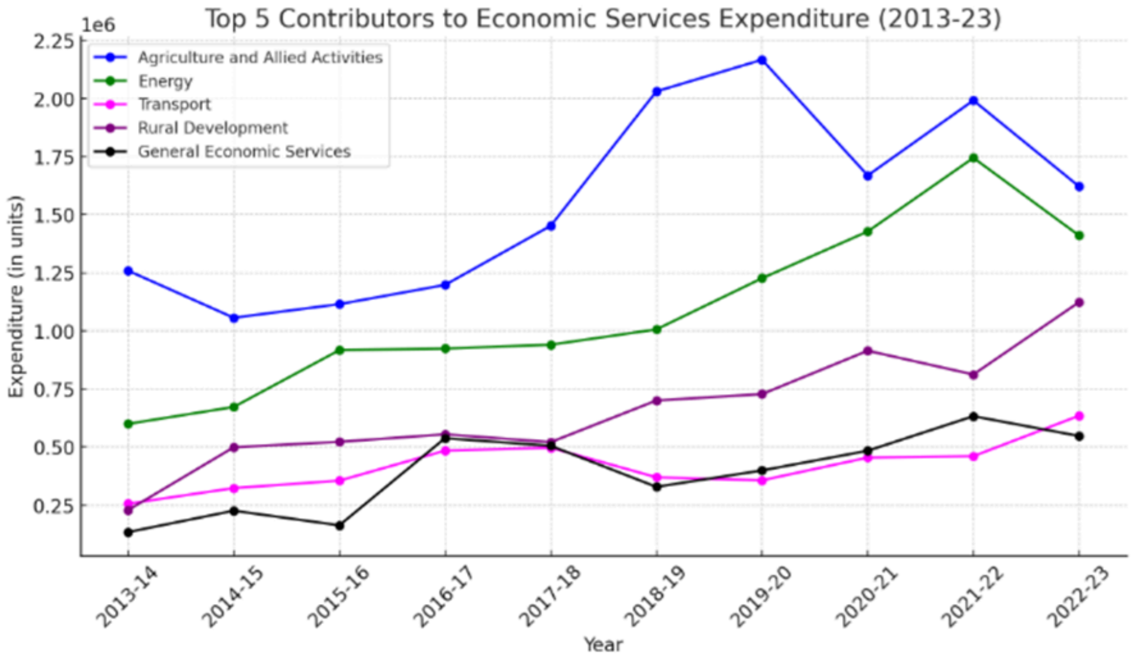

Figure 20: Economic Services Revenue Expenditure of Karnataka
Source: Annual Financial Statements of Karnataka from 2013-14 to 2022-23

Grants-in-aid and Contributions

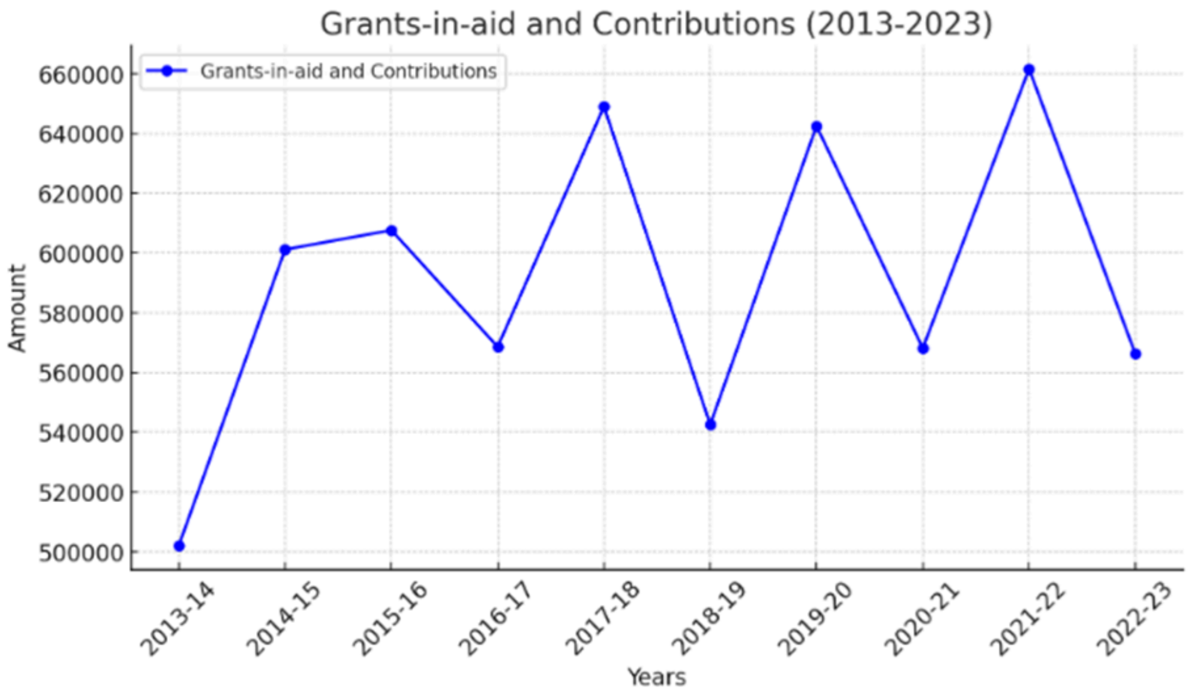

Figure 21: General Services Revenue Expenditure of Karnataka
Source: Annual Financial Statements of Karnataka from 2013-14 to 2022-23

Total Revenue Expenditure

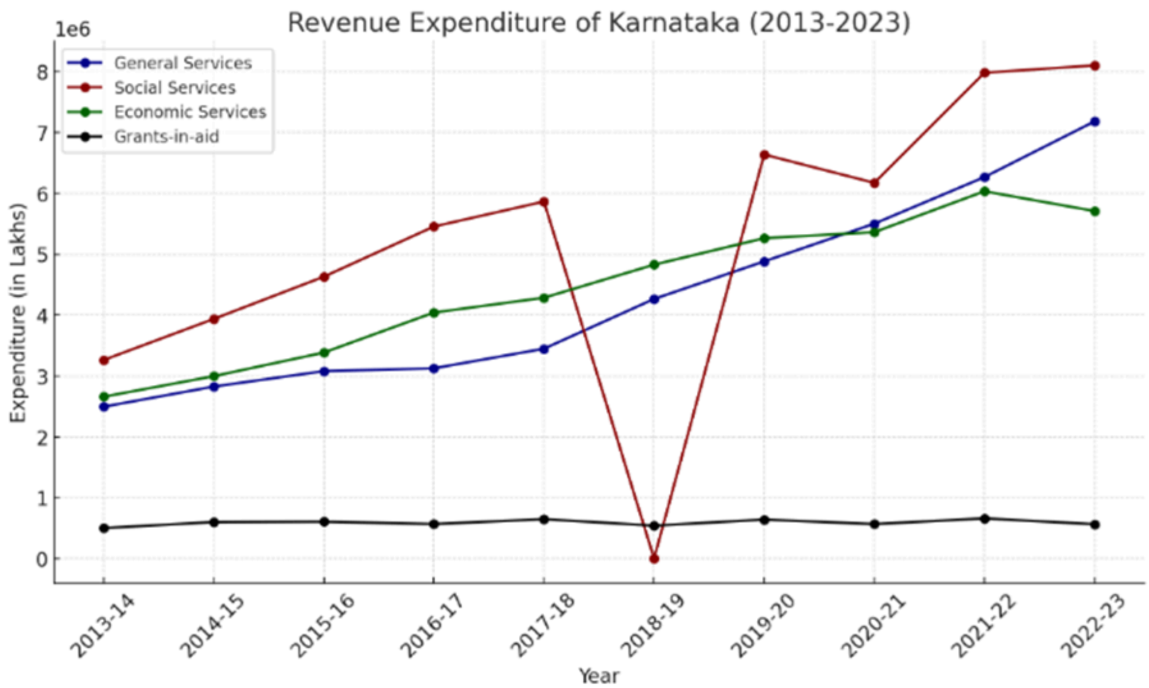

Figure 22: Total Revenue Expenditure of Karnataka
Source: Annual Financial Statements of Karnataka from 2013-14 to 2022-23

Revenue Expenditure

General Services

In the ten years a significant rise is visible in expenditure in general services with a steep increase from 2017-18 onwards. This increase can be attributed to a rise in interest payments and a noticeable increase in pensions and miscellaneous services. The rise in interest payments correlates to the increase in incurring debt in the same time frame and the role of Covid-19 pandemic. The massive rise in pensions however is a concerning factor. This is a signifier of an increase in unproductive expenditure which must be relooked.

Social Services

The top contributors of social services include services provided for education, healthcare, social security, family welfare and welfare for scheduled castes and tribes. The expenditure on family welfare has stayed more or less constant. There has been a continuous rise in general education services throughout the decade. A significant increase was seen in social security and welfare services in 2018-19. A notable decline occurred in the services for welfare of scheduled castes and tribes from 2017-18 till 2020-21 post which it rose again. The rationale for this decline has been attributed to an increase in other commitments like salaries, honorariums and interest payments (Poovanna, 2021). The Siddaramaiah government focused heavily on social welfare and managed to maintain fiscal discipline.

Economic Services

The major contributors of expenditure done on economic services include agriculture, energy, transport, rural development and general economic services. Agriculture being the largest contributor saw a massive rise from 2017-18 onwards and a sharp decline in 2020-21. The expenditure done on energy too saw a rise till 2021-22 and then a decline. Debt waivers were announced by the coalition government. It introduced a loan waiver scheme in continuation of the previous government's loan waivers for minorities. However a shift occurs when BJP comes to power, the focus moves from welfare to infrastructural projects, transport and development.

Grants-in-aid and Contributions

Throughout the decade there have been massive fluctuations in the grants-in-aid and contributions. A sharp rise was seen in 2014-15 and after a dip in 2016-17 another sharp rise in 2017-18. The rise and fall post that occurred alternately.

Total Revenue Expenditure

Out of the total revenue expenditure certain trends can be noted. The grants in aid remain more or less constant throughout the years. There is an upward trend in general and economic services with a slight dip in economic services in 2022-23. The social services to show an upward trend with a sharp fall in 2018-19 and a recovery in the following year.

Capital expenditure in Karnataka

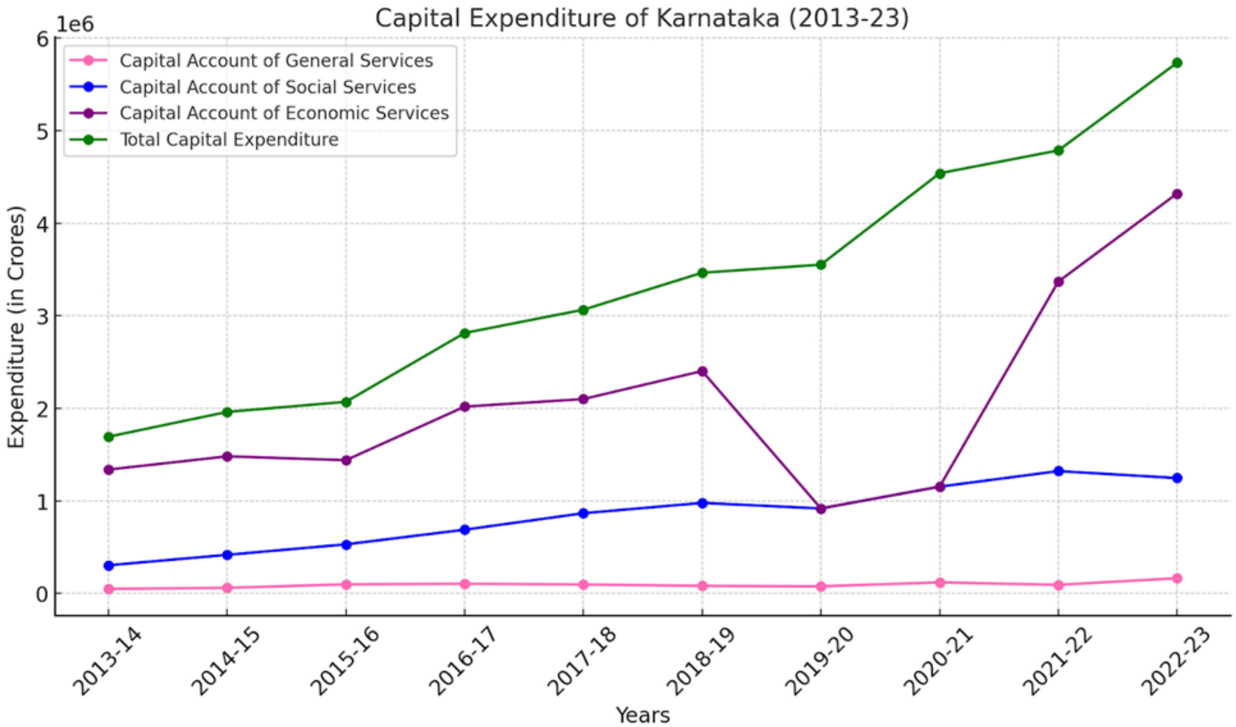

Figure 23: Capital Expenditure of Karnataka
Source: Annual Financial Statements of Karnataka from 2013-14 to 2022-23

An overall increase can be seen in capital expenditure over the decade. The major contributor to which was the expenditure done on economic services. However a decline in economic services was seen in 2019-20 which was recovered in 2021-22 and continued to grow in 2022-23. This fall resembles the sharp fall in capital expenditure in Andhra Pradesh. The BJP government under B.S. Yediyurappa introduced infrastructure projects, this continued even after the change in leadership. He ran projects like the Banglore mission in 2022, building the second terminal in Bangalore International Airport and initiated several irrigation projects. “Karnataka chief minister B.S. Yediyurappa had announced at least ₹7,200 crore worth of irrigation projects in this year's budget. This amount includes ₹627 crore for micro irrigation, ₹500 crore for

Kalasa-Banduri, ₹1,500 crore for the Yettinahole project and around ₹5,000 crore for a number of lift irrigation projects” (Poovanna, 2020).

Public Debt of Karnataka

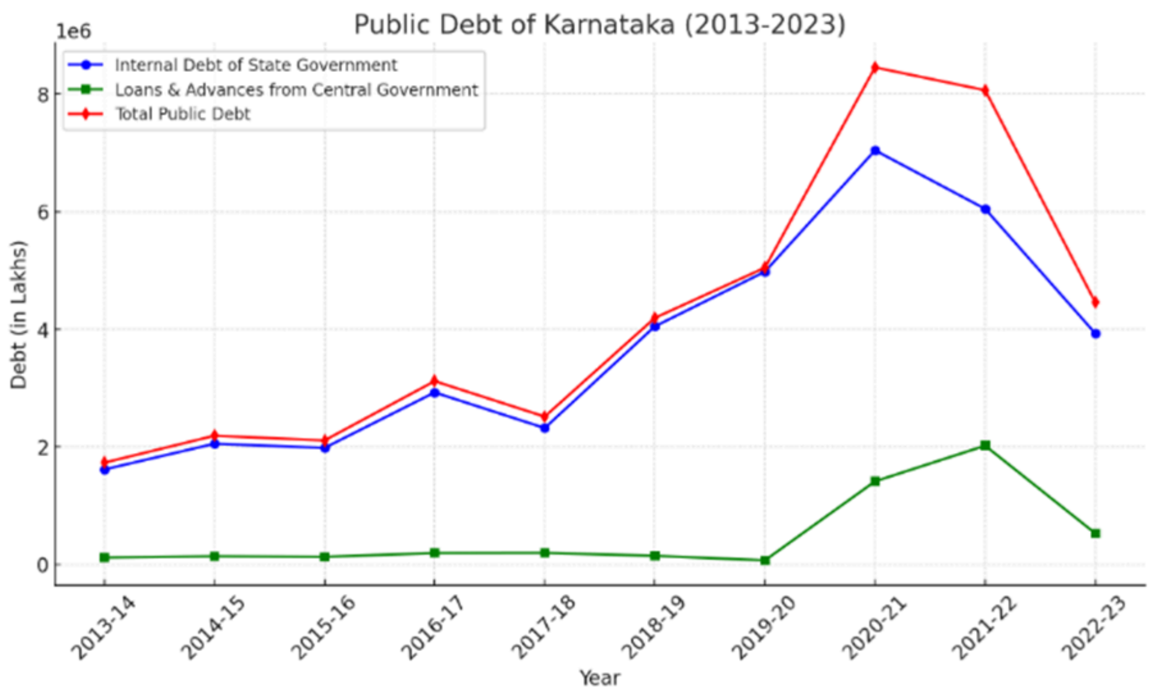

Figure 24: Public Debt of Karnataka
Source: Annual Financial Statements of Karnataka from 2013-14 to 2022-23

A general increase in public debt is visible from 2013-14 to 2016-17 with a small decline in 2017-18. Post the decline an increase in debt is seen in the following year 2018-19 and 2019-20. In 2020 a massive increase in debt can be seen which can be attributed to the state’s response to Covid-19 Pandemic. In 2022-23 a significant decline in debt can be seen bringing the public debt to lower than pre pandemic level. The loans provided by the central government stayed constant till 2019-20 and saw a rise in 2020-21 due to Covid 19 Pandemic and reduced in 2022-23. Karnataka has been effectively monitoring its debt and adhering to the recommendations made by the Finance Commission by adopting required frameworks to manage its fiscal health effectively.

Analysis

Karnataka has set itself as a benchmark of fiscal discipline. Throughout the decade an increase in tax revenue and non tax revenue can be noted. While a rise in expenditure can be seen, fiscal prudence is also maintained. Under the leadership of Siddaramaiah from 2013-2018, the focus of Karnataka's government was social welfare while effectively maintaining the fiscal deficit below 3% as mandated by its FRBM Act. It ran schemes like Anna Bhagya Scheme and Ksheera Bhagya Scheme that provided grains to underprivileged and milk to school students. Like Punjab and Andhra Pradesh, the government provided loan waivers and financial assistance for women from backward classes under Shaadi Bhagya Scheme. It also took to industrial development, providing healthcare and e-governance.

Despite the formation and fall of a coalition government between from 2018 to 2019 there was no significant distress witnessed by Karnataka. Under the government B.S. Yediyurappa, new infrastructure projects were initiated for development of the state. The advent of Covid-19 Pandemic led to increase in public debt incurred by the state, however Karnataka has managed to recover since then and had brought down its debt levels in 2022-23 close to its pre pandemic levels.

Post Covid-19, the FRBM Act of Karnataka was amended to increase the fiscal deficit from 3% to 5%. This can be interpreted in two ways. It can be seen as Karnataka government being so committed to following the act that it amended it not to default, or it can be seen as a means to prevent itself from defaulting as the government knew it would default. However the need for an amendment is unclear as there is a clause for times of calamity which allow for greater fiscal deficit.

FINDINGS

The above study shows the trends of revenue collection, expenditure and public debt. It presented what state priorities are and where they are falling short. Andhra Pradesh despite wanting to increase its non tax revenue fails to achieve so. It was heavily impacted by the state bifurcation but promptly responded to the situation by heavy borrowings and expenditure in rebuilding and infrastructure. This is reflected in its increased spending in housing and urban development. The TDP government under N. C. Naidu heavily invested in the formation of a new capital. It also heavily spends on pensions. It bounced back in terms of its tax revenues however still struggles with paying off its debt. Andhra Pradesh witnessed a change in government in 2019. The new government of YRS came with its own set of priorities and had to soldier through the Covid- 19 Pandemic which further deteriorated the fiscal health of the state. Despite the rising debt it is worth acknowledging Andhra Pradesh's resilience from an opening balance of -76 crores to having a new capital- Amaravati. Andhra Pradesh even implemented the CFMS System to manage its finances. This system combines budgeting, releasing money, checking how money is spent and treasury activities into a single system. CFMS makes it possible to oversee financial transactions, send payments directly and process bills over the internet in real time. It helps with clear accountability, lessens waiting time, prevents many errors and makes budgeting better.

Punjab maintains an economic condition that requires monitoring. Increasing fiscal pressure in the state has made public debt unsustainable because it reduces available funding for vital development initiatives. Internal debt on a large scale together with central loan dependency after the pandemic crisis reveals that Punjab faces considerable financial instability. The strategic debt reduction attempts of Punjab remain challenged by its ongoing use of expensive borrowed funds and persistent shortfall in income generation. The Punjab state has continuously received recommendations about raising tax buoyancy and cutting non-productive spending and subsidizing costs but has failed to execute these suggested reforms satisfactorily.

Karnataka overall saw rising debt levels due to Covid-19 Pandemic however it has made significant recovery. An overall rise in expenditure can be seen, with governments over the years focusing social services expenditure in the sectors of agriculture, rural development, energy and transport among many sectors. A massive decline in revenue expenditure was seen in 2018-19 which could be attributed to the internal disagreements in a coalition government. A concerning element could be the rising pension levels. Despite the noise in the media regarding rise in debt levels, a close analysis of annual financial statements show recovery in both internal debt levels and the loans and advances from post pandemic. This gives confidence that Karnataka may be able to recover entirely to pre Covid-19 Pandemic levels.

All three states have seen their share of challenges. Andhra Pradesh initially faced a massive set back post its bifurcation and despite rising revenues still struggles with heavy debt. Punjab faced issues like farmers protests, drug trafficking etc. Karnataka saw the formation of a coalition government and its fall and internal tensions within the government. Amidst these challenges Karnataka has been able to outperform Andhra Pradesh and Punjab. The share of tax and non tax revenue for Karnataka has increased over the years. A rise in non tax revenue post pandemic shows its strategic approach to bring down its dependence on debt. It has been able to reduce its

incurring of internal debt by almost half in 2022-23 from its 2020-21 levels. The state government has been able to effectively balance revenue and capital expenditure and despite the rise in debt, the prior performance can be a source of confidence for complete recovery.
While the revenue has increased in both Punjab and Andhra Pradesh, the quality of expenditure and political willingness to follow through FRBM plays a key role in Public Debt. Andhra Pradesh spent heavily to recover from state bifurcation while Punjab spent heavily on freebies which led to outlandish debt, a major portion of its expenditure being allotted to interest payments, borrowing to pay back the interest payments and getting stuck in a debt crisis. In recent years Punjab saw a rise in its spending on information and broadcasting. While these expenditures may be necessary they are unproductive. Borrowing for these expenditures goes against the well accepted rationale of taking public debt which is to spend on productive projects and development.

Public debt increased steadily throughout the last decade because of distinctive historical and political factors along with economic factors which determined debt accumulation.

The 2014 bifurcation of Andhra Pradesh state established a significant financial burden upon the provincial government. Before 2015 the state government started with debt at a deficit level and subsequently needed to construct administrative systems and Amaravati as its new capital leading to major borrowing throughout that year. Tax revenue growth did not resolve the revenue deficit problem as debt serviceability decreased because the state did not achieve balance between expenditure and non-tax revenue generation. The debt problem became worse following the COVID crisis period so the government increased its borrowings from both external and central sources.

The state of Punjab experienced continuous debt problems since the 1980s mainly due to insufficient fundamental fiscal resources. The debt-to-GSDP ratio in Punjab experienced a significant increase over the past ten years which became greater than 40% and indicated severe financial problems. Most borrowing activities in the state supported revenue expenses including salaries, pension payments and subsidies for farmers alongside providing electricity for free. Because the state used high-cost loans without proper capital creation they must continuously borrow money to pay off their previous debts. The COVID-19 pandemic placed further financial stress on its fragile position leading to increased debt levels besides reducing available funds for developmental programs.

The debt pattern of Karnataka maintained steadiness during this period. The COVID-19 crisis initially led to an increase in debt before Karnataka exhibited debt reduction from 2022-23 that brought the debt levels near pre-pandemic levels. Karnataka has controlled its public debt mainly within the FRBM boundary of 25% of GSDP through purposeful measures such as institution reform programs and legal framework implementation including KFRA alongside strategic capital expenditure investments.

Public expenditures in the three states present different governance systems as well as distinct fiscal perspectives.

Revenue expenditures in Punjab continually rise as the administration allocates substantial funds to general services combined with social services and interest payments. Substantial budgetary allocations within the state appear as pension costs and free agricultural power benefits. The three governing parties SAD-BJP, INC and AAP did not alter the foundational pattern where the state gave primary focus to welfare services but did nothing to enhance capital infrastructure. Revenue expenditure registered an exceptional rise in 2016-17 because the cash credit limit underwent conversion into long-term debt. This funding distribution proves to be unproductive and produces minimal returns for the economy in the long run.

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Political regimes in Andhra Pradesh caused transformations to how the state chose to spend its funds. During the TDP regime infrastructure funding along with development of irrigation and cities received priority but capital spending decreased when YSRCP took control through welfare schemes based on direct benefit transfers. The political shift demonstrated a shift from long-term investment activities towards short-term spending which mainly included agricultural loan cancellation programs along with wedding ceremonies subsidies. Socially supportive initiatives and politically popular schemes failed to develop fiscal resilience capabilities and fiscal assets thus creating additional financial burden on the state's budget

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Karnataka distributed its state budget funds evenly during this period. The state governments invested their resources into dual programs which delivered social welfare benefits through initiatives like Anna Bhagya along with pursuing capital creation through projects such as expressways and irrigation projects and industrial parks. The state prioritized important revenue costs while constantly funding new developmental investments through capital expenses. The state of Karnataka invested into high return sectors such as education and health and infrastructure development without adopting an excessive freebie distribution practice. Such a governmental approach combines essential current social services with strategies to preserve economic stability.

In 2014, changes in the Union Government led to big transformations in India's public finance, focusing on federal finance, use of technology and focusing on specific beneficiaries. When the Planning Commission was abolished and NITI Aayog set up, it allowed Andhra Pradesh, Punjab and Karnataka to make their own decisions about how to use funds. There were countless new populist schemes, with Andhra Pradesh launching Rythu Bharosa (for farmers), Amma Vodi (for mothers) and Vidya Deevena (for students) after 2019, all using the Direct Benefit Transfer (DBT) method. In both Punjab and Karnataka, the government vowed to help by providing electricity and loan waivers for the former and free rice and milk for school kids in the latter.

While the commonly acceptable rationale for debt is to take on debt for productive usage and development, the approach is different for India where there is a need for welfare measures to be taken up by the government. Muralidharan (2024) talks about welfare systems as "intrinsically and instrumentally important for the society" and suggests that a well functioning system can enhance the state capacity. He further mentions how major portions of budgets in India are allocated to welfare schemes but the return on those are not enough. Welfare programmes as per him have the capacity to both make or break economic efficiency. These programmes can reduce human suffering and improve productivity of people. Expenditure done on welfare can be therefore effective and ineffective. In the case of these three states, since they are largely dependent on agriculture there is heavy focus on agriculture related support provided by the government. All three states spend on farmer loan waivers. Muralidharan (2024) suggests that these waivers are counterproductive, they are largely used by landowners and end up rewarding the defaulters and penalizing the ones to pay back the loans. This serves as a classic example of balancing welfare and development by going deeper into the policy objective and execution of the programmes. The utilisation of borrowed money therefore plays a key role in justifying the incurring of public debt.

These states can learn some key lessons from Karnataka. Karnataka is a benchmark of fiscal discipline. Unlike these states, it maintained transparency and effectively monitored its debt using dashboards and frameworks. While Andhra Pradesh has its own CFMS System, more can be done by Punjab to effectively manage its finances. This goes in line with the IMF guidelines for public debt management. These states therefore must look into their expenditure and re-evaluate it to ensure better utilisation of funds. Karnataka also has a broader tax base as compared to Punjab and Andhra Pradesh. More research needs to be done to explore how they can increase their tax base. Karnataka despite political instability managed to maintain its fiscal discipline, this can be attributed to a strong political willingness to adhere to Karnataka's FRBM Act of 2002 irrespective of political ideologies and priorities.

CONCLUSION

This project analysed ten years of data from 2013-14 through 2022-23 regarding public debt patterns and revenue performance as well as expenditure in Andhra Pradesh, Karnataka, and Punjab states in India. These states are confronting major budgetary problems yet they implemented different types of financial management systems successfully. The project evaluates state fiscal frameworks with insights into financial policies to demonstrate public debt impacts on regional economies through evaluation of state fiscal management practices.

A major insight that can be drawn from the decade-long data is that the nature of the ruling government – its political ideology, priorities, and structure (single-party or coalition) – plays a central role in determining how public money is raised, spent, and borrowed. The governments in Andhra Pradesh and Punjab used public debt funding for welfare expansion by implementing DBTs and subsidies as well as populist programs. Karnataka balanced its commitment to fiscal prudence with governance goals by concentrating on capital development and implementing debt practices that were fiscally responsible.

Public debt creates long-term expansion when funds are used for capital projects which build infrastructure while generating employment opportunities and multiply economic benefits. Debt that finances costs of operations such as personnel payments and interest and subsidies does not generate productive returns for the economy. Andhra Pradesh alongside Punjab spenDespite political instability Karnataka managed to deliver better fiscal performance which allowed debt financing for strategic investments across sectors that included education, transport and industry.

The institutional budget accountability stems from the implementation of Karnataka Fiscal Responsibility Act (KFRA) together with Pratibimba dashboard and enforced half-yearly evaluations.

After the 2014 partition, Andhra Pradesh showed success in raising its taxation earnings despite undergoing substantial post-separation financial difficulties. The state faces substantial financial stress because it uses borrowing between its own institutions to support revenue deficits and capital expenditures. After the state breakup the government debt has consistently grown because the authorities needed to stabilize the economy and build new infrastructure. The borrowed funds have failed to generate complementary improvements in capital formation and productive investment activities during this period. The rising tax revenue cannot conceal the worsening fiscal imbalance because the state still fails to balance its financial deficit. Debt registration and interest payments together consume a major portion of Andhra Pradesh's revenue thereby restricting the state government's ability to perform long-term developmental initiatives. The state continues to face challenges from its persistent failure to develop strategic plans for strengthening non-tax revenue sources which highlights the requirement for sustainable fiscal policies.

Karnataka, on the other hand, offers a more positive example of fiscal management. The Karnataka Fiscal Responsibility Act established early in the state has enabled effective debt-to-GDP ratio management which allowed the state to maintain fiscal discipline across all circumstances. The state has maintained control of its debt levels through its deliberate fiscal policies along with strong debt management approaches even while public debt rose after the COVID-19 pandemic. The state demonstrates successful fiscal performance because its tax collections have continuously grown over the past few years. The growing commitment to social welfare combined with increasing pension and interest payments binds Karnataka financially. To maximize public spending benefits the state must pursue fiscal consolidation and enhance social expenditure administration because its past debts require an increasing amount of interest payments.

all three states have different relationships with public debt. Andhra Pradesh needed to recover and rebuild after bifurcation and required to take on debt. It is its moral imperative to do so. Punjab heavily requires to spend on agricultural welfare schemes and outside it too spends on welfare. These however must not be provided at the cost of incurring more debt. Karnataka has been able to maintain its public debt levels and fiscal deficit levels while providing welfare schemes.

Among the three states Punjab demonstrates the worst fiscal condition. Public debt in the state presents an ongoing problem which primarily appears in high-interest loans because they have reduced debt management abilities. The extensive use of internal debt as well as its minimal inner revenue generation capacity combined with its inability to obtain central government financial support continues to put strain on Punjab's financial stability. Punjab ranks among the highest in debt-to-GDP ratios across the country while its fiscal strategies fail to stop the pattern of borrowing to cover expenditures. The revenue collected by Punjab has increased throughout the years but failed to produce enough funds to minimize external debt dependence.

The debt management practices in Karnataka establish standards for responsible finance yet Andhra Pradesh and Punjab present evidence of borrowing dangers when growth in investment is not equivalent to borrowing levels. The states need to establish priority-based fiscal reforms which address tax collection efficiency and minimize wasteful spending while restricting debt usages to capital development that outlasts short-term necessities. The path to sustainable debt management combined with transparent budgets and enhanced revenue collection methods represents the fundamental solution for all three states to manage debt crises effectively. The states should manage their social spending while prioritizing capital investments which drive long-term economic development to keep their financial stability along with the needs of the population. States in India need effective fiscal management as a fundamental tool to handle complex modern governance structures for ensuring prosperity of their citizenry.

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APPENDIX

The chief ministers in that lead the three states from 2013-23 are as follows-

1. **Andhra Pradesh-** From 2013 and until 2023 Andhra Pradesh experienced multiple chief ministership changes as three leaders took the helm of state governance. Nallari Kiran Kumar Reddy remained at the helm of government for the entire duration of the undivided Andhra Pradesh before 2014. Kiran Reddy went on to lead the Indian National Congress while he defended the state against partition through vigorous opposition to division and worked on welfare programs and development initiatives before his resignation. The new state gained its official creation when he had already announced his resignation to demonstrate his opposition against Telangana's birth. N. Chandrababu Naidu took over as the initial CM of Andhra Pradesh after its division from 2014 until 2019. As leader of the Telugu Desam Party Naidu directed state rebuilding efforts through capital development projects at Amaravati and by leveraging technological innovations to govern the state. Through his "Sunrise Andhra Pradesh" vision he began seeking partnerships between local and international investors in pursuit of developing the state at speed. The year 2019 brought Y. S. Jagan Mohan Reddy to power as CM after he won the election with his YSR Congress Party. Welfare initiatives represented the main focus of his leadership through programs that included Navaratnalu as a nine-scheme group addressing health and educational needs along with agricultural development and social welfare provision. Through his administration Y. S. Jagan Mohan Reddy launched handouts including Amma Vodi for mothers with schoolchildren as well

as an expansion of YSR Aarogyasri health insurance benefits. The administration decentralization plan involved creating three separate legislative and judicial and executive centers.

2. Punjab- The CM role of Punjab remained under the leadership of veteran Akali Dal leader Parkash Singh Badal until 2017. The government gained criticism because they did not tackle farmer debt along with environmental problems and drug abuse despite putting rural growth and agriculture first. The 2017 Punjab government brought Amarinder Singh to power as CM to prioritize farm loan cancellations and industrial investment and law enforcement improvement. The new policies implemented by the leader focused on streamlining business operations while raising employment prospects. Charanjit Singh Channi became Punjab's first Dalit CM in 2021 after the brief period in office. He established himself by focusing on accessibility in governance combined with social justice measures and public engagement while offering subsidized utility services. The Chief Minister Bhagwant Mann entered office in 2022 as the first leader of the Aam Aadmi Party to implement a governance system influenced by Delhi. His government rested primarily on three fundamental policy reforms to establish transparency and reform education alongside providing free healthcare. Mann established the Anti-Corruption Action Line along with health clinics that delivered free primary care services and established fee caps for private schools and monthly electricity benefits of 300 free units to residents.

3. Karnataka- Siddaramaiah as the Indian National Congress leader led Karnataka from 2013 to 2018 through a governance approach focused on delivering welfare benefits for all groups of society. As chief minister he launched three main programs which were Anna Bhagya for rice distribution and Ksheera Bhagya for school milk and several welfare projects for disadvantaged groups. The leader concentrated on budgetary responsibility through his work along with implementing metro expansion in Bengaluru. When the 2018 election produced no clear winner for the state legislative assembly H. D. Kumaraswamy took office as CM after forming a coalition between Congress and Janata Dal (Secular). He devoted only a year from 2018 to 2019 to implementing measures that waived farm loans and launched specific initiatives to uplift rural communities. Upon the collapse of the coalition government came BJP leader B. S. Yediyurappa who became the new chief minister of Karnataka in 2019. Yediyurappa used his term to invest in infrastructure while attracting investors while leading the state through the COVID-19 crisis. The state premier executed multiple relief plans for the COVID-19 crisis until he stepped down from power in 2021. During his leadership Basavaraj Bommai maintained the welfareoriented policies of the BJP through initiatives in industrial growth alongside digital transformation. State welfare expanded under his administration yet his government encountered complaints regarding communal tensions along with rising unemployment rates. The leadership policies of these officials emerged from both their political party convictions and regional social and political factors of their governance period.