Analysis Of Fiscal Health Of Congress-Governed States

Abstract

The research examines the economic challenges and structures of Congress-ruled states, focusing on Himachal Pradesh, Karnataka, Jharkhand, and Telangana. By focusing on the governing strategies and decisions, the paper explores the difference between Congress in the Central government and Congress in the State government and how the fallacies in the economic policies have affected the State. Through a comparative analysis of key financial metrics such as GDP growth and welfare distribution, the paper highlights both the short-term successes and long-term issues that arise from the governance models employed. The research also emphasises the socio-political dynamics, including regional pressures, which drive the distinct policy-making approaches between the Congress-led central government and state governments. Lastly, the paper explores a top-down model of redevelopment to reverse the effects of the fallacious policies implemented during the Congress-term period, to even out economic growth and provide stabilisation between welfare schemes and revenue generation.

1. Introduction

1.1. Overview of Economic Trends in India

India has seen significant growth in its economy, rising exponentially in the past decade. Surpassing some of the major European powers, India has secured its place in the Global economy. However, the major problem is the unequal distribution and factorial inconsistency in the distribution of the growth among the states. The difference in industrial, agricultural and overall economic growth is notable and often concerning.

After the pandemic, India's economy slowed down, but this was followed by explosive post-pandemic growth. In a deep and slow stabilisation period in 2022, many welfare schemes were initiated by the central government to maintain uniform economic outcomes throughout the country.

Despite the efforts for uniformity of economic growth and stability, the impact on states has been unequal due to different governments, fiscal policies, sectoral politics and economic needs and sources.

1.2. Importance of State-Level Economic Policies

The State and Concurrent lists in the Indian constitution empower state governments to function in the aspects of agriculture, labour markets and production, with more autonomy. This makes it crucial for the state government to function properly and effectively to maintain its economy and manage the influx of needs and costs. Even though the government at the national level is the proprietor of welfare schemes, their application and effectiveness depend on the administrative qualities of the state.

Every state is also given autonomy to highlight and pay attention to different industries operating within their boundaries, and the industries to build, taxation policies to implement and welfare schemes to apply to the people of the state. These decisions determine the trajectory the state economy takes, by the resource profile of the state. For resource-rich states like Jharkhand and Telangana, it's easier to manage an industrial portfolio but for states like Himachal Pradesh, they have to maintain a tourism dependence and that changes the way the economic policies of the states are formulated.

1.3 Congress Welfare State Model

Following India's oldest and most prominent political ideology, the Indian National Congress is the central figure in the pursuit of socialist ideas and the welfare of the people. Implementing welfare programs was one of the most important features of Nehruvian political ideology, ensuring that any national growth reached the ones who were part of the process but were left behind due to economic differences.
The action plan and structure of Congress policies are always rooted in the ideals of social justice, alleviation of the poor, and development that is inclusive of the people in the periphery.

Congress-run state governments have always advocated for welfare schemes that are aimed towards marginalised communities, the urban poor and other discriminated identities including the economically weaker sections.

In the cases of pioneering welfare schemes like the National Rural Employment Guarantee Act (NREGA), providing employment opportunities, economic support and minimum wage opportunities to the rural community, and the Right to Food Act which is an important step towards national food security are some of the front runners in the merit list for Indian National Congress. They were also one of the first parties to conceptualise and apply agriculture will subsidy policies, ushering in the era of the Green Revolution, White Revolution and Blue Revolution; along with some of the most important educational and women empowerment schemes. All of these national Welfare-centric policies were the trademark of the Indian National Congress, which champions itself in its centrist and socialist nature.

The discrepancy however arises when we notice the Welfare pattern in the central government Congress and state government Congress. Centrally aligned welfare schemes, 10 follow a socialist pattern that looks to redistribute economic stability, to support all economic groups in India, whereas the state government policies under Congress, tend to be welfare schemes that are driven by market forces. For example, the read distributed welfare scheme applied in Rajasthan named Chiranjeevi Health Insurance Scheme is often criticised to be populist in measure, being tied down to the name of former Chief Minister Ashok Gehlot, who constantly used it as a flagship in his campaign without actually improving the quality of Healthcare provision or delivering on the claims of the policy.

While the central government model under the Indian National Congress focuses on fiscal independence, mindful expenditure of the budget, maintaining foreign investment and socialist allocation of welfare schemes, the state governments under Congress have been criticised for economic paralysis, policy stagnation and an overall decline in the accountability and decision making machinery of the state government specifically in the times of crisis. The biggest downfall was recorded in the 2010s when numerous congress-led states faced an economic slowdown and received little to no benefits from the promised developmental plans.

In contrast, to the general welfare state model followed by the Congress government at the centre, the State Congress governments tend to prioritise immediate results in the sections of farmers' upliftment, women empowerment and unemployment under the schemes that are launched under the aegis of populist chief ministers who use this schemes as a bargaining chip during elections, prioritising election and voter bias rather than a general welfare. These policies have also been criticised for being voter-specific, benefiting only select community and economic groups, which leads to stunted growth of the state in the overall long-term economic sphere.

Over time, people realised this fallacy and have thus chosen not to ignore the problematic application of the same. This is one of how Congress's ideology differs between the centre and the state. While the centre focuses more on the welfare of the people the state policy is driven to attach itself as the flagship scheme of populist regimes. In this paper with a special focus on some states like Haryana and Telangana, we will explore many more such obsolete and populist schemes.

Furthermore, Congress-run schemes have also been associated with corruption, administrative inefficiencies and partisan applications. These allegations have caused reduced trust in these welfare schemes and have faced severe criticism for failing to deliver on the targets and subsidies.

Another major problem with the welfare schemes developed by the state-leading Congress is the lack of targeted legislation for minorities and marginalised groups. The blanket nature of the application of these welfare schemes does not guarantee benefits to the most deserving section of the population. It reduces the efficiency of the application of these welfare schemes and causes a further divide in the economic preferability of the target groups. So even though the target is to uplift the common people, the issues in application, mismanagement and corruption have failed these measures.

One of the most relevant examples of the same is the NREGA or MGNREGA scheme, which is essentially treated as the pioneer of Congress and its idea of a welfare state. There were many problems in the application of the MGNREGA scheme, like extremely low wage rates that were not kept following the inflation of the economy, insufficient budget allocation making the scheme promise more output than it had the funds, administrative efficiencies and a very centralised application than a decentralised approach to incorporate all the differences in the states. Although the scheme is still dying a slow death under the NDA government, it is still more efficient in the past decade than it had been under the Congress in many states like Maharashtra and Uttar Pradesh before 2012.

Although research promulgates the importance of welfare schemes in the country and supports the meticulous pursuit of collective good, the implementation of these welfare schemes has become populist. The welfare schemes focus more on appeasing a vote bank and maintaining a public image of the people tied to those schemes. Such socialist means of welfare become a burden on the state and country's economy and are often inefficient in achieving their goals due to administrative shortcomings, corruption and unequal distribution of resources. Hence it becomes important for us to understand the nature of these schemes and avoid such repetitions. We focus on the Congress regime due to its historical placement and abundance in welfare schemes to understand the failures and fallacies that are reflected in the current political landscape.

1.4. Objective and Scope of the Study

This study aims to analyse the economic failures and challenges faced by four Congress-ruled states – Himachal Pradesh, Telangana, Jharkhand, and Karnataka – over the last five years. By focusing on policy decisions, governance inefficiencies, and sectoral performance, this paper will provide insights into what went wrong and how future economic policies can be reformed.

The research aims to highlight the economic failures and mishaps in the four Congress-governed states of Himachal Pradesh, Telangana, Jharkhand and Karnataka. Finding the avenues of their economic policies that were not very well suited to their needs, we build a comprehensive analysis of the economic failures in the state and determine the reasons and correlations with the governance. The focus of the paper is on aspects of policy inefficiencies, administrative shortcomings, and governance fallacies in the economic policies of the Congress-ruled states.

2. Comparative Economic Metrics

This paper analyses key metrics like GDP growth, unemployment, public welfare level, public debt, fiscal policies and other markers of economic trajectories for the states. There is a need to compare and contrast the states in a case study model to comprehensively understand the reasons and aspects of policy failure under the Indian National Congress.
The research primarily does this by sourcing data from previously conducted public forum research from Government and Independence sources, converting the primary data for insights into the economic working of the state under Congress government,

3. In-Depth State-wise Analysis

3.1 Case Study - Karnataka

Between 2019 and 2023, Karnataka was ruled by the Bharatiya Janata Party (BJP), with BS Yediyurappa as the chief minister, followed by Basavaraj Bommai. During these years, Karnataka witnessed significant economic growth with large-scale infrastructure projects and allocations of public debt for developmental schemes. But beyond this gilded image of the economy, the state also acquired a lot of debt, due to delayed projects, underutilised FDIs and increased public borrowing. All of these in a debt burden economy were inherited by Congress. Towards the end of the BJP tenure, Karnataka had a debt burden of around rupees 5.18 lakh crore.

This high debt led to an unequal distribution of growth in the following years by limiting the fiscal avenues that the state could explore placing a heavy interest burden on its budget. Although urban centres like Bengaluru grew in revenue due to IT sector Investments the disparity between Urban and rural development was evident due to frequent droughts and lack of welfare support to the farmers.

A few other problems that faced the state were high unemployment rates with job creation being a major problem in rural areas due to lack of investment and industry setting. That was followed by a **revenue deficit of over Rs.14699 crores in the fiscal year 2022-23**, making the Karnataka GSDP fall below its previous year counterpart from 8% to 6.8% in 2022 and 6.6% in the year 2023-24. These figures tell a common story of an economy which is slowing down due to the burden of revenue deficit and high state debt.

The Congress government which took charge in the year 2023 initially aimed to win public support and established partisan schemes that focused towards populist measures under the Gruha Lakshmi and Anna Bhagya programmes. For the fiscal year 2023-24, the budget allocation for the state was rupees 3.27 lakh crores, with over 4% of this allotted to these two schemes only. In an attempt to make these flagship schemes under Congress rule, the party focused much more on welfare popularisation than application.

The Gruha Lakshmi scheme was provided with rupees 30,000 crores allocated to provide Rs.2000 per month to women taking care of a household, which was also supported by the Anna Bhagya scheme that had a budget of rupees 7500 crores to provide free food grains to families below the poverty line. Out of the total Karnataka Budget over 40% was allotted only to social welfare programmes including health and education.

Although welfare schemes are something that every government should focus on, the welfare in Karnataka came at the cost of capital investment in infrastructure and industrial projects which leads to two major problems. Firstly, the state revenue deficit keeps increasing due to the burden of additional welfare schemes to support the populist governments. It was noted in Karnataka that the marginal increase in infrastructure and industrial projects was less than 5% which is significantly lower than the previous government. Secondly, instead of providing sources of income the welfare schemes make the population reliant on the government budget and resources making them an inefficient workforce unable to support themselves.

GSDP Allocation

Immediately after Congress came to power in the year 2023 the Karnataka **gross state domestic product (GSDP) was estimated to be ₹25.69 lakh crore**. Welfare schemes took around 45000 crores of that budget equating to about **1.68% of the state GSDP**. All of the welfare budget was allocated to schemes like Gruha Lakshmi, Anna Bhagya and other educational and Healthcare schemes. (PRS, n.d.)

In the past 2 years of Congress rule, the fiscal deficit of the state keeps rising due to the unequal development budget allocation to the key performing industries. In the year 2024, Karnataka spent 6.7% of its revenue on energy and related development to provide cheaper and cleaner electricity to the people including various welfare schemes for subsidised electricity, which is higher than most of the states and the national average of 4.7%. On the contrary, the budget allocation for urban development was 0.6% and rural development was 3%, which is significantly lower than the national average.

These disparities lead to a higher average expenditure putting further strain on the already shrinking budget.

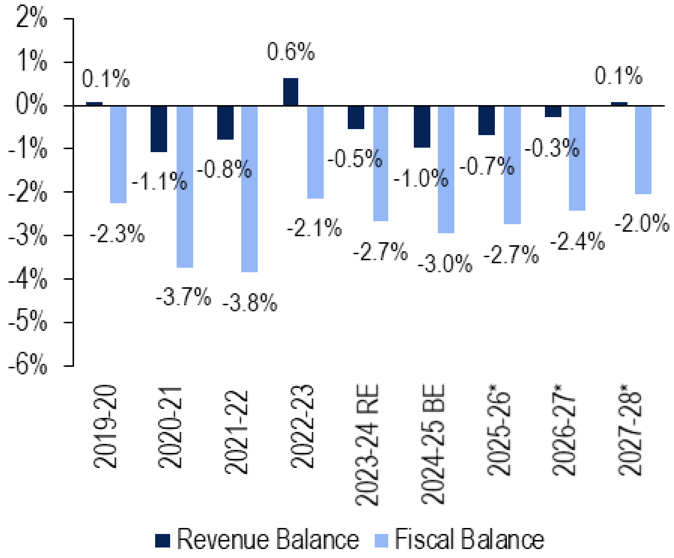


Figure 1: Fiscal and Revenue balance of Karnataka
Source: PRS Budget Evaluation

The fiscal balance of Karnataka is expected to lower itself in the next 2 years with the revenue balance rising due to the FDI influx. But the biggest problem that the government faces is the outstanding government guarantees. These are liabilities which the state has to honour and fulfil such as state public sector borrowings and investments. As of March 31, 2024, the outstanding gratuity has risen to an estimated Rs. 38,356 crores amounting to almost 16.8% of the total state revenue.

The welfare schemes by the Congress government have always been a gamble. In Karnataka, these schemes provided a much-needed relief to lower-income households, but it proved to be a critical burden to the state budget and increased the fiscal imbalance that already was a plague. The fiscal deficit under the ballooning debt is supposed to rise to Rs. 60000 crores leading to more state borrowing and further investment debt, with very little investment in the development sector that would lead to an increase in revenue.

There is no significant increase in the tax revenue for the state even after the high inflationary pressure and the injection of liquidity through cash transfers. This move essentially affected only middle-class income families negatively and has driven up the demand and cost of basic commodities. Large-cap welfare expenditures also came at the cost of infrastructure and industrial development which stunts the long-term growth of the economy.

Reducing the burden

Certain measures were introduced by the Congress government, to combat the fiscal deficit which primarily imposed a higher cess on luxury goods and services, and an **increased taxation on alcohol and fuel**. Additionally, Rs.2/ per litre of petrol and diesel were added to a projected generation of Rs. 3000 crore annually. Increased excise duty on liquor is also expected to raise Rs. 5000 crore annually. These efforts are **inadequate to plug the leakages in subsidy distribution** and have not had any significant impact yet, but seem to be promising steps in a positive direction.

The growing fiscal deficit, owing to bad economic habits, has increased the reliance on privatisation and foreign direct investment. The Congress government in Karnataka has increased privatisation in key sectors like education and Healthcare which were primarily state-controlled. Has resulted in private entities taking over operations of district hospitals, and the IT sector seeing tax incentives and relaxed labour laws. Karnataka **received ₹1.87 lakh crore in FDI in 2022-23**, making it the top destination for FDI in India, contributing significantly to offsetting the state's fiscal deficit. It is also important to note that these privatisation injections of the economy come at the cost of relief and will be for the common people, ultimately defeating the purpose of a welfare model government.

Under the same idea of reducing the burden on the state budget, the Congress government has **curtailed some important welfare schemes** like the Kisan Bhagya scheme, which aimed at providing irrigation subsidies, and was scaled back to reduce expenditure. The state also has a **rollback on subsidies** that were provided for electricity, water and fuel for certain Industries leading to more public backlash and withdrawal from the industrial lobby.

3.2 Case Study - Himachal Pradesh

The state of Himachal Pradesh was governed by the Bharatiya Janata Party from the year 2017 to 2022. The chief minister Jay Ram Thakur, under the BJP focused on infrastructure development, rural welfare and tourism. While there were many initiatives for agriculture development and road development it left significant economic challenges for the oncoming Congress government.

By the end of BJP's regime, the **overall debt** for the state of Himachal Pradesh had increased to **Rs 70,000 crores** due to various populist welfare schemes and infrastructure projects. Which was followed by a reduced state revenue post the covid-19 pandemic.

The Congress government took office in December 2022, under the leadership of Sukhwinder Singh Sukhu, and inherited these challenges with various fiscal issues and the need to maintain popularity through populist welfare schemes.

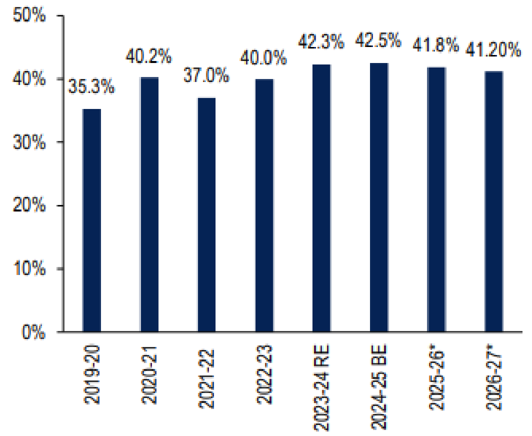
The first budget of Congress was in the financial year 2023-24 at Rs 53,413 crore with significant allocations towards welfare, rural development, and improvement in healthcare facilities. There were many new schemes announced while there were editions to the old ones too. The Old Pension Scheme had a budget of over Rs 10,000 crore benefiting 1.5 lakh Government employees. The Mukhya Mantri Shagun Yojana had a Rs 500 Crore allocation for the marriage of women in economically weaker sections. Universal health coverage under HIMCARE had a budget of Rs 1000 crore to provide free Health Care Services for the state citizens below the poverty line.

Welfare programs make up almost 35% of the state budget while healthcare and education also received a balanced 30%. However, this division left limited funds for infrastructure and capital development.

GSDP Allocation

The total **GSDP of Himachal Pradesh is around Rs 1.8 lakh crore for the fiscal year 2023-24**. Considering that the old pension scheme and other populist welfare schemes like the Mukhya Mantri Shagun Yojana and HIMCARE have an overall budget of Rs 11,500 crore, they stand at above 6.4% of the total GSDP. (PRS, 2024)

Although the allocation percentage does not seem very high, it does lead to a growing fiscal deficit largely because the social welfare expenditures are a huge burden on the initial budget. While the welfare schemes run by Congress have primarily been very popular, there are some concerns about the long-term impact on the state economy and the debt burden. The fiscal deficit specifically from the old pension scheme has been very high. Government employees receive unprecedented pensions at almost Rs 36,000 every month and the same is true for leaders who have defected after the election. There have been demands to change the format of the pension scheme.



Note: *Figures for 2025-26 and 2026-27 are projections; For 2020-21 and 2021-22, deficits reported without treating GST compensation loans as grants. RE is Revised Estimates; BE is budget estimates.
Sources: Medium Term Fiscal Policy, Himachal Pradesh Budget 2024-25; PRS.

Figure 2: Outstanding liabilities as % of GSDP

The state's debt servicing alone has reached a valuation of **20% of the state budget** at Rs 800 crore. These fiscal conditions and economic burdens lead to an infrastructural slowdown, reducing the capacity for higher revenue generation.

Reducing the burden

The Congress government took various steps with limited success to reduce the state fiscal deficit. There was an increase in GST collection through tighter measures and a focus on uprooting corruption in the vertical to raise around Rs 2000 crore annually. There were several property tax reforms particularly in the Hindi urban region increasing the revenue by almost Rs 500 crore. Under the welfare schemes electricity and water for high-income houses were removed from subsidy considerations saving Rs 300 crore annually.

Even after these measures, the state deficit continues to expand with almost little to no difference in the core challenges of the economy.

The state has also focused on two new **development programmes under the public-private partnership** with various private-sector players in the sphere of tourism and hydropower projects. The tourism sector is expected to raise 1500 crore over 5 years which is expected to stabilise the economy. Although economically beneficial, this move has been **criticised by the citizens of the state and environmentalists** because of its drastic impact on the nature and terrain of Himachal Pradesh. Foreign direct investment in the sector has led to vehicle rules and norms for the companies investing and they have initiated projects that are detrimental to the environment.

The hydropower project is supposed to generate an additional 2000 crore over the next decade under the privatisation measure. As evident from the valuation of these projects, immediate financial benefits and growth are almost negligible. The only promising sector is the Pharmaceutical sector with FDI flows of an estimated 1200 crore that has reduced the financial pressure by a small amount. The FDI in itself is not enough to cover the gap of fiscal deficit and hence the state still struggles with financial discipline.

The government has also **scaled back welfare and subsidy schemes** like electricity for industrial consumers and for the social welfare schemes they have introduced structured eligibility criteria to reduce the burden on the economy. Operational inefficiencies are also targeted to improve the underperforming public sector undertakings and reduce operational costs. The physical deficit remains high and Himachal Pradesh continues to rely heavily on borrowing to finance its budget, which calls for deeper reforms in the financial planning of the state.

3.3 Case Study - Telangana

The Congress government currently rules the state of Telangana, previously in the hands of Telangana Rashtriya Samithi (TRS), under the leadership of K. Chandrashekhar Rao. His government ruled Telangana from 2014 to 2023. Under the TRS government, Telangana saw rapid industrial and infrastructure development. There were also numerous welfare schemes under agricultural investment such as Rythu Bandhu for the farmers, mission Bhagiratha for Clean drinking water and KCR kits for mothers and infants under the health care division.

A lot of these welfare projects were installed as a way to appease a minority division and increase their support as a vote bank. The populist nature of these welfare schemes, and their economic cost became a burden on the economy of Telangana. The state had its **debt increase to almost**

rupees 3.29 crore by the year 2023. There were also significant delays in the delivery of these subsidies increasing the fiscal deficit. (PRS, 2022)

At the beginning of the Congress rule the entirety of the state budget was reorganised to focus primarily on welfare initiatives. In the financial year 2023-24, the state budget was Rs 2.9 lakh crore which is about Rs 15000 crore allocated to the Rythu Bandhu and Rs 17000 crore for the Dalit Bandhu scheme. An additional Rs 8000 crore was also added for the Arogyasri scheme which was focused towards coverage of free treatments.

An estimated **40% of the budget was directed towards welfare schemes**, most of it in favour of marginalised groups, taking away from development and industrial growth in comparison to the previous government.

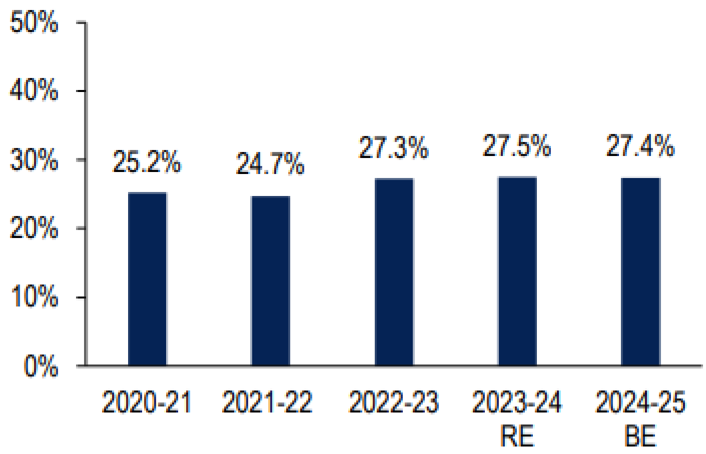
GSDP Allocation

Telangana's estimated GSDP for 2023-24 is around ₹14.5 lakh crore. Given that populist schemes, including Rythu Bandhu, Dalit Bandhu, and others, were allocated over ₹40,000 crore, this equates to around 2.75% of the GSDP.

This large allocation to welfare programs, while necessary for social equity, reduced the state's capacity to invest in capital expenditure, infrastructure, and industrialization efforts, which are key to long-term economic growth.

While the Congress-run welfare schemes were popular in their inception, they have ruined the state economy and placed significant financial stress on it. The following economic fallout has caused the state deficit in the year 2023-24 to rise to almost Rs 35000 crore, largely due to high-cost welfare and disproportional increase in revenue generation.

There are two major outcomes of this financial stress. Firstly the state has significant debt servicing pressure, with almost 16% of the allocated budget projected towards interest payments alone. Under the Congress, the state government was forced to ask the centre for fiscal support in reducing the debt pressure.



Note: *RE is Revised Estimates.
Sources: Medium Term Fiscal Policy, Telangana Budget 2024-25;

Figure 3: Outstanding Liabilities as % of GDP

Secondly, the fiscal deficit and low increase in revenue have rendered the state unable to fulfil the promises under the welfare schemes. This defeats the entire purpose of launching those welfare schemes as the additional burden already created a fiscal deficit, while the people are no longer able to avail the same benefits.

Reducing the burden

To reduce the fiscal burden Congress government has taken several steps with limited to No success in dressing the deeper economic fallacies of budget planning. There were a few **tax reforms** in place that were introduced to increase the professional tax contributing to a projected Rs 3500 crore annually. The state has also raised **stamp duty on property and real estate registrations.** Along with this, there have been few subsidy cuts on the TRS-led schemes for non-essential goods, which is supposed to save Rs 2500 crore.

Head	2022-23 Actuals	2023-24 Budgeted	2023-24 Revised	% change from BE 23-24 to RE 23-24	2024-25 Budgeted	% change from RE 23-24 to BE 24-25
State GST	36,248	44,000	39,295	-11%	50,763	29%
Sales Tax/ VAT	29,604	39,500	29,990	-24%	33,449	12%
State Excise	18,470	19,885	20,299	2%	25,618	26%
Stamps Duty and Registration Fees	14,228	18,500	14,296	-23%	18,229	28%
Taxes on Vehicles	6,737	7,512	7,095	-6%	8,478	19%
Taxes and Duties on Electricity	886	751	17	-98%	716	4081%
Land Revenue	0	12	0	-97%	11	3110%

Sources: Annual Financial Statement, Revenue Budget, and Telangana Budget 2024-25; PRS.

Figure 4: Sources of state revenue (own tax)

These measures have proven effective in the last economic year and hence in the financial year 2024-25, some new scalebacks have been introduced. Telangana has pushed itself towards privatisation and increased reliance on FDI specifically in the sector of Public-Private Partnerships (PPPs), in sectors like education and healthcare. This has reduced the access to the services for the low-income citizen groups increasing the distrust in the government. Several tenders for the operation and maintenance of highways, schools and the central public transport system have been outsourced to private companies reducing the direct burden on the state but also reducing significant legislative power over the operation of the services. (Rajeev, 2024)

With all the foreign direct investment focused towards it, the Pharmaceutical sector has been skyrocketing at rupees 1.2 lakh crore, it has been criticised as a pipe dream due to the **lack of job creation in both urban and rural settings**.

Lastly, we come to analyse the biggest failure of the Congress budget and its operation as the welfare state. The high fiscal deficit rendered the welfare schemes almost inoperational, leading to the **scaling back of key welfare schemes** like the Rythu Bandhu scheme, as there were barely enough funds to support the existing demand before the Kharif season. There are various options like open market boring which are being considered to keep the scheme alive. On the other hand the Dalit Bandhu scheme, although operational on paper, has not given out a single registration or subsidy in the past 1 year (Telangana Today, 2024). The government has done everything to shut the scheme except declare to the public the scheme is null and void.

These steps have reduced the fiscal deficit to a certain extent but have failed every aspect of a welfare state. Paradoxically, Congress's pursuit of a welfare state has led to an infectious development and application of welfare schemes.

3.4 Case Study - Jharkhand

Before Congress came to power in Jharkhand the state was ruled by Bharatiya Janata Party (BJP) under the leadership of Raghubar Das as the chief minister. This government took charge from 2014 to 2019. The Jharkhand Mukti Morcha-led alliance has Congress as one of its members with 4 ministers in the cabinet. Although this directly does not fall under the prerogative of a Congress lead state, it is important to see how they function under the influence of the Congress welfare scheme and if the participation of other parties like the Rashtriya Janata Dal has any effect on the way the economy is organised.

Since 2019 after the BJP's collapse in Jharkhand there has been a significant state debt of over Rs 1.08 lakh crores, including which the **fiscal deficit is valued at 2.7% of the GSDP**, indicating a **rise of debt by an average of 12.8% every year**. Various large-scale industrial projects like Adani's Godda Power Plant and many mining contracts remained unfulfilled with little to no work done on them. In the same duration, Jharkhand also saw a decline in revenue generation due to the reduction in mining royalties which came at the cost of just energy transition projects in India. The reduction in consumption of mineral royalties led to a lower revenue generation for the state.

These challenges were directly inherited by Chief Minister Hemant Soren under the Jharkhand Mukti Morcha and Congress Alliance government. After taking charge, Soren focused highly on poverty alleviation and rural development through welfare schemes targeted towards the benefit of underprivileged groups. One of the major schemes was Mukhya Mantri Sukanya Yojana, targeted towards financial support for the education and marriage of girls with a financial backing of Rs 900 crores. A Universal pension scheme was launched for the elderly, widows, and disabled of the state with an allocation of Rs 2500 crores. Under Hemant Soren, a significant amount of farmer debt was also waived with a total budget of Rs 2000 crores.

All of these and many more state welfare schemes contributed to around 38% of the total state budget allocation with a menial distribution of 12% towards Industrial and infrastructure development. This huge disparity played a major role in increasing the fiscal deficit of the state. The welfare schemes introduced and run by the government were aimed at alleviating poverty and the support for marginalised communities, but the targets of these schemes were a huge burden on the already dwindling finances of the state.

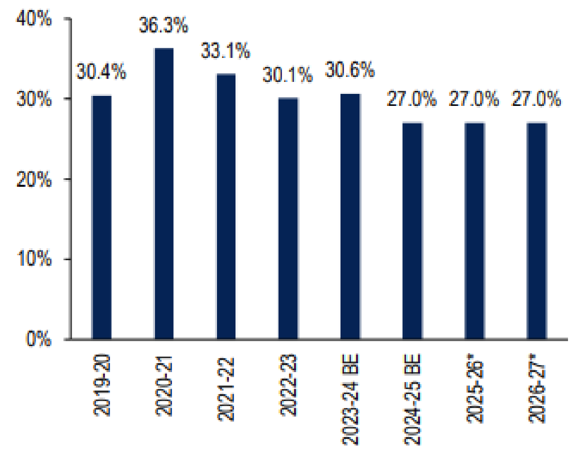
Jharkhand has statistically fallen behind other mineral-rich states like Chhattisgarh and Odisha in attracting industrial Investments for mining and other mineral-related ventures. This has kept investment and the revenue at a stagnant pace with increased expenditure every fiscal year leading to more and more fiscal deficit.

Reducing the burden

There have been steps to reduce the economic burden by the JMM-Congress alliance, by increasing taxation on liquor, tobacco and mining royalties, which are the primary sources of income for the state. This is expected to raise an additional Rs 3,500 crore annually for the state revenue but has largely remained stagnant due to the economic condition and low taxation compliance.

To combat corruption and other administrative and consistencies the government has also taken steps towards digitising the whole welfare scheme network. This process will remove duplicate beneficiaries, reduce middlemen and primarily combat corruption saving an estimated Rs 1500 crore annually.

Jharkhand being a mineral-rich state always counts on foreign direct investment in mineral mining ventures for a majority of its revenue. The Jharkhand government has been forced to move towards **privatisation of previously state-held mining contracts** to generate revenue. The government option of mineral blocks to private firms in coal and iron for mining was received negatively by labour unions and environmentalists across the states and is also criticised for its low yield of Rs 5000 crores over the next 5 years.



Note: *Figures for 2025-26 and 2026-27 are projections; BE is budget estimates.
Sources: Medium Term Fiscal Policy, Jharkhand Budget 2024-25;

Figure 5: Outstanding liabilities as % of GSDP Jharkhand

Several Public Health Care facilities have also been auctioned off under the public-private partnerships to manage operations and reduce the financial burden of the state. Similarly to attract foreign direct investments the government has started promoting **Adityapur Industrial Area Development Authority (AIADA)**, to attract investment in the sectors of manufacturing, automobile and electronics. In the fiscal year 2022-23, the state attracted over Rs 4000 crores in mining and metallurgy spheres.

The government has also made incremental adjustments on a relatively small scale in curtaining welfare schemes like the Mukhya Mantri Krishi Aashirwad Yojana, saving over 1200 crore by reducing the eligibility rate to small and marginal farmers rather than all farmers. The electricity and power distribution network which is primarily operated under the state government, has also been privatised to the discoms, popularly known as distribution companies to save Rs 800 crore annually and also improve the quality of transmission.

The subsidy on electricity for commercial uses has also been phased out slowly to raise a projected Rs 600 crore annually.

While these steps have worked in some capacity to reduce the immediate burden, these steps would hurt the state economy in the long run. Over **24% of public-private partnerships are non-remunerative**. The government breaks even on these partnerships or loses money with decreased accountability. This privatisation puts the government at the risk of facing public distrust and environmental backlash due to the unsupervised nature of recent contracts.

4. Solutions and probable steps

4.1 Karnataka

One of the best measures for Karnataka to excel economically would be to diversify the state's investments and attract FDI. The IT sector has had a firm grasp of the Karnataka economic landscape and now should make way for agriculture technology, renewable energy, and electrical vehicles as the primary investment zone. The urban centres in Karnataka have both the service sector and the industrial sector to support these new ventures.

With an abundance of research institutes, the Pharmaceutical and Biotech sectors can also be given a boost. Premier institutes like IISc Bangalore provide the right value resource for such developments. For rural development, there should be an increased focus on Employment generation, water management systems through the new projects on the Cauvery River, and an increase in food security for the people below the poverty line. Enabling local startups in semi-urban and rural sectors will drive Innovation and create more job opportunities outside the already crowded Bengaluru to ensure a more balanced economic growth.

The state budget's investment in critical areas like healthcare and education remains very limited in comparison to populist welfare schemes. The misalignment reduces the long-term development which is a significant concern for the state. Hence a reallocation of budget to these crucial sectors will lead to a better life for its citizens. In a rather balanced approach, the state should focus on reducing unproductive spending while increasing the revenue generation capacity through public-private partnerships and public-sector undertakings.

To achieve that, an important area of improvement is the balanced and planned development of urban centres apart from Bengaluru. Karnataka is a state blessed with a geographical and resource profile that can support many urban centres but due to overcrowded markets, lack of planned infrastructure and unequal investments, most of the development remains saturated in and around Bengaluru. Diversifying the infrastructure and industrial investments will allow different industries to find a place in the economic profile and increase the stability of the state economy, lessening the burden on Bengaluru.

4.2 Telangana

Telangana has had a robust management plan in the agriculture and pharmaceutical industries but needs significant focus on the supporting sectors. The state has already invested heavily in irrigation projects like the Kaleshwaram Lift irrigation project but the follow-ups of these projects are scarce. The efficiency of these projects in accordance with their investment has to be increased. Such problems arise due to a lack of good governance, hence reevaluating the gaps in their administrative capabilities.

The lack of investment in public transport and urban infrastructure is also visible in Hyderabad which faces rising pressure from population explosion. Urban planning related to traffic congestion and inadequate waste management has to be dealt with, with utmost sincerity and immediately to maintain urban mobility and sustainable infrastructure in both Urban and rural regions.

Large-scale projects are often burdened with corruption and inefficiencies and implementation like the Kaleshwaram project has had several delays due to land acquisition and project management issues. Hence the state should focus on increasing administrative efficiency through improved transparency and higher tax compliance in the informal sector to prevent revenue leakage and also better management of state resources.

Another aspect would be to establish more tertiary sectors in the state to develop and build more urban centres apart from Hyderabad and Secunderabad. Developing the previously proposed “state capital region” would motivate industries to invest and set up their operations in Telangana. With a flow of revenue, it will free up funds to invest in developing the rural areas for holistic development.

4.3 Jharkhand

With the unemployment rate higher than the national average at 8.1%, Jharkhand has a lot of avenues to improve upon. The first step would be to reinvest in natural resource management to attract value-added Industries like mining and energy production. Maintaining a balance between conventional energy sources like coal industries the state should also invest in establishing renewable energy parks to attract green investment and create more employment opportunities while safeguarding itself from any backlash from energy transition.

Infrastructure development is also needed to enhance the human capital of the state which would also later on be the basis of developing Eco tourism while doing the state's natural beauty to attract tourists. With a diverse and extensive mineral profile, there are still issues with land acquisition, tribal rights and political instability in the state that need to be dealt with to provide an ecosystem for development.

Increased investment in rural electrification and improving basic infrastructure and underdeveloped districts would be crucial to unlocking economic potential and attracting more Industries to the state instead of providing subsidies for electricity to urban, rural and industrial populations.

With Just Transition projects in development, Jharkhand is looking at major defunding of coal and other renewable fuel-run industries. Hence the state has to secure itself from any such changes by diversifying its revenue profile. One of the most important steps would be to establish industrial parks and infrastructures under the Chotanagpur Tenancy Act. An alternative to resource focus, the state needs a revenue focus to attract industries. The primary project of the Adityapur Industrial Area should be completed at an expedited rate with little to no administrative fallacies to support new ventures, increasing the revenue and making the economy much more change resistant.

4.4 Himachal Pradesh

Himachal Pradesh has to reduce its reliance on privatisation primarily because of the dying public support for the venture. The locals see the privatisation as an encroachment on their land and the destruction of the ecosystem. The state should focus on community-based industries in building self-sustaining village economies while funding state-run enterprises in tourism and agro-processing to retain more profit.

Additionally, there has to be curtailing of non-essential subsidies focusing on self-sustaining welfare programs that can be adjusted within the state budget to increase fiscal discipline. Increasing investment for education and vocational training can also improve the skill level of the local workforce ensuring a higher economic productivity for the foreign direct investments already in the state.

Administrative inefficiencies also play a significant role in increasing the economic burden of the state. The land loss restricting land ownership to residents has proven crucial in maintaining the sanctity of Himachal Pradesh but has also reduced investment from outside the state. Hence the state government should allocate industrial areas or parks to attract more industrial and manufacturing sector organisations. Overall a reduction in oversight and an increase in the quality of governance would go a long way for Himachal Pradesh.

The state also needs to focus on environmental conservation. With a rich and diverse flora and natural terrain, the government must preserve the natural profile. Hence every FDI and investment has to be analysed thoroughly and the ventures that harm, alter or commercialise the natural places and sites of Himachal Pradesh, especially Uttarakhand have to be restricted. This will be an important step towards environmental conservation and also will be in line with the demands of the people. It also implies that the government has to look for unconventional means of increasing its revenue.

5. Conclusion

Through an in-depth case-by-case analysis, research concludes that even though socialist welfare schemes are beneficial for the people, mismanagement of funds leads to an additional strain on the economy of states. The economic burden in the form of fiscal deficit and growing debt to support these welfare schemes makes it impossible for the state to invest in revenue-generating sources, starting a vicious cycle of bad economic discipline and growth. It is noted that welfare schemes are an integral part of Congress-led governments and other leaders, and have to be approached with tact and balance between various aspects of economic organisation.

The final learning would be to find an equitable distribution between welfare and development in the state for economic growth. Required focus on fiscal discipline, industrial and infrastructural development and social welfare should align to prevent economic crisis. Further research is required for a complete reassessment of the long-term economic plan while tailoring each solution to suit the economic and resource profile of different states.

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