Foreword

The debate on subsidies in India began slightly before India adopted the new liberalization policy. The fiscal subsidies then were exerting stress on the economy. The transition to the new liberalization policy and expected strong fiscal controls brought it again under the debate. The issue was centered around the effectiveness in achieving the intended goals. It was argued that the public expenditure on subsidies has been increasing and had telling effects on the revenue as well as fiscal deficits of the States and the Centre. It was also argued that subsidies are exerting a crowding out effect on the capital formation. Not that subsidy had no welfare implications; however, it emerged as a very unwise way of approaching the welfare of the society in general and needy in particular. Another stream of researchers argued that subsidies actually fill the gap between market determined cost of production and the affordable cost of production of goods and services. These actually offset the cross-subsidization effects inflicted through the other market intervention policies that keep the product prices under control. It is also observed that over years the costs of production of many services have been increasing substantially and it is difficult to set the market prices for these services. These are also in the administered price zone and hence State has the responsibility to provide corrective measures. Therefore, the justification of subsidies also had strong arguments in its favor. The pilferages in the process of implementation also attracted attention of the analysts. Above all, subsidies had also become an important political tool in the hands of most of the political parties to argue from either side without much of the economic content in the arguments.

ISEC undertook this piece of research entitled: **'Government Subsidies in Karnataka'** in order to bring forth clearly these issues in the context of the State of Karnataka. It is not that Karnataka is a unique example of studying subsidies but it provided a wide spectrum of issues that demanded analyses in the domain of subsidy. This study undertaken by researchers from ISEC was essentially for the Expenditure Reforms Commission of Government of Karnataka. This has been led by Dr K Gayithri who actually took the entire responsibility of carrying along with her the group of researchers with diverse views. Even though a good number of researchers have contributed to different chapters in the book, the monolithic perspective ran through the chapters and it is difficult to make out the differences in arguments presented. This could be achieved by only monitoring the progress through periodic discussions among the authors.

I am sure that this piece of research will be useful to the policy makers in the State of Karnataka and it can also be perused in the other states to follow the suit. I have great pleasure in recommending this book to the students of Public Finance as well as students of Public Policy.

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