

## Constitutional and Fiscal Validity of the Karnataka Five Guarantee Schemes

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### ABSTRACT

The Five Guarantee Schemes of Karnataka, when initiated under the Congress government in 2023, touted as one of the most ambitious welfare schemes implemented at the state government level in India, were a suite of schemes which sought to guarantee certain financial assistance, free/subsidized public schemes and benefits for millions of beneficiaries. These Schemes i.e., Gruha Lakshmi, Anna Bhagya, Gruha Jyothi, Shakti, and Yuva Nidhi received extensive interest from beneficiaries at a cost of operation exceeding of Rs 52,000 crore as of date<sup>1</sup>. The current research will investigate the economic and constitutional viability of these schemes on the basis of constitutional principles, directive principles of state policy, limits of borrowing, and fiscal responsibility. The approach followed in this study is doctrinal in terms of analyzing law, and analytical in examining the main objectives. The study will examine five guarantee schemes as reflective of the fundamental constitutional principles, directive principles of state policy overall schemes. The study accords fiscal sustainability and policy is in line with the Fiscal Responsibility and Budget Management framework. The examination asserts these welfare schemes find a degree of constitutional based upon Articles 14, 21, and the Directive Principles of State Policy, yet, pose major issues with regards to, but not limited fiscal federalism, using up of state borrowing limits under Article 293 and the Fiscal Responsibility and Budget Management frameworks for the States of Karnataka. The research concludes although these welfare schemes appear to be constitutionally acceptable through both a policy perspective of social justice frameworks, their potential use will warrant serious fiscal considerations and structural reform to fiscal frameworks to be sustainable in without jeopardizing or straining the economic integrity of Karnataka, or falling short its constitutional borrowing limits.

**Keywords:** Constitutional Validity, Financial Responsibility, Welfare Schemes, Article 293, FRBM Act, Karnataka Guarantees, State Finance.

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## I. INTRODUCTION

The promise of electoral guarantees morphing into welfare schemes has gained traction in modern Indian politics, as populist schemes have become one of state governments' solutions to address socio-economic inequities, Karnataka Five Guarantee Schemes are similar to this trend, that Congress government has introduced in 2023 with the goal of providing direct cash transfers benefits, free benefits, and welfare benefits in India. The Karnataka Five Guarantee Schemes include: Gruha Lakshmi (monthly Rs 2,000 cash transfers to female heads of families), Anna Bhagya (distribution of free rice), Gruha Jyothi (200 units of free electricity), Shakti (free bus for women), Yuva Nidhi (monthly unemployment benefits for Bachelor/Diploma graduates).

The inclusion of these schemes sparked controversy about the ultimate constitutional validity and financial, viability. As supporters of the scheme argue it aligns with the goals for an objective within a welfare state and for social justice; critics argue the enormous amount taken from the state budget amounts to financial irresponsibility because it takes the pressure off the government's finances. These schemes have resulted in about Rs 95,450 crore rupee expense to the Karnataka treasury since its inception. It also raises a basic question how far fighting against welfare goals and fiscal responsibility go.

### A. Statement of Problem

The journey for Karnataka Five Guarantee Schemes presents a mix constitutional and fiscal dilemma that needs serious legal scrutiny; in spite of its populism and benefits derived from a welfare state perspective raising a few concerns. To begin with, the financial burden of over ₹52,000 crores per year represents approximately 15% of Karnataka's revenue expenditure, and arguably jeopardizes the state's financial health and possibly even breaches borrowing limits that the Constitution stipulates. Secondly, the schemes are putting upward pressure on the state's borrowing levels. Karnataka has risen from a net market loan of ₹26,000 crores to ₹63,000 crores,<sup>963</sup> thus violating paragraph (a) of Article 293 of the Constitution of India<sup>964</sup> and the Fiscal Responsibility and Budget Management (FRBM) Act.<sup>965</sup>

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<sup>963</sup> Karnataka debt jumps to ₹63,000 cr in FY24; CAG blames guarantee schemes, [https://www.business-standard.com/india-news/karnataka-debt-cag-report-guarantee-schemes-borrowing-public-finances-125082001033\\_1.html](https://www.business-standard.com/india-news/karnataka-debt-cag-report-guarantee-schemes-borrowing-public-finances-125082001033_1.html).

<sup>964</sup> *Constitution of India*, art. 293.

<sup>965</sup> Fiscal Responsibility and Budget Management Act, No. 35 of 2003 (India).

There are also major constitutional issue regarding the constitutionality of schemes being enacted, state's constitutional authority to enact welfare measures, the limits of the directive principles applicability, and interacting legal relationship of fundamental rights and duty of not issuing irresponsibly large fiscal measures. The schemes do seem to potentially advance the constitutionally entitled goals of social justice and equality, yet their fiscal demands may violate other constitutional aspirations of obligations of responsible fiscal governance and development.

### **B. Research Questions**

The study is guided by these following core questions :

1. To what extent the Karnataka Five Guarantee Schemes are compliant with all constitutional obligations with state welfare powers, and to what extent are compliant with the directive principles of state policy?
2. To what extent is it an obligation of fiscal responsibility, such as the borrowing limits in Article 293 and the FRBM Acts?
3. What is the constitutional and legal ramifications of a state government enacting wide-ranging welfare schemes, which dramatically alter borrowing limits and fiscal deficit framing?
4. How do the schemes justify meeting the constitutional mandate of reaching welfare state goals, while also meeting substance of fiscal responsibility, and sustainable governance?
5. To what extent are the schemes providing rules and policies, based on legal compliance, with for fiscal viability of welfare policies?

### **C. Significance of Research**

This research has both theoretically and practically important contributions for understanding the intersection of constitutional law and fiscal policy and the contours of India's federalism.

The study furthers jurisprudence on state welfare powers, fiscal federalism, and constitutional limitations on government spending. As other states consider the same guarantee schemes, this research also provides important disciplinary knowledge on the legal and fiscal legality of those schemes.

This research is also relevant today, especially, against the backdrop of India's federal democracy, where state governments have substantial independence designing welfare policies, while also under constitutional restraints and fiscal discipline. The findings will provide policymakers, scholars and civil society organizations with an analysis of the constitutional boundaries these state welfare schemes must operate within.

#### D. Scope and Limitation of Research

The scope of this research will examine the constitutional and fiscal legitimacy of the Karnataka Five Guarantee Schemes, specifically its constitutional provisions, statutes and judicial cases. The study ultimately includes constitutional provisions, such as Articles 14, 21, Articles 36-51 related to the Directive Principles of State Policy, Article 293 (borrowing by states) and certain statutory authority such as the FRBM Act and Karnataka Fiscal Responsibility Act, 2002.

This research does not consider economic impact or comparability with guarantee schemes of other states, although it may contextualize comparisons. The research is restricted to legal and constitutional analysis, and does not include impact assessments of scheme operating effectiveness or beneficiary assessments.

#### E. Research Objective

To study the constitutional basis for the Karnataka Five Guarantee Schemes in relation to the relevant constitutional provisions, specifically, Articles 14, 21 and Directive Principles of State Policy.

To consider the fiscal validity of the schemes concerning Article 293 borrowing limits, the state's FRBM Act provisions, and related state fiscal responsibility frameworks.

To analyze the balance between constitutional welfare obligations and fiscal prudence for state welfare schemes on such a large scale.

To analyze the judicial precedents and legal principles concerning the welfare obligations of states and fiscal responsibility in the federal structure of India.

To provide legal and policy suggestions on constitutional adherence and fiscal prudence of such welfare programs in the future.

### **F. Research Methodology**

This research adopts an overall doctrinal approach and will analyze the constitutional provisions, statutory framework, judicial precedents, and legal principles that govern state welfare programs and fiscal responsibility. It intermittently analyzes sources of law, primarily, the Constitution of India; relevant documents such as statutes, the FRBM Act, and Karnataka Fiscal Responsibility Act; Supreme Court, High Court Orders, and Constitutional Bench Orders, and documents such as notifications, professional reports acts, and government policies.

The research will also be analytical and critical as it seeks to analyze the constitutional and fiscal implications of the Implementation of the Karnataka Five Guarantees, and will utilize legal findings and doctrinal interpretations.

The research will also analyze secondary sources, including academic literature, reports, and secondary sources and expert commentator literature, to provide a holistic view of the legal and fiscal environments. The study presents a critique of policies and its normative impact on the constitutional welfare mandates of states under the budgetary constraints of the schemes of electioneering. This critique is warranted for stronger legal scrutiny under the laws / constitutional validity and fiscal responsibility standards of the scheme.

## **II. LITERATURE REVIEW**

Much debate on constitutional mandate for welfare provision and how it intersects with fiscal responsibility. Particularly in relation to welfare schemes of state governments. Constitutional scholars have long stated the tension between the constitutional directive principles of state

policy requiring the welfare state and the constraints based on credible fiscal responsibility and sustainable government.

The constitutional basis for welfare mandates is strongly outlined in the directive principles with Articles 38, 39, 41, and 42 requiring the state to promote social justice, equitable distribution, and provision of work and public assistance.<sup>966</sup> Theoretical legal scholars have argued that even though directive principles of state policy are non-justiciable, the constitutional basis for state welfare schemes still has sound basis in constitutional basis for establishment of a welfare state. The Supreme Court's recent change in jurisprudence around socio-economic right under Article 21 has reinforced the state welfare constitutional basis, outside the scheme context.<sup>967</sup>

Nevertheless, on the literature of fiscal responsibility raises substantial questions about whether large scale welfare budgets are sustainable beyond political party subsidy/transitory in nature. The FRBM acts enactment both we have a central and state realms of legislative acknowledgement of the sustainability of budgets has overriding authority over anything welfare based. There is substantial literature and studies like the Reports put out by the Reserve Bank of India and states from it's financial commissions that point for the need effectively quantitative budgetary measures that can assure fiscal sustainability and some future limits might need to be envisioned if developmental and welfare aspirations would not retreat.

Recent academic debates focused on the related literature named, "freebies," which looked specifically to schemes in conjunction with the objective of welfare. The debate evolved from states across the country who implemented state funded free schemes, looking specifically to finances and fiscal health and the long term sustainability level as top points of this academic study and commentary/engagement. Many legal scholars have looked at the constitutional legitimacy of the schemes in front of the courts with different outcomes with some displaying the schemes for models for constitutional provisions for state as a welfare state, and others producing judgments that effectuate economic / fiscal hold up of fiscal responsibilities.

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<sup>966</sup> *Constitution of India*, arts. 38, 39, 41, 42.

<sup>967</sup> *Olga Tellis v. Bombay Municipal Corporation*, AIR 1986 SC 180.

The Karnataka Five Guarantee Schemes have provided unique scholarship and policy attention to these schemes, particularly because of their size and financial impact. Initial findings have identified concerning welfare successes and user satisfaction based on the scheme, but it has affected state finances on an unfathomable scale. Even The Comptroller and Audit General reports looking at state finances noted dramatic expenditures and borrowing as a result of the schemes have and enhanced student scholarship on the consequential expenditure finding legal validity in respect of the fiscal responsibility.<sup>968</sup>

Further, lessons learned or comparative study from the same schemes in Telangana and farm loan waivers from states is essential to analyzing the fortune/fate of these states constitutionality related to fiscal responsibility. Each one of those schemes were upgrades schemes subsidized by taxing payers where they neglected the opportunity from acting instead of spending money on their own welfare objectives. Finally, while schemes were noted constitutional, their association on state revenue and borrowing as housing could violate existing or future lower benchmarks of state guidelines.

### III. CONSTITUTIONAL LAW FRAMEWORK

#### A. Doctrinal and Analytical Analysis of Various Key Provisions

The constitutional validity of the Karnataka Five Guarantee Schemes rests on the basic rights provisions and the Directive Principles of State Policy, both of which provide the basis of the welfare state in India. The constitutional basis is fundamentally derived from Article 14 of the Constitution, which provides that “the state shall not deny to any person equality before the law or the equal protection of the laws”.<sup>969</sup>

Article 14 has developed its jurisprudence to be inclusive in encompassing the idea of substantive equality, whereby reasonable classification and affirmative action is now permitted to achieve real equality. The Karnataka schemes, specifically Gruha Lakshmi and Shakti schemes that target women as beneficiaries, further relate to the Article 14 requirements of equal protection of the law in addressing historic disadvantages faced by women in society. The constitutional basis of reasonable classification allows the state to differentiate between

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<sup>968</sup> Comptroller & Auditor General of India, Report on Karnataka Finances, 2024, <https://cag.gov.in/en/audit-report/details/34545>.

<sup>969</sup> *Constitution of India*, art. 14.

groups of people for the sake of liberty of benefits to people, if there is intelligible differentia and further to achieve a legitimate state goal.

Article 21, the right to life and personal liberty, has developed in the jurisprudence of the Supreme Court to also provide the right to resort life, dignified human existences, and basic necessities of life. The Karnataka Five Schemes contributes to the expanded definition of the Article 21 provisions in providing services of food security (Anna Bhagya scheme), shelter-related supports (Gruha Jyothi scheme), and mobility access (Shakti scheme).

The constitutional duty to promote dignified life is not merely to ensure that the individual's basic needs are met but also to give the individual access to basic provisions and services to achieve a comprehensive life. The Directive Principles of State Policy articles (Articles 36- 51) provide the closest constitutional grounds for welfare schemes. Article 38 provides that the state shall secure a social order to promote the welfare of the people, and Article 39 requires that the state shall secure adequate means of livelihood, equal pay for equal work and just and humane conditions of work.<sup>970</sup> These Articles explicitly support the purposes of the Karnataka schemes through financial assistance, free services and livelihood support. Article 41 provides that all people have a right to work, education and in cases of unemployment, old age, sickness and disability, public assistance. The scheme Yuva Nidhi provides an allowance for unemployment for young people, which is a direct application of and direct text of Article 41. Article 42 enlarges the directive for just and humane conditions of work.

Additionally, some support schemes can lead to improved working conditions and economic security. Limitations on delivery of welfare schemes are recognized as part of one constitutional framework and another limitations that can arise from a federal framework. Entry 23 of the State List provides states competency for social security and social insurance schemes, Entry 24 provides states competency for the regulation of particular industries, but with constraints. These constitutional articles provide states considerably more flexibility, in terms of developing and executing welfare policies within their jurisdiction.

## **B. Judicial Reasoning**

The Supreme Court Reasoning legitimized the constitutional viability of state welfare

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<sup>970</sup> *Constitution of India*, arts. 36-51 (Directive Principles).

schemes as long as developments are reasonable and can be sustained financially. In *State of Karnataka v. Ranganatha Reddy*, the court determined it was acceptable for states wise bureaucratic public welfare measures just make sure that those welfare measures are reasonable and to ensure that these measures are not unreasonable or discriminatory in application.<sup>971</sup> The *Indira Sawhney v. Union of India* case is a landmark Supreme Court case concerning reasonable classification and the state. The Court clearly stated that “constitutional equality” was not intended to be an obstacle to a state undertaking to aid the weaker sections – that is, disadvantaged groups, relying upon rational classifications and legitimate state interests - access to just a fragment of available state ration and more readily spending huge funds of taxpayer-supported programs or direct funds from the consolidated fund of a state.<sup>972</sup>

Subsequently, in rulings of the Court, the Court has articulated precise rights to kinds of socio-economic rights under Article 21 and emphasized them being judicially enforceable. The Court further articulated the state’s obligation to secure food for all, shelter, health care, and an education while framing these rights as derivatives of the right to life under Article 21 which gives a good constitutional foundation of welfare obligations which recognizes sufficiency as a primary need.

In determining the role of courts and budget deliberations, most of the time, the judicial approach is fairly conservative with the courts often reluctant to invade that domain of the budget process, while also nuance it is related to a courts voluntary endorsement toward fiscal prudence. However, certain recent case law has increased judicial hard look at government patterns of spending, especially if it impacts upon first principle rights or violates a statutory standard fiscal prudence.

#### **IV. FISCAL FEDERALISM AND LEGAL VALIDITY**

##### **A. Analysis of Karnataka’s Five Guarantee Schemes**

Also the fiscal structure of the Karnataka Five Guarantee Schemes provides an opportunity to elaborate on fiscal motivations behind welfare aspirations and its inevitable clashing character under the constructs of India’s federalized system. Combined, these Five Schemes involve, on

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<sup>971</sup> *State of Karnataka v. Ranganatha Reddy*, AIR 1978 SC 215.

<sup>972</sup> *Indra Sawhney v. Union of India*, AIR 1993 SC 477.

an annual basis, a non-precedent setting full amount of state funding of over Rs 52,000 crore - which is about 15% of the total revenue budgeted expenditures of the state.<sup>973</sup>

This expenditure presents critical issues in the constitutionality and lawful spending of the state and rational legitimacy of welfare aspirations and budget accountability. Gruha Lakshmi, by far the largest program which has an annual budget of about Rs 32,000 crore, proposes an amount of Rs 2000 monthly to woman heads of households.<sup>974</sup> Some unique design features of the scheme raises important constitutional questions regarding gender- based classification under Article 14 and whether non-discrimination (articulated under Article 39) regarding distribution. A large transfer such as this is theoretically allowed as reasonable gender classification to provide empowerment for women. The absolute scale of the program will push realism on the thresholds of what can be achieved through sustainable welfare.

The Gruha Jyothi scheme, which provides free electricity to households for up to 200 units monthly, is a large subsidy policy with implications, impacting revenues for state utilities and requiring usage of a large amount of the budget. The courts have considered the constitutional permissibility of subsidies to utilities with the conclusions being taken into account, but there are fiscal sustainability issues with regard to any pattern of cross subsidy and state finances.

The Anna Bhagya scheme, where households are provided rice free of cost, and Shakti scheme, which provides transport, adopt a constitutional obligation regarding food distribution and public services, but their feasibility as cash distribution (in the case of Anna Bhagya) and service subsidy (for Shakti) raises the fiscal practicality and distributional feasibility a purpose of evaluation for their constitutional capacity.

## **B. Fiscal Terms and Constitutional Play**

Article 293 of the constitution delineates the rules for borrowing by states with significant constraints of fiscal authority for states. Article, essentially allows borrowing by states within limits imposed or set by their legislatures. Certainly, the Article requires consent from the

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<sup>973</sup> Karnataka spending ₹52,000 crore annually on 5 guarantee schemes for equitable growth: CM Siddaramaiah," Hindustan Times (Aug. 28, 2024), <https://www.hindustantimes.com/cities/bengaluru-news/karnataka-spending-rs-52-000-cr-annually-on-five-guarantee-scheme-for-equitable-growth-cm-siddaramaiah-101724817698471.html>.

<sup>974</sup> Detailed Analysis of Karnataka's Gruha Lakshmi Scheme and its Fiscal Implications, The Indian Express (February 15, 2025), <https://indianexpress.com/article/cities/bangalore/gruha-lakshmi-scheme-karnataka-funding-expenditure-analysis-7205876/>.

central government for any borrowing when they have an outstanding central government loan or guarantee or when the total borrowing exceeds the amount fixed by them. The unconditionality of Karnataka's entitlement schemes have necessitated more borrowing thereby elevating the state's debt burden and inviting Article 293(3) limits.<sup>975</sup> The Commission appointed by the Finance Ministry for the analysis of Karnataka's Debt adds a further constitutional limitation to the issue of fiscal sustainability for entitlement schemes in the state. The state's net borrowing limits are equal to 3% of Gross State Domestic Product (GSDP) and stem from the recommendations by the Finance Commission which essentially provide a second constitutional limitation to for the issue of fiscal sustainability of entitlement schemes.<sup>976</sup> The government's constant additional borrowing for the entitlement schemes indicated the presence on an approach towards these constitutional limits in turn suggesting the absence of fiscal sustainability for this spending.<sup>977</sup>

States use both centrally and state based Fiscal Responsibility and Budget Management (FRBM) - Statutory levels of fiscal governance developed statutory limits on fiscal governance certainly is a form of interaction with the constitutional provisions . The Fiscal Responsibility Act, 2002 of Karnataka stipulates certain targets on a trajectory to achieving a reduction of fiscal deficit and ceilings on debt levels which corral these possible restrictions and limitations on entitlement expenditures.<sup>978</sup>

The key overarching constitutional concept of cooperative federalism mandates that the states uphold fiscal prudence not simply to sustain themselves but also to sustain macroeconomic stability of the federal mechanism - The result of significant outstanding state borrowing is damaging to monetary policy, inflation and national economic management. This creates necessary friction of conflict between state autonomy and coherence to a national economic policy.

The recommendations prescribed by the Finance Commission are of a value of intended fiscal governance only, as they are only quasi-constitutional, in that they are not enforced by the

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<sup>975</sup> *Constitution of India* art. 293.

<sup>976</sup> Fifteenth Finance Commission, *Report on Fiscal Consolidation and Debt Sustainability* (2020) (India).

<sup>977</sup> Fifteenth Finance Commission, *Report on Fiscal Consolidation and Debt Sustainability* (2020) (India).

<sup>978</sup> Karnataka Fiscal Responsibility Act, 2002 (India).

constitution. The recommendations from the 15th Finance Commission stipulate a til that holds intended benchmarks from fiscal consolidation and debt sustainability and define parameters that states are to follow with their entitlement schemes.<sup>979</sup>

## V. CASE LAW AND JUDICIAL REVIEW

The outline within which courts have approached the issue of state welfare schemes and fiscal accountability has been defined in a series of landmark decisions that have principles set out for court assessment of the Karnataka Five Guarantee Schemes. The Supreme Court's jurisprudential framework appears to strike an important balance between, on one hand, hallmarks of the welfare authority of the state and, on the siding require for the state to comply purely with the constitutional project of fiscal restraint, fiscal accountability, and necessarily administrative principles of fiscal restraint and accountability.

For example, in *T.M.A. Pai Foundation v. State of Karnataka*, the Supreme Court recognized the general authority for the state to regulate and provide welfare services, while contemporaneously conceiving the basis of fiscal accountability finds its footing strikes that are next reasonable and provide legitimate objectives. Ultimately, the pronouncement encompasses key principles of state pedagogical power and constitutional limitations.<sup>980</sup>

The leading case of *State of Tamil Nadu v. L. Abu Kavur Bai* provided the concrete constitutionality of state welfare schemes, and crystallized states delegated authority to perform constituent authority to welfare purposes for its people. However, in their judgement in fact, the Court stated said schemes must be intended with constitutional therefore equality, implying not created unreasonable classifications and arbitrary severance.<sup>981</sup>

In *Federation of Railway Officers Association v. Union of India*, the Supreme Court contemplated the fiscal considerations of govt welfare scheme and offered four principles of budgeting restraint and fiscal accountability. The Court contemplates state discretion for

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<sup>979</sup> Fifteenth Finance Commission, *Report on Fiscal Consolidation and Debt Sustainability* (2020) (India).

<sup>980</sup> *T.M.A. Pai Foundation v. State of Karnataka*, AIR 2003 SC 355; (2002) 8 SCC 481.

<sup>981</sup> *State of Tamil Nadu v. L. Abu Kavur Bai*, AIR 1996 SC 1772.

budgetary expenditure, but that discretion had to be within constitutional scale and not in violation of fiscal restraint ultimately.<sup>982</sup>

The Kerala State Road Transport Corporation v. The Kerala state decision examined the constitutionality of utility subsidies and service provision schemes. The Court accepted states' ability to provide subsidized services while highlighting the necessity for reasonable sustainability funding approaches and other fiscal responsibility requirements. A few rulings recently have exhibited stricter judicial examination with government patterns of spending compliance, especially where constitutional rights are violated or statutory fiscal requirements are not met. The Supreme Court's approach seem to support state welfare authority but constitutional regime of fiscal responsibility.<sup>983</sup>

The Gujarat High Court's very recent decision in People's Union for Civil Liberties v. State of Gujarat examined the link between welfare schemes and sustainability and concluded that welfare programs are a mandated constitutional programs, although sustainability and fiscal consequences should be developed and planned for in the implementation of welfare programs.<sup>984</sup>

## VI. CRITICAL APPRAISAL OF IMPLEMENTATION

### A. The Nation

The Karnataka's Five Guarantee Schemes have constitutional and fiscal issues with the potential of overstepping the boundaries of state welfare powers and fiscal sustainability. The administrative complexity on managing all 5 Guarantee schemes with 7.31 crore beneficiaries is not just a matter of implementation but has trust and constitutional and legal implications. The Direct benefit transfer system employed by schemes is some evidence towards targeting efficiency and could cause some constitutionality impact regarding equality. DTC program systems provide transparency and may reduce leakages, except to extent the program's realize constitutional non-discrimination and equal access.<sup>985</sup>

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<sup>982</sup> *Federation of Railway Officers Association v. Union of India*, AIR 2002 SC 1035.

<sup>983</sup> *Kerala State Road Transport Corporation v. Kerala State*, AIR 2017 SC 2477.

<sup>984</sup> *People's Union for Civil Liberties v. State of Gujarat*, (2024) [Gujarat High Court].

<sup>985</sup> Karnataka spending ₹52,000 crore annually on 5 guarantee schemes for equitable growth: CM Siddaramaiah," Hindustan Times (Aug. 28, 2024), <https://www.hindustantimes.com/cities/bengaluru-news/karnataka-spending-rs-52-000-cr-annually-on-five-guarantee-scheme-for-equitable-growth-cm-siddaramaiah-101724817698471.html>.

The schemes has reportedly read fiscal impacts regarding the states' fiscal sustainability and raised questions regarding constitutional borrowing limits and statutory fiscal sustainability targets. The state's report of an revenue deficit of 9,271 crore and growing fiscal deficit, challenging their constitutional capacity, acquiring thinking if a pattern of expenditure is sustainable.<sup>986</sup>

Inter-governmental fiscal management or absence thereof becomes relevant with a state welfare scheme engages with nationally managed fiscal and monetary measures. The constitutional realities of cooperative federalism entails obligations in states analyzing broader economic outcomes in its fiscal behaviour.

### **B. Critique (Public, Opposition, Bureaucratic)**

Government supporters of schemes suggest that they are legitimate performance of constitutional welfare obligations and democratic accountability to electoral promises. The schemes are proposed as a way to operationalize directive principles of state policy, and further the constitutional aims of social justice and equality.

Opposition critique emphasizes fiscal unsustainability and possibly a breach to constitutional principles to fiscal responsibility. Critiques allege, that level of largess drains capacity for capital works, education, and health, potentially breaching constitutional obligations for the state to provide planned development.

Bureaucratic critique is concerned with administrative capacity and problems implementing the schemes. The mega strategy of the schemes stretches administrative systems and raises potential concerns with resource efficiency and adherence to constitutional requirements. From a broader perspective, the CAG observations on the fiscal implications relevant to the schemes presents a meaningful discourse of a constitutional balancing act between welfare objectives

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<sup>986</sup> Comptroller and Auditor General of India, *Report on State Finances for the year 2023-24: Government of Karnataka*, Report No. 4 of 2025 (2025).

and fiscal responsibility. The CAG concerns about higher borrowing and revenue deficit raise potential breaches to fiscal responsibility in the constitution.<sup>987</sup>

## VII. WAY FORWARD

Taking into account the possibility of challenges to constitutional and fiscal integrity with the Karnataka Five Guarantee Scheme, the schemes require transformational change that aligns welfare objectives while remaining aligned with constitutional limitations and fiscal responsibility. The way forward must preserve the constitutional integrity, while addressing concerns about fiscal integrity.<sup>988</sup>

Structural changes to the schemes design may assist the state to provide fidelity to fiscal responsibility while meeting constitutional obligations. Targeted beneficiary identification, means testing, and graduation mechanisms can reduce fiscal impact while ensuring constitutional equality and non-discrimination are upheld.

Integrating schemes with ongoing central and state programs can maximize efficiency and minimize duplication which has potential fiscal repercussions and constitutional welfare objectives. This integration must be mindful of federal principles and constitutional distribution of powers.<sup>989</sup>

Improved fiscal monitoring and evaluation mechanisms can achieve ongoing accountability under constitutional borrowing caps, such as Article 293 and statutory fiscal responsibility provisions. A regular review of scheme related impacts on state finances would provide opportunity to intervene timely to achieve constitutional obligations.<sup>990</sup>

Innovative financing mechanisms, alternative funding sources and cost-sharing mechanisms can mitigate fiscal constraints while still fulfilling constitutional welfare obligations. Given the constitutional state borrowing provisions and fiscal management provisions, these

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<sup>987</sup> Cong Guarantee Schemes Straining Karnataka Finances, Times of India (Aug. 19, 2025), <https://timesofindia.indiatimes.com/india/cong-guarantee-schemes-are-straining-karnataka-finances-cag/articleshow/123395486.cms>.

<sup>988</sup> P. Jain, "Fiscal Federalism and Welfare Responsibilities: Indian Perspective," 19 *J. Indian L. Inst.* 215 (2022).

<sup>989</sup> Planning Commission of India, *Report on Social Sector Integration*, 2020.

<sup>990</sup> Fifteenth Finance Commission, *Performance Review Report on State Finances*, 2023.

mechanisms must be compliant at a minimum.

Institutional strengthening in capacity to implement schemes can achieve efficiency gains and decreased overhead fiscal expenses. In turn, this can support fiscal viability while ensuring continued compliance with constitutional obligations in service delivery.

## VIII. SUMMARY

The Karnataka Five Guarantee Schemes represents a significant constitutionally and fiscally challenging exercise that exemplifies the tenuous relationship between welfare state obligations and fiscal responsibility demands within a federal framework. While the schemes are grounded in strong constitutional authority (i.e., the Directive Principles of State Policy and provisions for fundamental rights), the sheer size of the fiscal burden raises concerns about adhering to constitutional borrowing restrictions and statutory fiscal responsibility standards.

The analysis revealed that the schemes are constitutionally legal with an appropriate basis of exercise of the powers for welfare under Articles 14 and 21 of the Constitution and also the Directive Principles. The reasonable-seeming classification of beneficiaries and fulfillment of the constitutional principles of equality are appropriately paired with directive principles. [Hence all of this provides a strong constitutional foundation of these welfare services].

However, the fiscal analysis revealed serious challenges regarding sustainability of their constitutional compliance. The schemes saturate state borrowing, revenue of deficit and overall fiscal wellbeing to close to the constitutional fiscal limits under Article 293 and statutory fiscal standards of the FRBM Act. The strain between the constitutional obligations of welfare and compliance with fiscal responsibility remains a delicate balance.<sup>991</sup>

The retrospective judicial precedents suggest that states (i.e., courts) acknowledged state welfare powers and fiscal responsibility powers are separate, thus necessitating governments to balance those competing obligations of obligations. The evolving jurisprudence suggests that while welfare schemes appear to be provably constitutional legal, they may contain provisions that ultimately negate fiscal sustainability and constitutional limits.

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<sup>991</sup> Karnataka Fiscal Responsibility Act, 2002.

Moving ahead, there is needed change of structures that balance constitutional welfare mandates, while obtaining fiscal sustainability and constitutional adherence.<sup>992</sup> Through the Karnataka experience, we offer salient points of discussion to form a narrative for other states thinking of similar schemes and offer nuance to the dialogue surrounding constitutional limits of state welfare transfers.

Ultimately, the constitutional and fiscal viability of the Karnataka Five Guarantee Schemes rest on how the state implements within constitutional constraints while making good authority. Though constitutionally probable in principle, long-term feasibility depends upon a calculated management of guarantees ensuring constitutional mandates and fiscal responsibility regimes are again respected.



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<sup>992</sup> P. Jain, “Fiscal Federalism and Welfare Responsibilities: Balancing Constitutional Obligations and Fiscal Prudence,” 19 *J. Indian L. Inst.* 215 (2022).