Growing Freebie Culture

Why in news?

The need for instituting more effective checks that can make States' Electoral promises of freebies fall in line is compelling.

What is the issue with freebies?

- **No revenue**- The government spending the loan money on populist giveaways generate no additional revenue.
- **Debt burden**- This will add on to the growing debt burden.
- **Off budgeting**- Much of the borrowing that funds these freebies happens off budget and the debt is concealed to circumvent the FRBM targets.
- **Discretionary expenditure**- The transfer payments become the main plank of discretionary expenditure of the States financed by debt.
- **Low spending on infra**- The more States spend on transfer payments, the less they have for spending on physical infrastructure and on social infrastructure which can potentially improve growth and generate jobs.
- **Sustainability**- Electoral calculations tempt the politicians to place short-term gains ahead of long-term sustainability.

To know more about the effect of freebies on economic growth, click here

What about the institutional checks against the freebie culture?

- **Role of Opposition**- The first line of defence has to be the legislature, in particular the Opposition, whose responsibility it is to keep the Government in line.
- But the Opposition does not dare speak up for fear of giving up vote banks that are at the end of these freebies.
- **CAG audit**- In practice, it has lost its teeth since audit reports necessarily come with a lag, by when political interest has typically shifted to other hot button issues.
- Besides, our bureaucracy has mastered the fine art of turning audit paras into files which die a quiet death.
- **Market**- It can signal the health of State finances by pricing the loans floated by different State governments differently, reflecting their debt sustainability.
- But in practice this too fails since the market perceives all State borrowing as implicitly guaranteed by the Centre, although there is no such guarantee in reality.

How can the checks be institutionalised effectively?

- **Amendment of FRBM-** The FRBM acts of the Centre as well as States need to be amended to enforce a more complete disclosure of the liabilities on their exchequers.

- The current provision that is restricted to liabilities for which they have extended an explicit guarantee should be expanded to cover all liabilities regardless of any guarantee.
- **Imposition of conditionalities**- Under the Constitution, States are required to take the Centre's permission when they borrow.
- The Centre should not hesitate to impose conditionalities on wayward States when it accords such permission.
- **Declaration of financial emergency-** There is a provision in the Constitution of India which allows the President to declare financial emergency in any State if s/he is satisfied that financial stability is threatened.
- It is important to ensure that the prospect of a financial emergency in case of gross and continuing fiscal irresponsibility can be a realistic one so that the political leadership may fear punishment.

References

1. https://www.thehindu.com/opinion/lead/states-freebies-and-the-costs-of-fiscal-profligacy/article65573164.ece

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