

## **1. How Precarious are State Finances?**

### **Context:**

- The Corona Crisis has brought the Country's Fiscal Health into focus as never before. The sudden escalation in expenditure demands is starkly opposed to the paucity of public savings.

### **Present Scenario:**

- Presently, the only knowledge of State Government Finances is obtained from their annual budgets.
- By contrast, the Centre's evolving fiscal position is concurrently known as the CGA publishes disaggregated revenue-expenditure data each month.
- Thus, it is possible to keep tabs on, say, different revenue run-rates, or distribution of capital and current spending by government.
- Not only do these provide lead indications about the real economy, they are also early signals of potential adjustments or switches
- Such current focus, which is excessively oriented towards central government spending, now needs to extend to the states as well.

### **Why State Finance Matter?**

- The corona crisis has uncovered the disastrously negative fallout of ever-increasing shares of current expenditures in total spending.
- The overbearing pre-occupation with populist freebies, and consequent neglect of essential investments such as health, spending on which has steadily declined.
- This is visible in the bare, inadequate health and medical infrastructure across states.
- The burden of this insufficient spending, in addition to the lack of fiscal room to ease the pain of a deliberately-induced recession, has fallen squarely upon all
- Starting with food, subsidies have extended on increasing scale across the Centre and states—to electricity, homes, cooking gas connections and cylinders, and so on, including cash handouts—in a competitive, populist race-to-the-bottom
- Such overbearing current expenditures are clearly unaffordable in the future. There cannot be a repeat of such dire financial straits, which has to be safeguarded against to be better prepared for exigencies.
- Fiscal spaces have to be created at all levels of government. State governments will have to carve out the necessary spaces as they are at the forefront of Health Expenditure.

- If Kerala stands out in its epidemic management because of its strong public health capacities and well-functioning systems, other state governments can follow suit.
- From the standpoint of public investments and welfare, allocation choices are better off competing here than in free-this and free-that to win elections.
- If India has to sustain growth momentum ahead, public investment will have to fill up an even larger deficit in private spending than it does now
- About two-thirds of total public capex is estimated to be contributed by states, making them more integral drivers of the Country's Growth.

**Conclusion:**

- Public expenditure and its relative efficiency across the Centre and states will be re-examined from a macroeconomic stability perspective.
- All the more reason for responsible spending and revenue efforts by states too, for timely evaluation of India's Debt Dynamics.

**Source: Financial Express**

