
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

