

## 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>

