

STATES, FREEBIES AND THE COSTS OF FISCAL PROFLIGACY

Context

- The rise in the debt of Indian states, the fast-approaching **June 30 deadline** – after which the central government will not compensate them for any shortfall in Goods and Services Tax (GST) collections and pre-state election freebie promises made by political parties fuelled reports this year that bureaucrats were concerned, some states could go the Sri Lankan way if they didn't get a handle on their finances.
- Recently, the Centre has urged chief secretaries of all states to keep a check on the increasing debt burden and fiscal deficit.

RBI findings

- **Debt-to-GSDP ratio:** RBI also highlighted that the debt-to-GSDP ratio for 18 states and UTs has grown to **2%**
- **Definition:** Debt-to-GSDP (Gross State Domestic Product) ratio signifies how healthy a state is in terms of funding its expenditure without accumulating future debt.
- **Data:** The states with the **highest** debt-to-GSDP ratio in 2021-22 include Punjab with 53.3%, Rajasthan with 39.8%, West Bengal with 38.8%, and Kerala with 38.3% and Andhra Pradesh with 32.4%.
- **Market borrowing :** According to the RBI report, market borrowing has reached **6% of the GDP of states** by March 2022, which is a loan that governments raise by issuing market securities such as bonds.
- **Largest share:** Market borrowing forms the largest component of the total outstanding debt of states and union territories.
- **Fiscal Responsibility and Budget Management (FRBM) Act:** FRBM Act recommended a debt-to-GDP ratio of 20% for state governments (40% for the Centre) by the financial year 2022-23.

Reasons for fiscal folly

- **Market borrowings:** Most States increased their market borrowing during the pandemic as their fiscal deficits expanded.

- **Electoral gains:** The obvious motivation for States in expanding freebies is to use the exchequer to build vote banks. For instance, in campaign ahead of the Punjab Assembly election, the Aam Aadmi Party (AAP) promised a sum of ₹1,000 per month to every woman in the State.
- **Discretionary expenditure:** The transfer payments to provide safety nets to the most vulnerable segments of the population has become the main plank of discretionary expenditure where the spending is financed by debt, and the debt is concealed to circumvent the FRBM targets.
- **Pandemic:** The Covid-19 pandemic generated a long lockdown is seen as the primary reason for a surge in debt levels of Indian states.
- **Subsidies:** A large proportion of committed expenditure and subsidies are not matched by their revenues as majority of the States' spending went into populist schemes with slow growth in revenues.
- **Absence of strong revenue sources:** States like Gujarat and Maharashtra managed to maintain their debt below 20 percent of their GSDPs, mainly due to their strong industrialised economies resulting in strong revenue streams while other states couldn't do so.
- **Longer maturity debts:** States have been taking longer maturity debt unlike the norm of 10 years followed around five years back. This in turn keeps their debt levels higher for an extended period of time as they will be redeemed later.
- **Losses of DISCOMs:** Discoms' revenues have significantly dropped in FY21 with demand from high-paying industrial and commercial consumer segments getting disrupted amid the lockdowns.
- **Schemes:** Moreover, Centre's Ujwal DISCOM Assurance Yojana (**UDAY**) scheme, allowed the state governments that own power distribution companies to take over 75 percent of these companies' debt till September 2015 and pay back the lenders by selling bonds. This also burdened the state exchequer.

Consequences of freebie culture

- **No fresh revenue generation:** If governments spend the loan money on populist giveaways that generate no additional revenue, the growing debt burden will eventually implode and end in tears.

- **No new assets creation:** The more States spend on transfer payments, the less they have for spending on physical infrastructure such as, for example, power and roads, and on social infrastructure such as education and health, which can potentially improve growth and generate jobs.
- **Unsustainable practices:** The electoral calculations tempt political parties to place short-term gains ahead of long-term sustainability.

Ideal scenario

- Ideally, governments should use borrowed money to invest in physical and social infrastructure that will generate higher growth, and thereby higher revenues in the future so that the debt pays for itself.

Significance of State's financial health in economy

- **Macroeconomic stability:** The amount States borrow collectively every year is comparable in size to the Centre's borrowing which implies that their fiscal stance has as much impact on our macroeconomic stability as does that of the Centre. Hence, the costs of fiscal profligacy at the State level can be huge.
- **Capital expenditure:** About two-thirds of India's public CAPEX comes from states.
- **Employment:** States employ five times more people than Centre.
- **No new asset creation:** Rising debt could start a vicious cycle wherein states end up paying more and more towards interest payments instead of spending their revenues on creating new assets.
- **Financial health:** Huge bearing on Nation's economy as some states' economies are as big as India's neighbours like Pakistan and Sri Lanka.

Way forward

- **Amend FRBM Act:** 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 FRBM provisions**, governments are mandated to disclose their contingent liabilities, but that disclosure is **restricted to liabilities** for which they have extended an **explicit guarantee**.

- **Invoke Emergency provisions:** The draconian provision in the Constitution of India allows the President to declare **financial emergency** in any State if s/he is satisfied that financial stability is threatened.
 - This provision though has **never been invoked** so far for fear that this will turn into a political weapon of mass destruction. But the root cause of fiscal irresponsibility is the lure of electoral profits. It will stop only if the political leadership fears punishment.
 - It is therefore important to ensure that the prospect of a financial emergency in case of **gross and continuing fiscal irresponsibility** is not just an abstract threat but a realistic one.
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NITI AAYOG'S REPORT ON INDIA'S GIG ECONOMY: IT'S RECOMMENDATIONS AND SIGNIFICANCE

In News:

- Niti Aayog, the Government of India's think tank, recently released a report titled "**India's Booming Gig and Platform Economy.**"
- In an effort to increase women's participation in the gig economy, the report proposed fiscal incentives such as tax breaks or startup grants for companies with about one-third of their workforce made up of women and people with disabilities.

About Gig and Platform economy:

- **Gig economy:**
 - **Temporary, flexible jobs** are common in a gig economy and companies prefer to hire independent contractors and freelancers over full-time employees.
 - A gig economy results in **cheaper, more efficient services** for those willing to use them, such as Uber or Airbnb.
 - A gig economy **undermines the traditional economy of full-time workers**, who frequently prioritise career advancement.
 - People who do not use technological services like the internet may miss out on the benefits of the gig economy.
- **Platform economy:**

- The platform economy refers to the trend of commerce increasingly attracted toward and favouring digital platform business models.
- Platforms are **underlying computer systems** that can host services that connect consumers, entrepreneurs, businesses and the general public by sharing resources or selling products.
- Business analysts use this term to describe the competitive nature of **digital innovation**.

Key Observations of The ‘India’s Booming Gig and Platform Economy’ report:

- **Structural barriers** like access to education and lack of skilling have hindered participation of the two demographic groups (women and divyangjan) in the country’s labour force.
 - The female labour force participation in India has remained low, oscillating between 16 - 23% in the last few years.
 - Women are more likely to take up platform jobs after their education and marriage.
 - Similarly, persons with disabilities (PwDs), who make up for 2.11% of India’s population, have a labour force participation rate of 36%.
- **Gig workers** are typically hired by companies on a contractual basis and are not considered employees. They do not receive some of the benefits that a regular staff does.
 - Gig workers can be broadly classified into **platform and non-platform workers**.
 - **Platform workers** are those whose work is based on online software apps or digital platforms, while non-platform gig workers are generally casual wage workers, working part-time or full-time.
- Niti Aayog estimates that **more than 7.5 million workers** were engaged in the gig economy in 2020-21.
 - This could grow to 23.5 million workers in the next eight years, making up for 4.1% of total workforce in India.
- At present, about 47% of the gig work is in medium skilled jobs, about 22% in high skilled and about 31% in low skilled jobs.

Concluding remarks by Niti Aayog:

- While gig and platform companies **have created employment opportunities, they are frequently marred by low wages**, unequal gender participation and a lack of opportunities for advancement within an organisation.
 - This has **triggered protests** from workers of companies like Swiggy, Zomato, Ola, Uber, Urban Company, etc.
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INDIA JOINS G7, 4 OTHERS TO PROTECT FREE SPEECH, 'ONLINE AND OFFLINE'

In News:

- India, along with G7 countries and four invited countries, signed the G7 joint statement on 'Resilient Democracies'.
- This statement called for protecting the freedom of expression and opinion, both online and offline.

2022 Resilient Democracies Statement

- India, along with other countries at G7 summit, signed the 2022 Resilient Democracies Statement.
- Through this statement, the participating countries expressed their commitment to
 - guard the freedom, independence and diversity of civil society actors and
 - protect the freedom of expression and opinion online and offline.

Principles propounded by the document

- Through this document the signatories resolved:
 - Protecting the freedom of expression and opinion online and offline and ensuring a free and independent media landscape.
 - Ensuring an open, free, global, interoperable, reliable and secure internet.
 - Increasing the cyber resilience of digital infrastructure.
 - Countering hybrid threats, in particular information manipulation and interference, including disinformation.

- Enhancing transparency about the actions of online platforms to combat violent, extremist and inciting content online.

Key highlights of PM Modi's speech at G7 summit

- At the G-7 summit in Germany, PM Modi participated in two sessions on:

- Investing in a better Future: Climate, Energy, Health and
- Food security

Session on Investing in a better Future: Climate, Energy, Health

- **Invoked the need for the poor to be able to access energy**

- PM Modi invoked the need for the poor to be able to access energy — as much as the rich.
- He said that today when energy costs are sky-high due to geopolitical tensions, it is more important to remember this thing.
- PM comments were in sync with India's position that it is buying oil from Russia to meet its domestic energy demand and control inflation, which affects the poor the most.

- **India's efforts to ensure energy for the poor**

- PM Modi highlighted India's efforts to ensure energy for the poor.
- India has delivered LED bulbs and clean cooking gas door-to-door.
- It has shown the world that millions of tons of carbon emissions can be saved while ensuring energy for the poor.

- **Promote green energy technologies**

- PM Modi asked the G-7 countries to invest in research and manufacturing in green energy technologies.
- The scale that India can provide for every new technology can make that technology affordable for the whole world.
- He said that they can help India to take innovations in digital technology in the health sector to other developing countries.

- **India's developmental path is environment friendly**

- He said that 17 per cent of the world's population resides in India. But its contribution to global carbon emissions is only five per cent.

- The main reason behind this is our lifestyle, which is based on the theory of coexistence with nature

Session on Food Security

- **Indirectly referred to Ukraine crisis**

- While addressing a session on food security, PM Modi referred indirectly to the Ukraine crisis.
- He said that G7 meeting is being held amid the atmosphere of global tension.
- India has always been in favour of peace. Even in the present situation, India has constantly urged for the path of dialogue and diplomacy.

- **Impact of current crisis is not limited to Europe**

- The impact of this geopolitical tension is not just limited to Europe.
- The rising prices of energy and food grains are affecting all the countries.
- The energy and security of developing countries is particularly at risk.
- In this challenging time, India has supplied food grains to many countries in need.
- India dispatched about 35,000 tonnes of wheat as humanitarian aid to Afghanistan in the last few months.
- India is also helping Sri Lanka to ensure food security.

- **Suggestions provided by PM Modi**

- **Ensure availability of fertilizers**

- We must focus on the availability of fertilizers, and keep the value chains of fertilizers smooth at a global scale.

- **Create a system so as to use Indian agricultural talent in G7 countries**

- India has immense agricultural manpower compared to the countries of the G7.
- Indian agricultural skills have helped give new life to traditional agricultural products like cheese and olive in some of the countries of the G7.
- Can the G7 create a structured system for the widespread use of Indian agricultural talent in its member countries?
- With the help of traditional talent of India's farmers, food security will be ensured to G7 countries.

G20 COUNTRIES

Jammu and Kashmir will host the 2023 meetings of the G20, an influential group of the world's major economies.

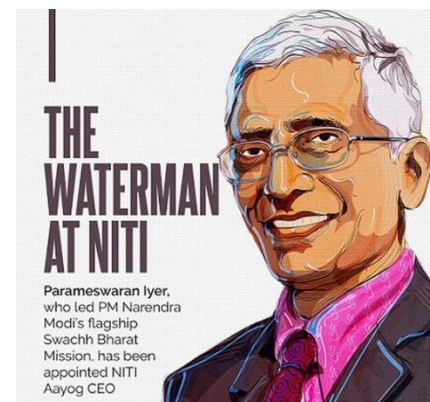


About:

- The G20 countries include Argentina, Australia, Brazil, Canada, China, Germany, France, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the United States and the United Kingdom.
- Commerce and Industry Minister Piyush Goyal was appointed as India's Sherpa for the G20 in September 2021. India will hold the G-20 presidency from December 1, 2022, and convene the first G20 leaders' summit in 2023.
- The participation of the delegates from G-20 countries will be a major boost to the efforts of the Centre to project the situation in J&K as normal, after J&K's special constitutional position was ended in 2019.

PARAMESWARAN IYER

Retired IAS officer and former Drinking Water and Sanitation Secretary Parameswaran Iyer has been appointed as the new Chief Executive Officer of Niti Aayog.



About:

- Parameswaran Iyer, a senior officials who helmed Prime Minister Narendra Modi's pet scheme, Swachh Bharat Abhiyan, will be the new Chief Executive Officer (CEO) of the NITI Aayog. The Appointments Committee of the Cabinet cleared his name for the post.
- At present, Mr. Iyer functions as the Programme Manager of the 2030 Water Resources Group, a platform hosted by the World Bank for water conservation.
- Mr Iyer will succeed Amitabh Kant who is completing tenure on 30th of this month. Mr. Iyer will get at least two years in the post.
- Kant was appointed CEO of the National Institutions for Transforming India (NITI) Aayog on February 17, 2016, for two years. He got three extensions during his tenure. Under Mr. Kant, the NITI Aayog helped the Centre launch several programmes such as Digital India and Make in India.

TAPAN KUMAR DEKA

The Appointments Committee of the Cabinet (ACC) appointed Tapan Kumar Deka, a 1988-batch Indian Police Service (IPS) officer, as Director, Intelligence Bureau for a period of two years, till June 2024.



About:

- Deka will assume charge for a tenure of two years from the date of assumption of the charge of the post or until further orders, whichever is earlier, by granting extension in service under the provisions of FR 56(d) and Rule 16 (1A) of All India Services (Death-cum-Retirement Benefits) Rules, 1958.
- He will be in service during the remaining term of the present government as the next Lok Sabha election will conclude in May that year.
- Deka, from the Himachal Pradesh cadre who was set to retire in February 2023, will assume office on July 1 after incumbent Arvinda Kumar retires on June 30.



CROSS & CLIMB ROHTAK



Samant Kumar Goel

- Meanwhile, RAW Secretary Samant Kumar Goel, whose two-year fixed term would have ended on June 30, 2021, was granted another one-year extension by the ACC. Mr. Goel is a 1984-batch IPS officer from the Punjab cadre.

