'Revdi': Can Indian States Strike a Perfect Balance Between Debt and Welfare?

Welfare driven expenditure is not part of ‘revdi’ politics but a government’s basic responsibility to its people.

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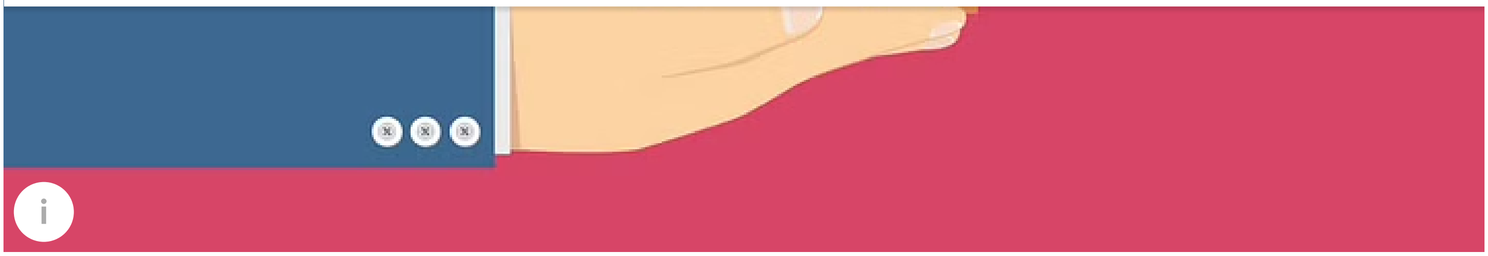
Published: **27 Aug 2022, 8:00 AM IST**

OPINION
8 min read



The 'bad freebie' vs 'good welfare' discourse has been featuring columns from economists, policy observers, and social scientists commenting on either side of the debate since the time Prime Minister Modi made the '*revdi*' remark as a veiled attack at freebie-centered electoral politics of the AAP.

Even though the AAP Delhi Chief-Minister Arvind Kejriwal teared into the Prime Minister remarks, and I have already commented on the issue before, one interesting linkage remains to be pursued. The link between state-accrued public debt and its ability to provide better/worse welfare services (or public goods).

I am yet to find a comprehensive analysis exploring this link especially in context to the debate that has exploded over the last few weeks. So, here is an attempt to the understand the issue more closely.

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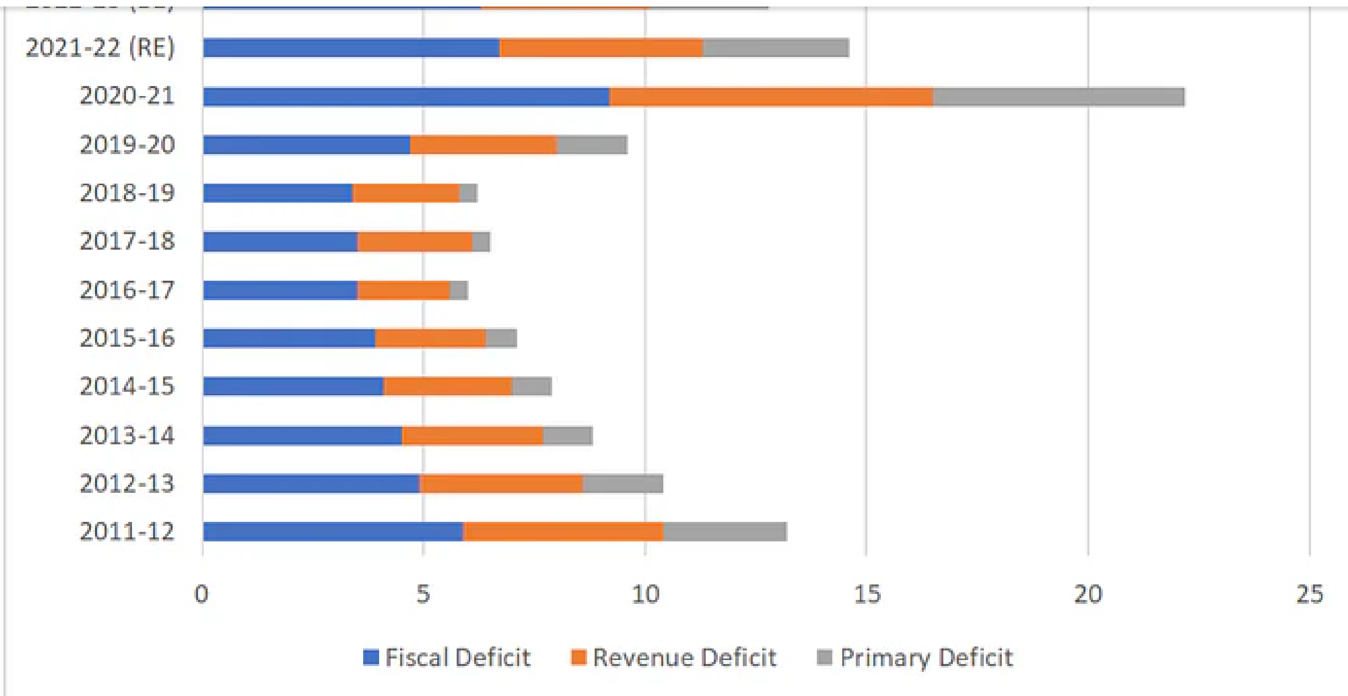
How Good are Indian States in Fiscal Management?

To put into context, it must be realised that during most of the last two years, despite a pandemic wreaking havoc on almost all states' fiscal positions, exacerbating the public debt-levels of states and that of the centre, the Modi Government offered little direct fiscal support for most affected state governments to meet their financial needs. States are expected to incur a higher proportion of healthcare costs -due to the subject having constitutional enlistment as a State List matter. During the pandemic, most state budgets, due to swelling healthcare costs, were stretching thin. The union government did step in to provide support for direct procurement of vaccines but a lot of the help came in as too little too late.

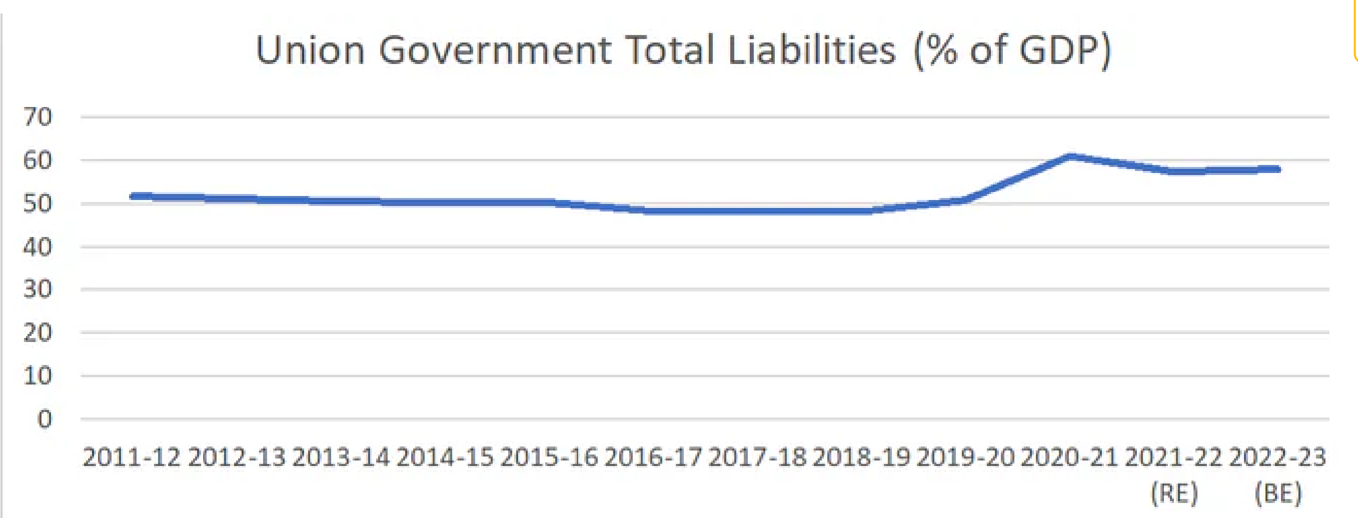
During most of the pandemic-induced lockdown, when the vulnerable sections were devastated by poverty and suffering, most offered assistance to states came in the form of liquidity support with the opportunity to borrow through the RBI or the Union/Centre. Many states like Kerala, Tamil Nadu, West Bengal, Telangana and others (mostly non-BJ ruled states) remained skeptical of union government's actions and tried to avoid borrowing excessively to meet their increased expenses.

The recently reported loss in state autonomy for managing its fiscal resources has made more of such states cautious and anxious about their ability (and agency) to manage their own budgets and borrowings.



Calculations From Handbook of Statistics on Indian Economy (RBI) and Union Budget Documents, 2012-23

Source: Author



Calculations From Handbook of Statistics on Indian Economy (RBI) and Union Budget Documents, 2012-23

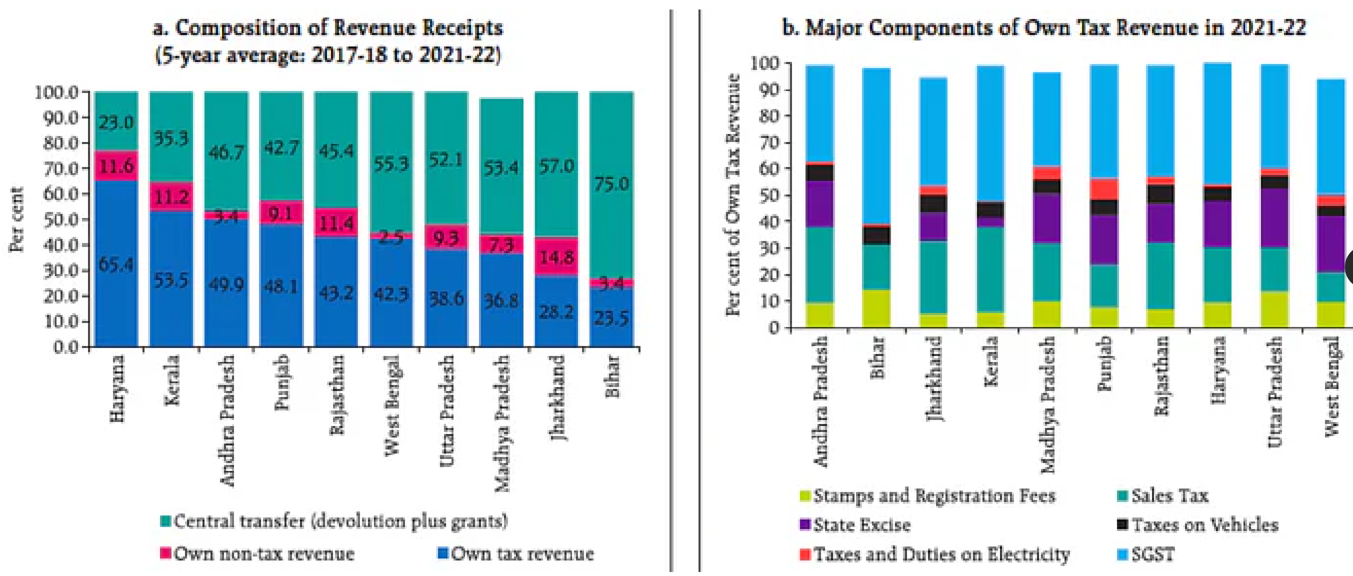
Source: Author

How do States Earn Money? Where do They Spend It?

Indian states have limited sources to generate revenue. The ten selected states account for around half of the total revenue collected by all states and UTs. Their total revenue comprises tax revenue, non-tax revenue and central transfers, ie share in central taxes and grants (see Chart below). Own tax revenue of Haryana, Kerala and Andhra Pradesh constitutes about half of their total revenue collections. The major source of revenue of other states is central transfers. Within own tax revenue, states' goods and services tax (SGST), states' excise duties and sales tax are the major sources of revenue.

As per the RBI, the own tax revenue of some of these 10 states, viz, Madhya Pradesh, Punjab, and Kerala, has been declining over time, making them fiscally more vulnerable.

For most of these states, non-tax revenue has remained volatile, dropping significantly in recent years (see Chart below). The decline in non-tax revenue is under general services, interest receipts and economic services. The declining own tax revenue and non-tax revenue affect the states' expenditure planning and increase their dependence on market borrowing.



Own Tax Revenues for States

Source: State Budget Documents & RBI BulletinRBI Bulletin

Some states like Rajasthan, West Bengal, Punjab, and Kerala spend around 90 per cent in revenue accounts. The RBI emphasises the need for these states to enhance capital spending while complementing it with other 'welfare-enhancing' spending allocations. But, welfare enhancing fiscal measures have their own multiplier effect in improving developmental outcomes and human capital performance needs.

Improved healthcare outcomes, say for maternal mortality, infant mortality, better child macroeconomic position and socio-economic realities at the time. Then, what happened in recent years-or under a more assertive BJP ruled Union Government. The (Post) Covid scenario matters here.

Has the Money Situation Changed Post Covid?

As Pinaki Chakraborty from the National Institute of Public Finance and Policy argues in Economic and Political Weekly—on the fiscal consolidation story between 2020–21 (the first year of the COVID-19 pandemic) and 2022–23—the fiscal challenges for the Union-States have eased but remain present as they navigate economic recovery in uncertain times. The reasons are many.

- **First, it is difficult to predict the impact of the ongoing war between Russia and Ukraine on the fiscal situation as we move to the fiscal year 2022–23.**
- **Second, between 2020–21 and 2022–23 (BE), the reduction in the revenue deficit has been substantial, that is, from 7.3% to 3.8% of the GDP.**
- **Third, compositionally, revenue deficit continues to be more than 55% of the fiscal deficit and management of such a deficit has a few important considerations for revenue expenditure, that is (i) interest payments and (ii) allocation under various centrally sponsored and central sector schemes. In 2021–22 (RE), interest payment is 25.7% of the revenue expenditure and 39.14% of revenue receipts.**

As a percentage of the GDP, it increased from 3.1% to 3.6% of the GDP during 2012–13 to 2022–23 (BE). This implies corresponding reduction in the fiscal space for primary expenditure for discretionary development spending. Within the discretionary

However, the fundamental point, as Dr Chakraborty makes, is that resources flow to the states in the form of CSSs are still substantial. Aggregate allocation under centrally sponsored and central sector schemes as per the 2022–23 (BE) is 3.83 lakh crore and the interest payment cost of the union government is 9.56 lakh crore.

Beyond scheme-wise allocations, it is also important to consider the CSS allocation as an issue of macro-fiscal management at the union and state levels, especially when it is contributing to a high revenue deficit of the union government and binding state resources for matching contributions, thereby increasing states' deficit.

(Per cent of GSDP)

State	2020-21	2021-22 RE	2022-23 BE	Relative Size of States (in per cent)	2021-22 RE			
	Debt				Interest Payment to Revenue Receipts (Per cent)	Gross Fiscal Deficit	Revenue Deficit	Primar[y] Defic[it]
Andhra Pradesh	35.5	32.5	32.8		14.3	3.2	1.6	1.4
Bihar	36.7	38.6	38.7		8.6	11.3	5.5	9.2
Chhattisgarh	26.3	26.2			8.0	3.8	0.3	2.1
Gujarat	21.0	19.0			14.2	1.5	0.0	0.2
Haryana	28.0	29.4			20.9	3.0	1.4	0.8
Jharkhand	34.4	33.0	27.0		8.4	3.0	-0.1	1.3
Karnataka	22.4	26.6	27.5		14.3	2.8	0.4	1.3
Kerala	37.1	37.0	37.2		18.8	4.2	2.6	1.7
Madhya Pradesh	31.0	31.3	33.3		11.7	4.2	0.6	2.2
Maharashtra	19.6	17.9	18.1		11.4	2.8	1.0	1.5
Odisha	20.0	18.8	18.6		4.3	3.5	-3.3	-0.6
Punjab	49.1	53.3			21.3	4.6	1.6	0.7
Rajasthan	40.5	39.5	39.8		14.9	5.2	3.0	3.3
Tamil Nadu	26.9	27.4	27.7		21.0	3.8	2.5	1.9
Telangana	25.2	24.7	25.3		11.3	3.9	-0.4	2.4
Uttar Pradesh	29.1	34.9	32.5		11.2	4.3	-1.3	1.8
West Bengal	37.1	34.4	34.2		20.8	3.5	2.2	1.1

← Higher Lower →

Welfare Performance of States

West Bengal, Kerala (or even Goa and Sikkim) perform better compared to states like UP, Bihar, Madhya Pradesh, when it comes to being measured for securing access to basic social, economic services.

Securing easier access to basic socio-economic goods ie education, healthcare, social security, financial security, basic amenities is essentially part of an elected state government's core responsibility to its citizenry. While every state government may have different fiscal capabilities to meet the social, economic needs of its residential population at the time, what cannot be discounted is the fact that the 'fiscal priority mapping' of any state government (a BJP or non-BJP one) must be closely linked to welfare enhancing measures.

For context to AEI, in the methodological design of the multidimensional Access (In)Equality Index (AEI), we measured overall access, using geometric mean in order to ensure partial 'compensability', ie poor performance in one sub-index is not fully compensated by good performance in another.

It also balances the uneven performance in the dimensions and encourages improvements in the weaker dimensions. Other prominent indices like the Human Development Index and Sustainable Society Index use the geometric mean for aggregation as well.

Front Runners, Achievers, and Aspirants

Based on the score range of 0.67-0.23, states are grouped into three categories –

(across all identified pillars).

Aspirants (<.33)		
23	Madhya Pradesh	0.32
24	Odisha	0.31
	Assam	0.31
26	Bihar	0.29
27	Uttar Pradesh	0.28
28	Jharkhand	0.23

Rank	UT	Composite index
1	Chandigarh	0.55
2	Puducherry	0.52
3	Andaman & Nicobar Islands	0.5
4	Delhi	0.49

Figure: AEI Composite Ranking Performance Across All Pillars (State & UTs)

Source: Access (In)Equality Index (AEI) Rankings

States like Maharashtra, Arunachal Pradesh, Gujarat, Uttarakhand, Chhattisgarh, Rajasthan, Tripura, West Bengal, Manipur and Meghalaya are categorised as 'Achievers'. These states have good provisions of access to (socio-economic) opportunities and must sustain their efforts to advance to the next category.

Rank	States	Composite index
10	Andhra Pradesh	0.45
11	Nagaland	0.43
	Haryana	0.43
Achievers (.33-.42)		
13	Maharashtra	0.42
	Arunachal Pradesh	0.42

Lastly, states such as Goa, Sikkim, Tamil Nadu, Kerala, Himachal Pradesh, Telangana, Punjab, Mizoram and Karnataka are observed as 'Front Runners' in ensuring better access to basic socio-economic opportunities for their respective state-populations.

Figure: AEI Composite Ranking Performance Across All Pillars (State & UTs)

Rank	States	Composite index
Front Runners (> 0.42)		
1	Goa	0.67
2	Sikkim	0.6
3	Tamil Nadu	0.55
4	Kerala	0.53
5	Himachal Pradesh	0.52
6	Telangana	0.49
7	Punjab	0.48
8	Mizoram	0.46
	Karnataka	0.46

Rank	States	Composite index
10	Andhra Pradesh	0.45

Figure: AEI Composite Ranking Performance Across All Pillars (State & UTs)

Source: Access (In)Equality Index (AEI) Rankings

It is worth (re)iterating the link drawn between state-debt levels and their AEI performance for welfare-based comparison.

States like Kerala, Punjab, Telangana—despite their high public debt—have ensured better access to basic social and economic services to their state populations and have done well across most AEI pillars consistently. This has helped their respective state populations to also do well in creating high productivity across the nation.

At the same time, states like Bihar, Uttar Pradesh, Madhya Pradesh, Assam, and

In Summation: Welfare is not Revdi

In managing the swelling fiscal deficit and public debt levels (including of fiscally weak states), the public expenditure composition and fiscal priorities must be more clearly understood, due to differed constitutional assignment of functions for the union and state governments.

Most redistributive expenditures—critical for welfare outcomes—are in functional domain of states. Any contraction of such expenditure at the state level, due to coercive actions of the union government or due to high state accrued public debt levels, can have adverse distributional consequences, with a regression that can already be observed in performance outcomes, particularly for the vulnerable and marginalised sections.

Welfare driven expenditure needs aren't part of '*revdi*' politics but more about securing a government's basic responsibility to its people and the larger citizenry.

State governments (irrespective of their party affiliation) need all the support they can get at this point to either borrow 'more freely' under a mutually agreed fiscal roadmap for their developmental needs or be otherwise supported to manage their finances on their own, or through borrowing financed support offered by the union/centre.

In either of the scenarios, fiscal cooperation and transparent functioning is vital for protecting state's fiscal space and enhancing macroeconomic stability. There is no room for an 'ad hoc' 'arbitrary' decision making mechanism, nor selective partisan constitutional interpretations, which might trigger more direct confrontations between

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