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PM Modi's Clarion Call Against the Culture of Electoral Freebies and Why the Freebie Culture is Extremely Dangerous to the Long-Term Stability of Indian Economy

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Is India staring at massive economic crisis as is being witnessed in countries like Sri Lanka, Pakistan and even in countries of Western Hemisphere? Is India financially much more stable than its counterparts in East Asia or Transatlantic Region?

Well, the answer is both in affirmative and negative. While Government of India is fundamentally very stable financially, the same cannot be said about some of the constituent states of India known for their populistic profligacy and reckless expenditures that have put severe strains on their respective state finances, and which has now been pointed out by none other than the Reserve Bank of India (RBI).

What PM Modi Stated on Freebie Culture

Consider this: In July 2022, Prime Minister Modi made an earnest pledge to states to pay the dues they owe to the power utility companies. The cumulative due stands at a whopping Rs 2.5 lakh crore. The Prime Minister stated something which seldom any Prime Minister in the past had conviction to say. He stated, 'This is not a matter of 'Rajniti' but that of Rashtra Niti and nation-building'.

In August 2022, Prime Minister Modi once again raised an issue which has deep linkages with electricity freebies. The Financial Express on 11th August, 2022, on the issue of poll freebies, quoted the PM stating "As a country, we have to take a pledge that we will not allow such tendencies to grow. This is a collective responsibility of the country,".

The PM was further quoted by Financial Express, "If there is selfishness in politics, then anyone can come and announce to give free petrol and diesel. Such steps will take away the rights of our children, and prevent the country from becoming self-reliant. Due to such selfish policies, the burden on honest taxpayers of the country will also increase. To deal with the challenges that the country is facing, it needs clear intentions and commitment. It requires extreme hard work, policy and huge investments,"

The PM also stated "This is not policy, it is immorality. This is not national interest; it is a loss of the nation. This is not nation-building, it is an attempt to push the nation back. To deal with the challenges facing the country, it takes clear intentions, loyalty, policy,".

To understand why the Prime Minister stated this and why populism of some states is putting not only their own finances but also macroeconomic factors in danger, let us understand the larger context

The Background- World in Crisis Since 2020 & Impact on India

Russia Ukraine Conflict & Rise in Price of Commodities

Over the last two years the world has been witnessing unprecedented economic crisis because of a series of factors. It started with covid pandemic-induced massive global supply chain disruptions, followed by Russia-Ukraine conflict that aggravated the supply chain constraints even further as a result of economic sanctions imposed on Russia by Western nations. There has been considerable rise in price of crude oil and various other commodities, of which Russia is a key supplier, including various minerals, metals and edible oil.

Global Supply Chain Constraints

China's zero-covid policy led to even more trouble worldwide because of massive covid related lockdowns across various provinces of China where even at the inkling of a handful of suspected covid cases, entire cities or Special Economic Zones or even provinces were shut down for long durations. Considering that China is still one of the major global manufacturing hubs of various types of items, it did have serious negative impact on global supply chain of various finished products and components in terms of their availability. This resulted in price rise of most products and commodities.

Further, the rising tension between China and US, on the Taiwan issue, is only adding fuel to the fire so far as global economic instability is concerned. As a result of the above-mentioned factors many smaller countries are on the brink of bankruptcy or staring at severe debt default, while the world's largest economies like US or China are staring at devastating recessions lurking around the corner.

Interest Rate Hike by Federal Reserve of US

If this was not enough, the massive inflationary pressures in the US economy that resulted in US Federal Reserve hiking the interest rates by .75% or 75 bps, one of the highest in the last two decades, resulted in massive outflow of capital from emerging economies. India was no exception.

While the rate hike may temporarily contain galloping inflation in US, it is also expected to have massive negative impact on investments, as a result of which US is expected to enter recession in the next few months that would further wreak havoc on global economy, especially on Europe which is already reeling under severe crisis aided massive gas shortage thanks to its myopic approach to sanction Russia, which has been one of its largest suppliers of gas to Europe.

India Under PM Modi Showed Exemplary Resilience

Yet in the middle of all the above-mentioned volatilities, in geopolitics and geoeconomics, India has done surprisingly well in terms of displaying exemplary economic resilience. Its economic bounce back since the first half of 2020, when Covid pandemic hit the world, has been incredible.

It ended financial year 2021-22 by emerging as the fifth largest economy of the world, with a combined export count of around $670 billion, a nominal GDP of $3.5 trillion, a Purchasing Power Parity (PPP) measured GDP of $11.75 trillion, received foreign direct investment (FDI) of $83.57 billion, remittance of $87 billion and had a stupendous gross tax collection of Rs 27 lakh crore or around $356 billion.

India achieved all these even while providing almost 200 crores of free covid vaccinations and additional free rations to more than 80 crore people for almost two years in a row. Also, in spite of major financial volatility of eloping of foreign portfolio investors as a result of US Federal Reserve's interest rate hike (as mentioned earlier), India continues to maintain a healthy balance of foreign exchange reserve in excess of $560 billion. All these have been possible due to deft management of the economy by Modi Government.

India is Financially Stable but Not all its States

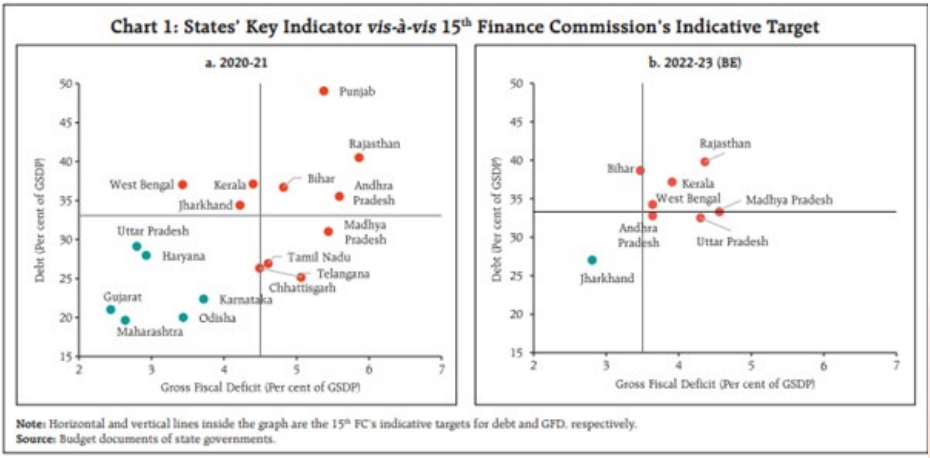
While India remains on course to become a $5 trillion economy over the next half a decade, a $10 trillion economy by 2032, and the country as a whole remains economically stable in general, the same cannot be said about some of the states of India. A recent white paper by RBI on risk analysis of state finances specifically mentions about five states that suffer from severely high debt to GSDP ratio. Here GSDP stands for Gross State Domestic Product which means the value of goods and services produced by a state in a financial year.

What the RBI White Paper Reveals

The RBI white paper states,

In the first stage of the analysis, a panel of indicators is employed to identify fiscal vulnerability.3 Based on the debt-GSDP ratio in 2020-21,4 Punjab, Rajasthan, Kerala, West Bengal, Bihar, Andhra Pradesh, Jharkhand, Madhya Pradesh, Uttar Pradesh and Haryana turn out to be the states with the highest debt burden. These 10 states account for around half of the total expenditure by all state governments in India (Table 1).....

Taking into account the warning signs flashing from all the indicators, we can identify a core subset of highly stressed states from among the 10 states identified by the necessary condition i.e., the debt/ GSDP ratio. The highly stressed states are Bihar, Kerala, Punjab, Rajasthan, and West Bengal.



Source: RBI Whitepaper on State Finances
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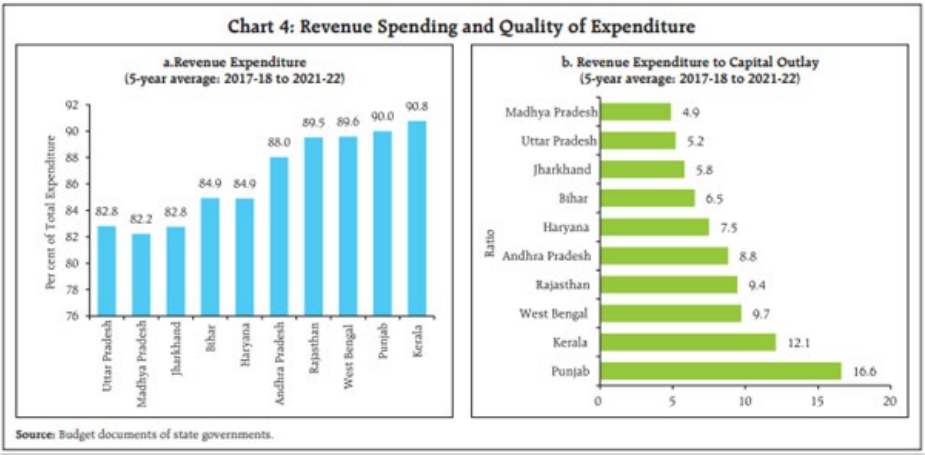
Interestingly, the most important reason for their high incidence of financial vulnerability and possibility of facing severe crisis is their high incidence of expenditure when compared to their revenue receipts. Not just that, it is their quality of expenditure that is at the core of their predicament.

As per RBI, 'The share of revenue expenditure in total expenditure of these states varies in the range of 80-90 per cent. Some states like Rajasthan, West Bengal, Punjab and Kerala spend around 90 per cent in revenue accounts. This results in poor expenditure quality, as reflected in their high revenue spending to capital outlay ratios'.

Spending so much on revenue accounts means spending on administrative expenditures, salaries, pensions and populistic schemes which leaves very little to invest for capital formation in the form of infrastructure development, investment in new commercial projects that otherwise could have had more profound positive impact on the state through attracting more investments and resultant job creations.



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Also, the RBI report specifically mentions about the culture of 'non-merit' freebies that has a debilitating impact on the state finances without any resultant benefit for the economy as a whole.

The RBI report further states,

In the recent period, state governments have started delivering a portion of their subsidies in the form of freebies. While there is no precise definition of freebies, it is necessary to distinguish them from public/merit goods, expenditure on which brings economic benefits, such as the public distribution system, employment guarantee schemes, states' support for education and health. On the other hand, provision of free electricity, free water, free public transportation, waiver of pending utility bills and farm loan waivers are often regarded as freebies, which potentially undermine credit culture, distort prices through cross-subsidisation eroding incentives for private investment, and disincentivise work at the current wage rate leading to a drop in labour force participation. Some freebies may benefit the poor if properly targeted with minimal leakages, but their advantages must be evaluated against the large fiscal costs and inefficiencies they cause by distorting prices and misallocating resources. Additionally, the provisions of free electricity and water are known to accelerate environmental degradation and depletion of water tables.

Welfare Schemes are Fine but Not 'Non-Merit Freebies'

India as a welfare state already spends lakhs of crores of rupees every year in providing free education in government schools, free treatment in state run hospitals, Central Government funded medical insurance

to more than 50 crore people through Ayushman Bharat Scheme, in addition to subsidy on fertiliser, as well as providing funds for rural employment through schemes like MGNREGA. Modi Government's Swachh Bharat Mission also constructed more than 11 crore toilets, especially in rural India.

Further it also spends enormous amount of money every year to provide highly subsidised foodgrain to crores of people through the public distribution system. During the peak of the covid pandemic, India remained one of the very few countries to provide additional free ration to more than 80 crore people so that during the difficult phases of the pandemic, people at least have had basic food supply to sustain themselves. Also, there are innumerable other social welfare schemes sponsored by Central Government that are beneficial to people at large, especially from the marginalised sections of the society.

While welfare activities are necessary for any nation for the sake of making sure that even the most vulnerable in the society are taken care of, it is basically the non-merit freebies, which too are passed on as welfare scheme by vested interests for petty political gains, that can wreak havoc for any economy.

To understand the implications of non-merit freebies and how such populistic acts harm not just state finances but also damage the structural stability of economy, let us take the example of the power sector of India.

How Populism is Damaging India's Power Sector

With an installed capacity of 403 GW, India's electricity sector is one of the largest of the world. It is not just a key industry involving investments in billions of dollars but also a critical infrastructure on which the well-being of the entire economy depends. The smooth functioning of the economy, especially the power intensive industries, as well as the digital economy, depends extensively on the seamless functioning and good health of the power sector. However, the key question is this:

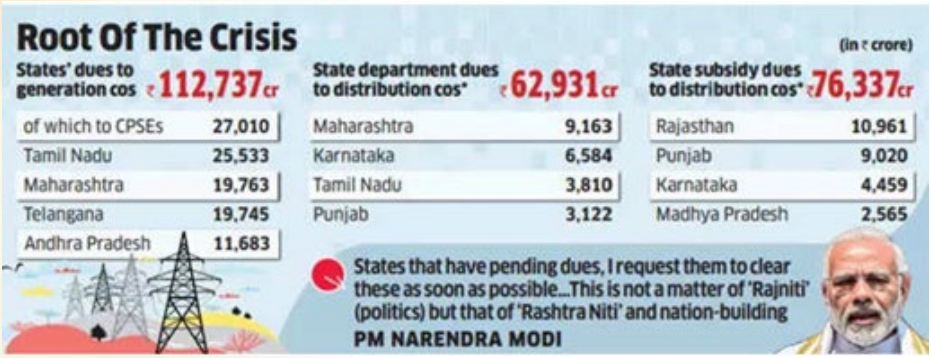
Is India's power sector in good shape?

The answer is perhaps not in the affirmative and the prime reason for this is the culture of populism and politics surrounding not just the pricing of electricity but also the culture of announcing free electricity that is turning out to be disastrous for the sector and the finances of many State Governments. Even when states have literally no money to pay for the subsidies, they declare free electricity or waive off past unpaid bill arrears of consumers. They, through such acts, try to play the role of fake messiahs but often find it difficult to pay the power utility companies on time that results in major structural problems for the sector.

Announcing free electricity or waiving off past electricity bills of consumers, does not mean cost of producing and procuring electricity by power generation companies

and power distribution companies respectively, becomes free. Their cost of operations remains the same. The difference between what the consumer pays for using electricity and what the power distribution companies pay to power generation companies to purchase the electricity, is the subsidy that the State Governments are supposed to pay the power distribution companies on time. That seldom happens. Incidentally, it is the power distribution companies, most of which are owned by respective State Governments, which distributes electricity to consumers of the state on behalf of the respective states at a price decided by the incumbent State Governments.

The Reason for Prime Minister's Appeal



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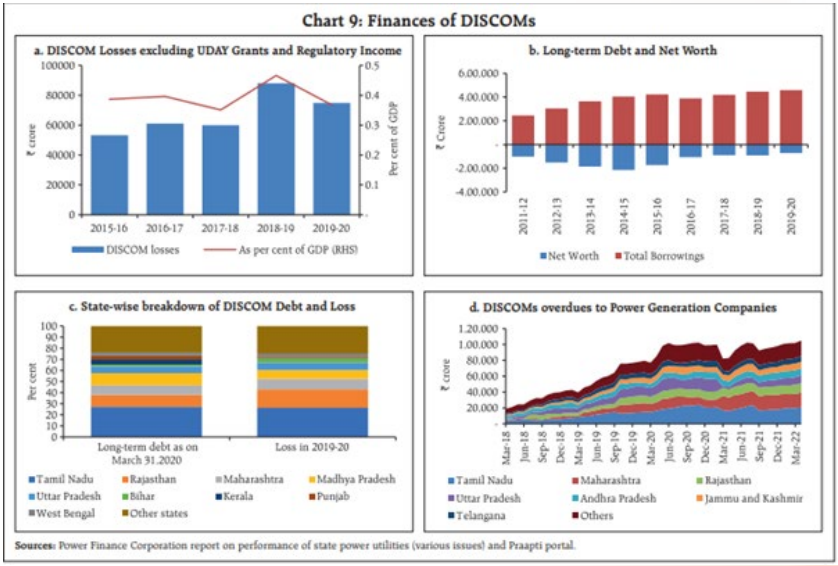
Source: https://economictimes.indiatimes.com/industry/energy/power/pm-modi-urges-states-to-expedite-clearing-rs-2-5-lakh-crore-power-dues/articleshow/93243556.cms?from=mdr

The break-up of the Rs 2.5 lakh crore outstanding arrears of the states to power utility companies, as mentioned by PM Modi, shows that the amount that the states owe to electricity generation companies is more than Rs 1.12 lakh crore while the amount that the state departments and local bodies owe to electricity distribution companies is in excess of Rs 62,000 crore, and the subsidy arrears add to another almost Rs 76,000 crore.

It has to be mentioned and appreciated here that on the issue of outstanding dues to power utilities, Prime Minister Modi was speaking, as always, like a statesman, about all the states of the country without making any distinction between BJP-ruled and non-BJP ruled states, because the issue of outstanding arrears and politics surrounding freebies in power sector is a national level issue.

The Power Sector Challenge

Most states, while on one hand prevent electricity distribution companies from raising the retail price of electricity, especially for domestic retail consumers, the sad saga is that



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fail to pay the electricity generation companies in return, thereby creating a vicious cycle of unpaid arrears that has a cataclysmic impact on the sustainability of the electricity generation companies in particular.

The net result of this is that as of June 2022, the total outstanding dues that the distribution companies (discoms) would have to pay to the electricity generation companies is a whopping Rs 1,32,432 crore. A year back it was Rs 1,27,306 crore.

The Misuse of Free Electricity for Farm Sector: A Major Headache

While States like Tamil Nadu, Punjab, Telangana and Andhra Pradesh provide free electricity to farm sector, some of the more reformist states including the likes of Maharashtra and Gujarat have gradually moved away from it. Needless to say, that free electricity to farm sector is one key reason for the huge subsidy bills and subsequent unpaid arrears of many states that they owe to power utilities companies.

While legitimate and directed subsidy in electricity used for farm activities may have efficacy in certain respect, it is the culture of free electricity for farm sector that however has resulted in its indiscriminate use of motor pumps for extraction of ground water, and also for diverting electricity connections meant for farm use towards domestic household usage. This is why metering of electricity connections, even those for farm sector usage is extremely necessary. Indiscriminate extraction of ground water is already causing devastating long-term impacts on soils in many

parts of India.

It is important to mention here that farm sector already gets subsidy in the realm of fertiliser pricing and income from farm activities is tax free. This means already a considerable amount of support is given to farm sector.

Poll Promise of Free Units of Electricity for Domestic Retail Users: A Frankenstein in Making?

Apart from free power for farm sector, there is now the new monster of announcing free units of electricity even for retail household users, over and above the subsidy in retail usage that already exists. This is now becoming a key poll plank for some political parties whose ascent to power has been based solely on the petty promises of freebies that add little value for infrastructure development and economic sustainability of key sectors such as power generation and distribution sector.

In Delhi, Aam Aadmi Party (AAP) came to power on poll plank of free units of electricity and water. This model has now been promised and being implemented in case of Punjab as well. While in Delhi 200 units of electricity is free for every metered domestic connection, in Punjab where AAP came to power, it has been raised to 300 units of free electricity every month. Punjab already reeling under severe debt burden would now have even a higher share of liability to take care of.

Macro Impact of Populism on Power Sector

Power generation companies are either state owned or private held. The privately owned power generation companies are commonly known as independent power producers. In case of state-owned power generation companies, especially those like central government owned power generation behemoths like NTPC and DVC, there is a provision for the Power Ministry to invoke the tripartite agreement between Union Power Ministry, RBI and respective State Governments, to recover outstanding dues of State Governments to companies like NTPC or DVC from the accounts of union territories and State Governments, and pay directly to NTPC or DVC. This provision has been invoked last year by Union Power Ministry to recover part of the outstanding dues from defaulting states like Jharkhand, Karnataka and Tamil Nadu.

Independent Power Producers Left in the Lurch

While the tripartite agreement facility and active intervention of union government essentially helps the union government owned power producers to survive and maintain viability, the same provision sadly is not available for the private or independent power producers.

Almost all independent power producers borrow money from the financial institutions to set up power plants and they pay back the same in the form of interest and principal,

from the revenue cash flow that accrues from generation of electricity and supply of the same to state owned discoms. When discoms don't pay on time, the power producers not only suffer from severe financial crunch, but as a consequence of exorbitant unpaid dues, it impacts their working capital and their ability to pay on time to get seamless supply of coal, in case of thermal power plants. They also default on their repayment of interest and principal loan to banks resulting in potential bankruptcy proceedings against them and also may lead to rise in Non-Performing Assets (NPA) of the banks.

In other words, it is populistic profligacy of states that is also a key contributor to the NPAs of banking system, especially in case of bad loans arising out of power sector.

It has to be remembered setting up a power plant, especially a thermal power plant is extremely capital intensive that requires thousands of crores of investments, which the promoters and investors commit in the project on the presumption that there would be assured and timely payment from the electricity distribution companies (discoms) for the electricity procured. But when payments don't come on time, then it rocks the entire cart.

Would Defaulting States Take Responsibility if Independent Power Producers Become Bankrupt Due to Outstanding Unpaid Arrears?

As per a report by Mint newspaper, discoms owe a whopping Rs 25,284 crore to Adani Power, followed by Rs 5324 crore KSK Mahanadi Power Ltd and Rs 5308 crore to Lalitpur Power Generation Company. Also, as per the same Mint article, the outstanding dues owed by discoms to renewable energy producers stood at an astounding Rs 20,127 crore in May, 2022. How are such companies supposed to sustain if states continue to dither payments? What option would such companies have other than to stop operations? Who would be responsible if such companies, in case they in turn default in making payments to banks, are dragged to court for insolvency proceedings?

Subsidising the Prosperous through Freebies: A Mockery of Welfare Schemes

In fact, one is appalled to see the idea of promising free electricity to the entire population of a state as some politicians are making a norm. Why should someone with more than Rs 50,000 per month of income be given 200-300 units of free electricity? Why should someone who is a millionaire and travels in luxury cars get benefits of free electricity or subsidised electricity? How does it help the country? How does it help the economy? Does it create more jobs? Does it generate more revenue for the state that can be used for developmental and welfare work? Can doling out freebies to those who can more than afford to pay for electricity and

water, be even termed as genuine welfare? Is this not sheer wastage of national resources? Some, it seems do not mind even destroying the nation's economic stability for the sake of votes.

Charging More from Industry to Cross Subsidise Freebie Culture Negatively Impacts Industrial Competitiveness

The net result of all these is that since there is huge subsidy on electricity that is used in agriculture and for domestic purpose, to compensate for the losses, discoms often charge higher rates from industry. For many of India's power intensive sectors where there is extensive use of electricity for production of goods, even a marginal rise in price of electricity has a cataclysmic impact on their cost matrix that may often make them uncompetitive in price sensitive international markets where they even have to compete with products from countries like China where there are alleged heavy state financed subsidies on manufacturing activities.

Thus, for some of the power intensive sectors of India, their inability to compete globally or in domestic markets against foreign products owing to higher cost of electricity results in their inability to remain viable, expand and create more jobs. In other words, if some of the sectors in India have not been able to become competitive in the realm of manufacturing, then the onus to a great extent falls on the states and their profligacies that result in rising price of power for industrial users, to compensate for non-merit freebies and self-serving populism of some myopic political leaders.

Mindless Populism Leaves Little Money for Capital Expenditures

As mentioned in the RBI report that for some of the states, almost 80-90% of their revenues are spent on revenue expenditures including a large sum on non-merit freebies. The resultant outcome of the same is that there is little money left with these profligacy-driven states to spend on capital expenditures, including setting up of infrastructural projects. Further, since almost all the discoms are in red due to unpaid dues, spending or investment on transmission infrastructure is very little that results in more losses in transmission & distribution of electricity.

Can Discoms Be Dragged to Court for Insolvency Proceedings?

In fact, that day may not be far when power generation companies may even drag defaulting discoms, and thus the states who own the discoms, to court for insolvency proceedings. The Union Ministry of Power has already made in clear in November 2021, while replying to a letter to the Tamil Nadu Government that there was no conflict between Electricity Act of 2003 and Insolvency and Bankruptcy Act of 2016 on the issue of 'resolution of monetary claims'.

Table 7: Impact of Potential Bailout of DISCOMs in Major States

State	Pre-bailout		Size of the bailout		Post-bailout		Total bailout size	
	Long-term debt	Equity	Assumption of 75% of long-term debt	Liquidity infusion for power purchase overdues	Long-term debt	Equity		
	₹ Crore	₹ Crore	₹ Crore	₹ Crore	₹ Crore	₹ Crore	₹ Crore	Per cent of 2020-21 GSDP
Punjab	16,258	22,417	12,194	1,404	4,065	36,015	13,598	2.5
Rajasthan	48,934	-46,282	36,701	11,543	12,234	1,962	48,244	3.7
West Bengal	14,222	16,430	10,667	677	3,556	27,774	11,344	0.9
Kerala	20,310	-5,581	15,233	493	5,078	10,145	15,726	1.8
Bihar	6,726	21,603	5,045	755	1,682	27,403	5,800	0.8
Andhra Pradesh	26,810	-19,810	20,108	8,914	6,703	9,212	29,022	2.1
Uttar Pradesh	28,782	8,368	21,587	10,195	7,196	40,150	31,782	1.3
Jharkhand	10,530	2,889	7,898	3,643	2,633	14,430	11,541	2.5
Haryana	6,864	1,347	5,148	919	1,716	7,414	6,067	0.7
Tamil Nadu	1,24,413	-72,411	93,310	21,038	31,103	41,937	1,14,348	5.2
Odisha	4,599	-5,948	3,449	321	1,150	-2,178	3,770	0.6
Chattisgarh	4,102	-2,896	3,077	191	1,026	372	3,268	0.9
Telangana	21,948	-23,363	16,461	7,201	5,487	299	23,662	1.7
Madhya Pradesh	49,112	-31,090	36,834	5,240	12,278	10,984	42,074	3.9
Assam	2,429	8,457	1,822	45	607	10,324	1,867	0.5
Karnataka	22,767	3,232	17,075	4,304	5,692	24,611	21,379	1.0
Gujarat	563	16,607	422	715	141	17,744	1,137	0.0
Maharashtra	39,086	29,135	29,315	18,392	9,772	76,842	47,707	1.0
Total for above states	**4,48,455**	**-76,896**	**3,36,341**	**95,990**	**1,12,114**	**3,55,435**	**4,32,331**	**2.3**

Sources: Power Finance Corporation report on performance of state power utilities (various issues). Praapti portal and RBI staff estimates.

Source: RBI White Paper on State Finances
https://rbidocs.rbi.org.in/rdocs/Bulletin/PDFs/6STATEFINANCESARISKANALYSIS143105EB27A744E1B9C404CF7D96909A.PDF

The only reason that private power producers dither from dragging discoms to court may be because of the kind of market structure that exists in power sector where states have a sort of monopoly in power purchase and distribution, and therefore independent power producers don't want to antagonise the states. But things are changing.

More Populism Means More Need for Revenue Through GST & Taxes of Oil

It is also important to understand that the reason why many of the states clamour for higher GST compensation or higher GST rates during meetings, (even when they say the very opposite publicly, for the sake of political correctness), and are reluctant to reduce sales tax or VAT on sale of petrol and diesel, is because of their ballooning expenditures as a result of 'freebie' populism.

If some of India's states pledge to control their populistic expenditures, then surely India can reduce its GST rates and even states can reduce their high incidence of sales tax and VAT on petrol and diesel. But that is not to be till a lid is put on the culture of political freebies.

Not Freebie Politics but Further Reforms Needed to Improve Quality of Life of People

For many of India's states it is much easier to make poll promises for free electricity, free bus ride, free consumer durables, free water than to work judiciously in creating enabling

environment for industrialisation or take a progressive stand on farm reforms so that agriculture and allied activities start becoming financially viable and remunerative, and consequently help create jobs as well as increase purchasing power of people.

For more than 70 years, India's myopic and stifling policies of state control on markets for agricultural produce, have left the sector high and dry, kept it considerably dependent on state largesse, and has destroyed its ability to create remunerative jobs. Such policies thus severely restricted the purchasing power of rural populace who are often then forced to migrate seasonally to cities in search of menial work to sustain families. Such is their condition in the absence of farm reforms that any promise of freebies then become appealing for them. And some political parties then take advantage of the same without putting any effort to improve their condition through grassroots reforms.

For some of India's myopic political parties they prefer to offer these freebies and act as (fake) messiahs than to work genuinely to reform agriculture and boost industry to create genuine jobs and development. The modus operandi is thus simple. Keep rural folks and urban poor impoverished, and then dole out freebies to them so that they remain dependent on the incumbent government and keep voting the freebie-promising party to power.

If instead, farm sector reforms are pursued then invariably the purchasing power of rural folks would increase that would result in enhancing their ability to pay for the electricity or other inputs they use for agricultural purposes. That would be a win-win situation for both the consumers and the state, but that would result in some political parties losing their leverage on rural voters.

Needless to say, therefore, it is these same political parties, who stand at the pivotal position of opposing any structural reforms that may genuinely increase well-being of rural populace through liberalisation of agricultural markets and industrialisation in rural areas. What an irony!

Negative Impact of Freebie Culture is Not Restricted to Power Sector Alone

It is important to understand that the culture of non-merit freebies is not restricted to politics of electricity pricing alone, but includes many other kinds of such largesse that impact the state finances severely. The culture of farm loan waiver, as mentioned in RBI report, is another such area which has devastating impact on credit culture of the banking system without any concurrent positive impact on agriculture as a sector.

The feudalistic agricultural structure is such that farmers get into debt trap even after benefitting from loan waivers because of lack of farm reforms. Also, what is appalling is that farm loan waiver schemes have often resulted in rich farmers, even farm traders, getting benefitted out of it, at the cost of negative impact on credit

culture and state finances. The culture of loan waiver is so dangerous that a trend of people taking loans and not deliberately returning has also been witnessed wherein they literally wait for political parties to announce loan waiver schemes during elections so that their loans can also get waived off. This is unsustainable and unviable as a practise for any economy.

India of 21st Century Needs Sustainable Infrastructure Not Freebies

Therefore, India needs a collective and conscious effort to come out of this culture of non-merit freebies and take concrete steps towards critical reforms that would salvage crucial infrastructural sectors such as power sector from bankruptcy and collapse, as a consequence of mindless populism of freebies. Instead, more money is needed to be spent on infrastructure development as well as in bridging the rural-urban divide by allowing reforms in farm sector and allowing seamless integration of farm and industry in rural India. That is how jobs for rural India can be created and migration from villages to cities can be stopped.

To Prevent Potential Bankruptcy of States, Freebie Culture Must Be Shelved

While India as a whole remains fairly stable even against all odds, if the states don't manage their subsidies in the right manner, then some of the states may potentially face the same fate as is being faced by countries like Sri Lanka.

There is no doubt that the federal structure is needed to be respected by all. However, it is also a reality that some of the states have often taken the excuse of federal structure when cornered on their incompetence, complicity and profligacy on issues of internal security mismanagement, messing up with state finances, and using freebies as a short cut to maintain their political relevance or to stay in power. This needs to be contained. After all, they are part of a federal republic and not independent states of a confederation.

However, if things continue like this and if some of the most indebted states do not mend their ways, then perhaps that day may not be far away when drastic changes would be forced upon them in the greater interest of stability of the national economy, considering that India cannot be stable in its entirety if constituent states keep on fumbling economically.

While BJP ruled states invariably are in favour of power sector reforms that Modi Government wants to pursue, it goes without saying which are the political dispensations that are against it. One can witness the same script of opposition being played out as has been in the case of opposition to farm sector reforms.

In fact, the ideal results would emerge if power sector and farm sector reforms are pursued simultaneously. For some states, it also has to be mentioned that they do carry the legacy burden of unpaid dues of previous regimes as well, so far as

outstanding dues to the power sector as a whole is concerned.

The Spot Market Incident: Shape of Things to Come?

Take for example what happened in August this year (2022) when Union Power Ministry stopped 13 states from buying or selling electricity in the spot market on account of their cumulative unpaid dues to the tune of Rs 5,085 crore. The order was invoked by the Power Systems Operation Corporation (POSOCO) through the Electricity (Late Payment Surcharge and Related Matters) Rules 2022. It was an indication that for the sake of maintaining grid health and sustainability of the electricity sector, which is critical for the economy, the Modi Government is firm on taking the states to task irrespective of whichever political dispensation is in power in that state. Incidentally, most states paid up their dues in the spot market when they realised they have been pushed into a corner.

Modi Government's Path Breaking Reforms

Modi Government has made it clear time and again that it is not against directed subsidies for the underprivileged but is against using freebies as a poll plank to be given to all, including the prosperous, which has a disastrous impact on economy. It is for this reason that the Modi Government has been insisting on direct benefit transfer (DBT) scheme for the power sector as well, wherein the consumers pay the unsubsidised bills to the discoms while in return being compensated for the subsidy part through direct benefit transfer (DBT) into their bank accounts as is the case with many other schemes. This would have a huge impact in terms of weeding out the ghost consumers and massive pilferage of electricity that happens in most states and which is covered up by terming them as losses in transmission and distribution of electricity.

Also, digital metering of electricity would put a lid on diversion of farm electricity for domestic usage, something that vested interests are opposing in the same manner in which they opposed DBT in various other schemes.

Overall, DBT can unearth and save thousands of crores of funds now being misappropriated through unmetered connections or pilferage. DBT has proved its worth in case of MNREGA and several other welfare schemes and which has indeed resulted in savings of enormous amount of money.

Power sector likewise, also needs competition in distribution of electricity and consumers should be free to decide the service provider. This would help reduce tariffs, improve efficiency in transmission and make pricing of electricity more rational, especially for industrial consumers. Amendment in the Electricity Act that Modi Government wants to bring in, is thus the right way forward

Modi Government's Bold Reforms Helped India Become Fifth largest Economy

Modi Government has shown the conviction to pursue bold reforms that may in the short run seem unpopular but have strong positive impact for the economy in the long run. The result of such strong policies is now evident in India's becoming the fifth largest economy of the world in spite of several external and internal constraints.

Structural reforms such as Insolvency & Bankruptcy Code Act and GST, further liberalisation of certain sectors, opening up of some additional sectors such as defence and space for greater private participation, as well as unprecedented efforts in the realm of investments in infrastructure projects and approval to the Rs 100 lakh crore Gati Shakti National Master Plan have helped and would continue to pave the way for better capacity of Indian economy to absorb investments.

Time has therefore arrived for more similar bold reforms to make sure that India's economic resilience is not hampered by populistic profligacies of some states. Reforms in electricity sector and rationalisation of prices would be a continuation of efforts of Modi Government to usher more structural reforms to lay the foundation to make India a $10 trillion economy in the next one decade, and also to make sure India's states do not go the way of Sri Lanka.

(Pathikrit Payne is a New Delhi based Geopolitical Analyst and Senior Research Fellow, SPMRF. Views expressed are his own)

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