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GENERAL STUDIES 2: SOCIAL JUSTICE

TOPIC: CASH TRANSFER

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BALLOT TO BUDGET: THE ECONOMIC IMPACT OF CASH TRANSFER POLITICS

Introduction to Cash Transfer Schemes in India

Cash transfer schemes have emerged as a significant policy tool in India, especially in recent years. These schemes, designed primarily to provide direct financial assistance to targeted beneficiaries, have gained substantial traction due to their ability to address immediate economic needs. Of particular note is the rise of **women-centric cash transfers**, which have demonstrated significant political and socio-economic impacts. Observers suggest that these schemes might be steering the country towards a **Universal Basic Income (UBI)** framework, albeit in a covert and incremental manner.

Political Implications of Cash Transfers

Electoral Advantage for the Ruling Party

- **Timing of Announcements:**
Governments often unveil cash transfer programs strategically, timing their launch to coincide with election cycles. By doing so, the ruling party maximizes its electoral appeal.
- **Example:** In states like **Maharashtra and Madhya Pradesh**, cash transfer schemes were announced or expanded just months before crucial elections, significantly boosting the ruling party's popularity among voters.
- **Voter Psychology:**
The electorate tends to favor parties that implement immediate benefits, as opposed to merely promising them. This gives the ruling party an advantage, as voters may perceive tangible schemes as a sign of efficient governance.
- **Opposition's Limited Scope:**
Opposition parties face the challenge of either matching or exceeding these promises. However, without the power to implement such schemes immediately, their assurances may lack credibility in the eyes of the electorate.

Cash Transfers as Game-Changers in Elections

- **Proven Efficacy in Recent Polls:**
The success of cash transfers in swaying voter preferences was evident in **recent assembly elections** in states like **Jharkhand and Madhya Pradesh**, where schemes targeted at women played a pivotal role in shaping electoral outcomes.



Economic Context and Governmental Actions Implicit Acknowledgment of Economic Distress

- Despite limited public acknowledgment of widespread economic hardships, especially post-pandemic, the government's actions reveal a recognition of these challenges.
 - **Introduction of New Schemes:**
The rollout of new financial support programs, such as **Madhya Pradesh's women-centric cash transfers** and **Haryana's LPG subsidy for BPL families**, underscores this implicit admission of distress.
- **Gap Between Rhetoric and Reality:**
While official narratives may downplay economic difficulties, the launch and expansion of welfare schemes indicate an acknowledgment of the pressing financial struggles faced by many households.

Freebies vs. Economic Necessity

- **Debate over Categorization:**
Cash transfers are often labeled as **freebies** by critics, but proponents argue that they are a necessary response to structural economic challenges.
 - Data suggests that **economic hardships**, such as rising unemployment and inflation, have necessitated direct financial interventions.
- **Increasing Public Dependency:**
As beneficiaries become accustomed to these schemes, they may start to view them as indispensable, increasing the pressure on governments to sustain or expand such programs.

Fiscal Challenges for State Governments

Constraints on Revenue Generation Post-GST

- **Limited Taxation Authority:**
The implementation of the **Goods and Services Tax (GST)** in 2017 significantly curtailed the ability of state governments to introduce new taxes.
 - States now rely heavily on **existing revenue streams**, such as VAT on petroleum products, to finance their expenditures.
- **Reduced Financial Autonomy:**
The GST regime has centralized tax collection, reducing the fiscal autonomy of states. Consequently, states face greater challenges in managing their budgets, particularly when introducing new welfare programs.

Impact on Fiscal Deficits

- **Case Study: Maharashtra**



Reports suggest that Maharashtra's recently launched **cash transfer scheme for women** has strained the state's finances.

- To sustain the program, the government may have to either **cut spending on other sectors** or **reduce the cash transfer amount**, with the former being a more politically viable option.
- This situation highlights the **trade-offs** state governments must navigate between fiscal discipline and social welfare.

Role of the Petroleum Sector in State

Revenues Importance of Petroleum Taxes

- **Significant Revenue Contribution:**
Taxes on petroleum products, primarily **Value Added Tax (VAT)** and **sales tax**, constitute a major portion of state government revenues.
 - Example: In the first six months of **2024-25**, petroleum companies contributed **₹1.56 trillion** to state exchequers, with **₹1.44 trillion** derived from VAT or sales tax on products like petrol and diesel.

Declining Share of Petroleum Revenues in GDP

- **Historical Trends:**
In **2014-15**, the petroleum sector's contribution to state GDP was **1.3%**, but this has declined to **1% in 2024-25**, reflecting a long-term downward trend.
- **Implications of Price Control:**
The central government's reluctance to reduce retail prices of petrol and diesel, despite falling global crude prices, is partly aimed at preserving **state and central revenues**.
 - Lower prices would reduce VAT collections, further straining state finances, particularly as cash transfer schemes expand.

Broader Economic Implications

Constraints on Central Fiscal Policy

- The central government's revenue-sharing obligations with states limit its ability to reduce **personal income tax rates**.
- As cash transfer programs proliferate, both state and central governments face increasing fiscal pressure, constraining their ability to pursue other economic policies.

Incremental Move Towards Universal Basic Income (UBI)

- **Disguised UBI Mechanism:**
The growing popularity of cash transfers reflects a shift towards a **UBI-like system**, where direct financial assistance is provided to citizens.
 - Though not explicitly labeled as UBI, these programs achieve similar goals by offering a basic income floor to targeted beneficiaries.



Long-Term Consequences of Expanding Cash

Transfers Escalation of Welfare Promises

- **Political Competition:**

As voters grow accustomed to cash transfers, political parties may feel compelled to offer increasingly generous schemes.

- This could lead to a **pan-India cash transfer program** ahead of the **2029 Lok Sabha elections**, further embedding these schemes in India's socio-political fabric.

Economic Trade-offs

- **Impact on State Spending:**

Sustaining large-scale welfare programs could force states to divert funds from critical sectors like **infrastructure, healthcare, and education**.

- **Potential Reduction in Labor Market Participation:**

There is also a risk that regular cash transfers could reduce incentives for workforce participation, particularly if these programs are not complemented by active labor market policies.

Concluding Remarks

The rise of cash transfer schemes represents a complex intersection of **political strategy, economic necessity, and social welfare evolution**. While these programs offer immediate financial relief and significant electoral advantages, they also present long-term fiscal challenges. India appears to be on a path towards a more comprehensive **UBI framework**, driven by the popularity and political utility of direct cash transfers. However, the sustainability of these schemes will depend on careful fiscal management and balancing economic trade-offs.

Source: <https://www.livemint.com/opinion/columns/vivek-kaul-cash-transfer-politics-has-an-impact-not-just-on-ballots-but-also-budgets-freebies-elections-populism-states-11733066312582.html>