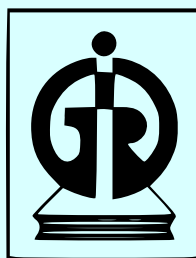


Strengthening fiscal legislation through extrinsic and intrinsic incentives

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ABSTRACT

Sovereigns can always find ways to escape or to dilute rules, so incentives and commitment are essential complements to fiscal responsibility acts. Government expenditure is required for growth in India, especially education, health, creating human and physical capital, but the combined fiscal deficit is already among the highest in the world. High borrowing costs imply a large share of revenues is committed for debt service. Borrowing only for investment, including in human capital, is the way to sustain growth while reducing debt ratios. The paper examines the experience of national and sub-national Indian governments and explores ways to improve intrinsic as well as extrinsic incentives for productive expenditure within the structure of Indian fiscal federalism.

Keywords: Fiscal responsibility, intrinsic and extrinsic incentives, debt and deficit ratios, fiscal federalism

JEL Code: H61, H63, H70

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1. Introduction

Many countries have adopted fiscal responsibility legislation. It is especially required in a union or in a federal structure where constituents can free ride on each other. But as we see public debt rise to unprecedented levels in many countries after a series of global shocks, it would seem the legislation is not effective.

Sovereigns can find ways to escape or to dilute rules, so incentives and process design to improve compliance and ways to improve commitment are essential. The many revisions in India's fiscal responsibility and budget management (FRBM) Act illustrate the still illusive search for these.

After a large rise in public debt and deficits from the 70s, India also passed the FRBM Act (2003) that set out a path first of deficit and then of debt reduction. But commitments were violated during repeated external-shocks that increased government spending.

Since deviations only required explanations in Parliament, there was little discipline on the Centre. In a federal structure there are some constitutional limits on states borrowing, but these can be diluted through warranties¹, etc., for PSE (public sector enterprise) borrowing. Rules are often followed in the letter but not in spirit. Therefore improving incentives for compliance is essential.

After briefly reviewing the Indian FRBM and its evolution, the paper discusses first, design of rules and budgetary process that can strengthen compliance and second factors affecting commitment, such as norms, ethics, accepted practices and voter pressures. In each case the paper draws on the relevant literature and country experience. The first set create extrinsic and the second are examples of intrinsic incentives.

2. Indian legislation

The FRBM Act (2003) and Rules initially only established fiscal targets (GOI, 2004). Amendments were required in 2012 and in 2015 as targets were missed, partly due to the global financial crisis (GFC) and the volatility, including the Taper Tantrum that followed (Çiğdem et. al. 2017). The wide-ranging amendment in 2018 therefore provided an "escape clause" allowing conditional deviation

¹ State finances did improve after their adoption of the FRBM Act. But an early assessment noted consolidation was largely revenue-led (Sergio and Topalava, 2009). Higher central government transfers played a large role. Contribution of states' own fiscal efforts were relatively little.

from targets in situations such as national calamities, wars or significant economic downturns, but with a commitment to revert to targets later.

Fiscal targets also limit countercyclical stimulus, so while updating the targets, deviations of up to 0.5% of GDP (for the Centre and the states) were allowed. To ensure progress on consolidation despite relaxation of targets if required, a debt goal was set. General Government Debt was to reach 60% of GDP and Central Government Debt 40% by the end of FY25.

But the pandemic intervened, requiring a reset provided by the 15th Finance Commission (FC). Revenue deficit targets were removed, since it is the fiscal deficit or expenditure in excess of revenue that adds to debt. Creative accounting was sought to be contained by limiting central government guarantees to 0.5% of GDP annually and to strengthen discipline through transparency. The government has to present medium-term fiscal policy statements with deficit paths that are subject to intense market and analyst scrutiny, creating a reputational cost of non-compliance.

Thus transparency, some flexibility and forward financial planning were incentives for compliance in the FRBM, but they were all indirect. Deviations from Central Government debt and deficit targets still only had to be approved by the Parliament. The recommendation for an autonomous Fiscal Council to prepare forecasts, improve data, assess compliance, advise on fiscal strategy and on deviations was not accepted. The argument was that governments are responsible for and accountable to voters.

But this responsibility can take the form of populism at the expense of creating the productive assets necessary for sustainable development. Can the FRBM succeed in moderating this tendency, when such rules have failed in many countries? For example, the EU Growth Pact was unable to prevent widening deficits. US debt-ceilings have been repeatedly relaxed.

The post reform slowdown in public investment expenditure reduced growth. Investment is best defined broadly as whatever improves human and physical capital and therefore future taxation streams. Expenditure multipliers are higher with this better quality of public expenditure (Goyal and Sharma, 2018).

FRBM implementation in 2003 was not able to raise this share. It rose only in the late 2010s with the commitment of the central government and its use of incentives to raise investment in the states. In a federal structure states also have to contribute for successful consolidation.

It is always possible to evade a budget law. Empirical work, with US data, has shown that laws were complied with in letter but creative accounting was often able to violate their spirit, for example, through a shift to non-guaranteed debt (Goyal, 2011).

Indian national and sub-national governments are also able to obscure deficits through off budget sheet items. Measuring government debt or deficits is difficult. Therefore intrinsic incentives for budget control are required in addition to laws. Better-designed budgets that improve financial planning and execution, decentralization and consideration of local needs and capabilities can strengthen compliance. More transparency can increase voter pressure on expenditure quality.

The next 2 sections explore features that improve incentives for compliance.

3. External incentives: Design of rules and budgetary processes

It can be argued that in a country like India because of urgent government expenditure required to sustain growth and provide social welfare, deficits are a legitimate way of financing spending. But India's combined government fiscal deficit of 7% is among the highest in the world, and its debt ratio is higher than that of its Asian peers. This imposes large servicing burdens that eat up revenue since the cost of borrowing is higher for emerging market economies. Even so, sustaining high growth and reducing its volatility is one of the best ways of reducing debt ratios (Goyal, 2021)—and a country in a growth catch-up phase has that option. But allowing for this possibility in an optimising model shows debt tends to go up in high growth periods so something more is required to reduce debt and build countercyclical buffers.

The so called Golden Rule² then captures ideal restrictions on government borrowing—borrowing only to invest and not to fund current spending. Even if there is no direct return to the investment, as long as the spending is productive and raises growth, it pays for itself as revenues rise (Zeyneloglu, 2018). Over the cycle the budget net of investment balances or turns into surplus and debt ratios fall. Real interest rates and private sector borrowing costs fall. If projects are well-selected and executed and user charges are imposed the rise in output and revenues is higher. Borrowing for consumption may lead to unsustainable debt as it becomes necessary to borrow to repay loans. Any rise in incomes is temporary unless supply bottlenecks are released keeping inflation in check.

²[https://en.wikipedia.org/wiki/Golden_Rule_\(fiscal_policy\)#:~:text=The%20Golden%20Rule%20states%20that,investment%20that%20benefits%20future%20generations.](https://en.wikipedia.org/wiki/Golden_Rule_(fiscal_policy)#:~:text=The%20Golden%20Rule%20states%20that,investment%20that%20benefits%20future%20generations.)

Governments have explicitly adopted the rule as in the UK over 1997 to 2009, but were unable to continue with it after the GFC and other shocks that led to a massive rise in government spending. The Indian state of Odisha adopted it informally in the early 2000s with a change in the political regime and it contributed to a transformation of the state's finances. It changed from a bottom ranker to regularly topping analyst state rankings. The Indian central government also began moving towards such a rule after the pandemic, as it steadily raised the share of public investment. In the FY27 Budget, the capex to GDP ratio for the first time marginally exceeded the fiscal deficit ratio.

Adoption and maintenance of such a rule depends on political commitment, but expenditure rules can also push governments towards it.

The 1985 US Gramm-Rudman-Hollings Bill is often held up as an example of a legislative rule that failed. It set yearly ceilings for the deficit with a target for a zero deficit by 1991 and had no escape clauses. In the Budget Enforcement Act (BEA) of 1990, which followed it, constraints were placed only on spending. Caps that enforced small reductions in discretionary spending were set, but escape clauses were provided for emergencies. A 'pay-as-you-go' rule meant that new transfer payments to individuals could be made only if these transfers were demonstrated to have assured funding so that they did not increase future deficits. The deficit fell steadily from 4.7% in 1992 and had turned into a surplus by 1998.

Expenditure rules have several desirable properties. They are automatically countercyclical, since deficits can rise as revenues fall in bad times. Restraints only cover spending. They induce savings as revenue rises in an upturn—that are then available to sustain spending in a downturn. There is ease of implementation since governments are accountable for the fiscal aggregate they most directly control. They are simple and transparent to the public, and make resources availability predictable for governments (Sergio and Topalova 2009). There is evidence that they contributed to many lasting fiscal consolidations (Alesina and Perotti, 1997). Çiğdem et. al. (2017) find they are becoming best practices in many countries.

Structural budget balance rules have to correct for the cycle and are more complex to calculate. Simplicity is desirable since it eases implementation. There is a trade-off, however, since more features can help improve the quality of spending even as they add complexity. Examples are US caps and pay-as-you-go rule for current spending. Since capital and maintenance spending are the easiest to cut during fiscal consolidation, specific expenditure rules are required to protect these productive types of spending. Specific rules add complexity, but general categories lead to creative classification. Therefore behavioural tweaks that reduce creative accounting become necessary.

Nominal expenditure growth can be set to be consistent with the debt objective. If biased revenue forecasts or unforeseen emergency spending lead to deviations, a feedback mechanism from the desired debt path can tighten the expenditure rules as required.

Macro-stabilization and flexibility lower the pressure to break rules. Flexibility moderates the effect of rigid budget laws that tend to induce a larger initial size to take care of unforeseen contingencies.

Expenditure rationalization is required all the more since most Indian states have multiple schemes with poor coordination across agencies leading to a waste of resources. A new government comes in starts new schemes but is unable to shut/merge old ones since they have generated their own interest groups.

Centrally sponsored schemes, where states have to bear part of the cost, add to the overlap. These were restructured a decade back but have again multiplied, although their rationale is to ensure public services that states have neglected. But most states seem reluctant to accept any restrictions on their spending powers. There is a view that they must be free to implement the promises to voters on the basis of which they were elected. Even if these are freebies, that is, recurring hand-outs do not build capacity and/or create distortions, thus sustaining dependence and poverty. Continuous payments required are largely financed by cutting investment, lowering the quality of public services, or shifting problems to future governments. This disadvantages the less well-off since they have to depend on public services. Moreover, using transfers to finance freebies is unfair to other states.

Therefore complementary reforms are necessary to strengthen incentives for subnational fiscal discipline. Revenue deficits should fall in line with the FRBM and own tax revenue (OTR) shown and used for populist schemes as was required in the US BEA.

The power sector is a major drain on state finances since of inadequate pricing, distribution losses and poor investment. Two extremes in pricing rules create opposite incentives for a provider of a public good or service: either to lower cost or to improve quality. With a price cap, incentives are high-powered since the residual profit share lies with the producer, who is motivated to decrease costs. Since rate of return regulation reimburses the cost of the service, quality is maintained but incentives are low-powered. Profits from improvements do not stay with the producer.

Thus there is a trade-off between rent extraction and providing incentives for additional effort. With a low enough price cap the regulator extracts all rent, but incentives to invest and improve quality

may fall. Since costs rise with quality, low-powered incentives are required for the provision of quality. There is a disincentive to invest in the presence of low price caps also because sunk costs made for investment may be expropriated. If even costs are not covered, it implies rent is over-extracted. This happened in Indian utilities after the 70s oil shocks since user charges were not adequately adjusted.

Optimal cross-subsidization gives the Ramsey-Boiteux rule that the price marginal cost gap should be inversely proportional to elasticities of demand. Thus the poor should be charged higher prices if they have a lower elasticity of demand, but they can be cross-subsidized as long as the budget is balanced. The rule has been generalized into the theory of optimal non-linear tariffs. These pricing principles are violated if, in the aggregate, charges do not even cover costs as is frequently the case in the Indian power distribution companies (DISCOMs). After the oil shocks of the 70s, prices were not adjusted, damaging quality. Better information and regulation enables finer pricing now. The Middle-East war of 2026 has exposed India's vulnerability to oil imports has made reform more urgent. Progress in green power generation and rooftop solar is more than double its use in transmission because of pending DISCOM reform.

In complex processes, monitoring needs to be complemented by delegation to residual claimants who have high-powered incentives, since the returns from greater efficiency stay with them. Even without private property rights and functioning markets, China was quicker than India to decentralize, create intense local competition and incentivise economic decision making that lead to higher growth. India has yet to delegate functions and functionaries to 3rd tier governments.

Improving operational practices, including expenditure management, and aligning them better with the FRBM can reduce waste and release funds. The CAG regularly points out lacunae in accounting systems³. On time efficient payments would raise state growth and revenues over time. Corporates avoid doing business with or locating in states that have not streamlined the state-business interface.

3.1 Dipping in the common pool

The common pool problem, aggravated by soft budget constraint, political competition or strategic bargaining, is a major reason for lack of fiscal discipline in subnational governments.

³ See for example the CAG report on Maharashtra Finances for 2023-24 <https://cag.gov.in/ag/mumbai-i/en/audit-report/details/122158>. It has good suggestions for improving audit and productive expenditure.

The constitutional assignment of expenditure and revenue powers between the centre and the states creates vertical imbalances. This was in line with best principles since taxation is easier further from the tax-payer⁴, but expenditure is better closer to the beneficiary. The centre was also seen as the medium for redistributing resources from richer to poorer states, based on a formula given by a constitutional body, so as to provide the even level of public services through the country necessary to sustain the federation.

Since the pool of tax revenue available for funding is common, but spending decisions are decentralised, concentrated benefits are fully internalised, but each state internalises only a fraction of the social marginal cost of the tax increase required for funding. The preference is therefore to overspend and maintain pressure for more central funding.

That is why primary responsibility for the budget-size has to lie with the finance minister and the Prime Minister, not with the states or those who benefit from expenditure distribution. Separation of powers reduces expenditure because it removes conflict of interest. The possibility of amendments in the budgetary process increases the size of the deficit. But even without this possibility, if the centre is weak and needs support, as in a coalition government, spending rises since it needs to be large enough to please everyone (Baron, 1991).

India has multiple types of central transfers. The dominant share is formula driven and a constitutional right. It is based on periodic FC recommendations made after extensive consultations with all states to enable horizontal and vertical equity.

But poor coordination of transfers and a gap-filling approach to deficits, reduce states' incentives to raise own revenue. This is the soft budget constraint problem. Garg et. al. (2017) found states own tax effort to be less than potential, even after controlling for all the variables that affect their tax potential such as population density, industrialization, infrastructure etc. The gap from potential rose if transfers were unconditional and reduced with conditionalities such as imposed by the FRBM Act.

3.2 Conditionalities that worked

⁴ For example, income tax is one of the most elastic taxes. If this is assigned to states and they compete to attract tax payers by reducing rates, tax elasticity can fall steeply. Proximity also seems to make it difficult to tax. States have rights to property taxes and user charges for public services but collect too little.

Even without the above types of basic reform⁵, many incentives schemes tried have improved matters. For example, state governments were given a temporary exemption from FRBM limits for taking over 75% of their DISCOM debt. But despite this, states remained reluctant to increase tariffs. They were able to arm twist banks to finance the sector and force generating companies to suffer large pending dues as payments were delayed. In mid-2022 the Ministry of Power passed Late Payment Surcharge (LPS) Rules. These helped DISCOM with loans to clear their legacy monthly instalments failing which a LPS and disincentives such as progressive withdrawal of open access to the national network were applied. A remarkable recovery of outstanding dues followed, since in this case arm-twisting was not possible. By March 2023 they had dropped 39%. Well-designed external incentives can work.

The 15th FC recommended giving states flexible borrowing limits and "additional borrowing space" to encourage reforms in the power sector.

There are other examples of incentive structures that delivered. FRBM joining incentives the 12th FC provided helped lower interest payments and reduce state debt. The 13th FC provided conditional grants to the 3rd tier. In the 14FC payments were made for capacity building. State capex fell after the pandemic. A conditional interest free long-term central loan (almost a grant) increased state capital outlay from 2.2 % of GDP to 2.6 % in FY24 and 2.8% in BE FY25.

The 16th FC has discontinued gap-filling revenue deficit grants because of significant difference in normatively assessed revenue deficits because of untapped revenue potential and expenditure rationalization. This will make it more difficult for states to fund freebies from transfers.

4. Intrinsic incentives for commitment

But Indian as well as international experience suggests that rules alone cannot achieve fiscal discipline. Other ways to create genuine compliance are required, including market discipline, improvements in institutions, norms and practices.

Rewards for better fiscal management are long- not short-term. Therefore they are often not internalized in short electoral cycles. Rewards include macroeconomic stability, sustainable debt levels and lower borrowing costs with better access to credit. Moreover, Indian sub-national governments outsource these to the Centre, since an RBI backstop allows state governments to

⁵ See Drazen (2000), Goyal (2003) and Laffont (1997) for details on the interaction between political economy and incentives.

borrow at the same cost regardless of their relative debt. States with higher debt and borrowing create an externality for other states and the Centre since this raises the G-Sec rate and spread on state development loans (SDLs). A sharp rise in expected gross state borrowing in FY26, since a large share of debt was due for re-financing, helped keep the 10-year G-Sec rate close to 7%, despite cuts in the policy repo rate.

After liberalizing reforms more foreign flows and analyst scrutiny raised market pressure on the Centre. Improved fiscal parameters did lead to an upgrade of India's rating in 2025. It may be time to let individual state loans also become more market determined. This will increase analyst scrutiny manifold and raise transparency, which increases peer pressure.

After the 12th FC directed states to borrow from the market rather than from the Centre, as part of developing a modern financial system, SDLs have gone up steadily. Market discipline must come with a larger role for markets. At present there is only marginal difference in inter-state spreads because of liquidity issues. The RBI auto debit mechanism was supposed to be a temporary support for orderly market development.

The share of interest payments in receipts rises as debt rises and as interest rates rise. In FY25 interest payments were as much as 25% of the centre's expenditure and 3.6% of GDP. For states they were 1.7% of GSDP, almost as large as their capex of 2.6%.

The share was highest for Punjab at 22.3% while for Odisha, with the best fiscal parameters, it was only 3.9% in FY24BE. But the borrowing rate was the same for both. Rising revenue foregone in debt service also creates an incentive for fiscal consolidation. If Punjab's SDL yield becomes market determined and rises, so would their consolidation incentive.

4.1 Bargaining or coordination?

Political competition or strategic bargaining often aims to create perceptions that states are not being treated fairly and their rights are being eroded. It is argued their freedom to tax and to borrow is restricted. But careful examination of the data shows Indian states get more freedoms than most federal countries (Goyal, 2024). Instead, coordinating to the golden rule can increase growth and create positive externalities for the states and the nation.

Indian subnational debt was 28% of GDP (fourth highest in the world) compared to the OECD average of 20% in 2022. The yield spread was the lowest and uniform unlike in other countries. Half a dozen states habitually exceed the FRBM debt limits of 30%--implying limits are mildly enforced.

Some fiscal restraints on states borrowing are necessary to preserve overall macroeconomic stability and are found in all federal structures⁶. Excess borrowing by any one state creates a negative externality for other states and the centre, damaging overall macroeconomic stability. In the long-term it hurts the state itself as more revenue goes to servicing debt. More indebted states tend to have larger revenue deficits and lower capital outlay, which is the least committed expenditure, leading to low growth traps. Odisha with the lowest debt had the highest planned capital outlay to GSDP ratio (6.1%) in FY2025. It also had higher ratios of social welfare and development expenditure. Over the last decade its Compound Annual Growth Rate of 11.2% has exceeded the national rate of 8.8%. Its per capita income has nearly tripled. Although still ranked 11th among major states it is well on its way to catch-up⁷.

It is argued that resource transfers from the centre are less than ideal. Again, the facts show that Indian states spending share is higher than in most other federal structures. Over 2015-20 states average share of general government expenditure was 63.9%, in other federal countries it averaged 40%. But only 36.7% came from states own taxes. They are able to spend much more than they tax due to large transfer of resources from the Centre.

There was a steady rise in shareable taxes and tax share from the 1st to the 10th FC, even though only central income and excise taxes were shareable. The 80th constitutional amendment in 2000 (to Article 270) made all central taxes except cess and surcharge shareable. The 11th FC set the devolution at 29.5%. It rose to 41% by the time of the 15th FC. The 14th FC had increased the tax share by 10% but it did not expect the already high aggregate share to rise. It wanted a fall in CSS and rise in untied, predictable tax devolution.

The actual devolution of central taxes, however, stayed at about 32% in the early 2020s. But there were additional transfers, almost equal in magnitude. It follows that the actual transfer of resources from the Centre to the states is higher than that recommended by any FC.

CSS were restructured and merged but health, education, environment and other public services are relatively neglected in India. These are best delivered at the 3rd Tier, but the decentralization mandated by the 73rd and 74th constitutional amendment remains patchy. States routinely underserve urban areas, since the number of voters is higher in rural areas, although this is changing as migration rises. Towns are under strain.

⁶ Brazil and Argentina changed their system after hyperinflation and default due to routinely adding sub national debt to national debt and servicing by printing money (Bordo et.al, 2011).

⁷ See Odisha Economic Survey 2025-26 for more details.

Since tax devolution is a right, conditionalities can be imposed only on grants and are one way to achieve better local services in the absence of decentralization. CSS schemes and conditional grants substitute for lack of devolution of rights and responsibilities to the 3rd Tier. So these schemes expanded again. Among the 29 delivery items in the 73rd and 74th Amendments, water and sanitation account for 60% of central grants to panchayats, who get 95% of their funds from grants. Conditionalities have improved capacity, leading to almost universal adoption of online accounts in panchayats under eGramSwaraj (RBI, 2024a).

Although cesses that are not shared have risen, they financed additional transfers. In 2022-23 tax devolution was 3.5% GDP, central grants were 3.2%; 21% of state revenue receipts were from grants, 26% from tax sharing. There are inefficiencies and overlapping responsibilities, however. States naturally prefer untied transfers. FC tax devolution is formula based, non-discretionary and predictable, giving them the freedom to decide on spending based on local priorities. But central schemes, for example in health insurance, can be more efficient and deliver economies of scale. They can be customized at the state level and states given the option to opt out with equivalent untied transfers conditional on decentralization where state schemes are demonstrated to be better. Spending closer to the recipient is more effective and decentralization can enable this. Citizens of the country have the right to uniform and effective public services. The 16th FC has doubled grants for local bodies and increased the untied component.

There is also an attempt to create regional divides by arguing that richer southern states are being forced to fund poorer northern states. Although lower per capita income states are awarded more of FC rule based transfers, more efficient states get more of conditional grants, as their better facilities allow better utilization (Sheriff, 2024). Since they go more to better performing states such grants induce better performance, helping states escape low level traps and distorting choices such as in the electricity sector or in water supply. Data shows that per capita grants and total transfers are higher for 4 southern states compared to 4 populous northern states (Goyal 2024). Lower per capita income states argue that the richer states do not tax enough. State GST has proved to be elastic. A large rise in revenues is possible with data-based collection. Reasonable user chargers and property taxes are other underutilized revenue sources.

In order to realize growth-led opportunities, divisive political agendas should not be allowed to hold back the country. Voters can see when an argument is based on own- not national interest. They are voting in governments committed to development over those that emphasize hand-outs as they realize they stand to gain much more from the former.

There are many fora for centre-state interaction today, but the constitutionally mandated Inter-State Council should perhaps be revitalized. Dialogue and transparent measurement more than rules and sanctions may help states converge to best practices, while peer pressure will reduce negative externalities. Such a Council may be more effective in establishing the accepted practices and norms required for the FRBM to be applied in spirit.

5. Conclusion

In 2000 a new government in Odisha committed to only borrow for investment—informally following the fiscal golden rule. Together with better accounting, treasury and expenditure management this enabled it to reach the top of state ranking on fiscal criteria and have the highest productive expenditure ratios so that it is catching-up on per capital income. This rare long term vision worked better than the FRBM rule that started around the same time, since in many other states high debt and competitive populist spending continue to constrain expenditure quality despite the FRBM.

This paper argues that adding tweaks in the FRBM ACT to improve external incentives and strengthening internal incentives using behavioural nudges can improve FRBM compliance.

Specific suggestions to strengthen external incentives include expenditure rationalization and possible caps, a 'pay-as-you-go' system for populist schemes with demonstrated funding from own tax revenue for states, finer data and incentive-compatible user charges for utilities, carrot and stick decentralization with better accounts, transparency, accountability as well as residual claimant status. Conditionalities imposed by constitutional bodies are more difficult to evade. As cities grow and more urban centres develop there may be less urgency to keep metros as captive revenue sources, allowing independent and empowered municipalities to develop. CSS schemes can reduce in favour of untied devolution as true decentralization to the 3rd tier begins to deliver effective public services.

Market discipline, voter awareness, peer pressure, fiscal institutions designed for better coordination, convergence to best practices, dialogue and capacity building in the 2nd and 3rd tiers can help build intrinsic commitment to a golden rule.

Global debt has risen to unsustainable levels after a series of shocks. A few countries stand out with low debt, among them S. E Asia, Canada and Australia. These tend to be ones that early committed to fiscal rules supported by extrinsic as well as intrinsic incentives. Others face high inflation,

taxation, financial repression or else default and financial instability⁸. BIS data shows in many AEs as government debt rises, private sector is contracting. Indian government debt is high, but it is one of the few countries where debt-deficit ratios are falling, although borrowing rates remain higher. A few outlier states have to come on board for benefits such as lower borrowing costs and better quality of expenditure to accrue to all.

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⁸ The Economist October 18, 2025 has a report on global debt.

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