



Freebie Politics in India

This editorial is based on [“Are Freebies Affecting the Economic Growth of India?”](#) which was published in The Hindu on 29/04/2022. It talks about the positive and negative impacts of freebies.

For Prelims: Public Distribution System, MGNREGA, Fiscal Responsibility and Budget Management (FRBM) rules

For Mains: Arguments in favour of freebies, Impact of freebies on economy

Recent news on the [collapse of the Sri Lankan economy](#) has engendered a fresh debate on the state's role. The government of Sri Lanka cut taxes across the board and provided several free goods and services. Consequently, the economy collapsed and the heavily-indebted country was left with no choice but to default on its commitments.

As a corollary, the **issue of freebies** given out by Indian states has come under the lens here. Over the years the [freebies](#) have become **an integral part of the politics in India**, be it for making promises in the electoral battles or providing free facilities to remain in power.

What are Freebies?

- Political parties promise to offer **free electricity/water supply, monthly allowance** to unemployed, daily wage workers and women as well as gadgets like laptops, smartphones etc. in order **to secure the vote of the people**.
 - The states have become habituated to giving freebies, be it in the form of loan waivers or free electricity, cycles, laptops, TV sets and so on.
- Certain kinds of expenditure that are done under populist pressures or with elections in mind may be questionable.
 - But given that in the last 30 years there has been [rising inequality](#), some kind of **relief to the population in the form of subsidies may not be unjustified** but actually necessary for the economy to continue on its growth path.

What are the Arguments in Favour of Freebies?

- **Facilitates Growth:** There are some examples which show that some expenditure outlays do have overall benefits such as the [Public Distribution System, employment guarantee schemes, support to education](#) and [enhanced outlays](#) for health, particularly during the pandemic.
 - These go a long way in increasing the productive capacity of the population and help build a healthier and a stronger workforce, which is a necessary part of any growth strategy.
 - The same goes for a State spending on education or health.
- **Boosts Industries:** States like Tamil Nadu and Bihar are known for giving women sewing

machines, saris and cycles, but they buy these from budget revenues, **contributing to the sales of these industries.**

- It can be considered a **boost for the supplier industry** and not a wasteful expenditure, given the corresponding production.
- **Essential for Fulfilling Expectations:** In a country like India where the states have (or don't have) a certain level of development, upon the emergence of the elections, there are **expectations from the part of people which are met by such promises** of freebies.
 - Moreover, there are also **comparative expectations** when the people of the adjoining/other states (with different ruling parties) get freebies.
- **Helps Lesser Developed States:** With the states that have comparatively lower level of development with a larger share of the population suffering from poverty, **such kind of freebies become need/demand-based** and it becomes **essential to offer the people such subsidies for their own upliftment.**

What are the Downsides of the Freebies?

- **Macroeconomically Unstable:** Freebies undercut the basic framework of macroeconomic stability, the politics of freebies **distorts expenditure priorities and outlays remain concentrated on subsidies** of one kind or the other.
- **Impact on States' Fiscal Situation:** Offering freebies, ultimately, has an **impact on the public exchequer** and most of the **states of India do not have a robust financial health** and often have very limited resources in terms of revenue.
 - If states keep spending money for supposed political gains, their finances will go awry and **fiscal profligacy would prevail.**
 - As per the [Fiscal Responsibility and Budget Management \(FRBM\) rules](#) the **states can't borrow beyond their limits** and any deviation has to be approved by the Centre and central bank.
 - Therefore, while states have flexibility on how they choose to spend their money, **they cannot in ordinary conditions exceed their deficit ceilings.**
- **Against Free and Fair Election:** The promise of irrational freebies from public funds before elections unduly influences the voters, **disturbs the level playing field and vitiates the purity of the poll process.**
 - It amounts to an unethical practice that is **similar to giving bribes to the electorate.**
- **A Step Away from the Environment:** When the freebies are about giving free power, or a certain quantum of free power, water and other kinds of consumption goods, it **distracts outlays from environmental and sustainable growth**, renewable energy and more efficient public transport systems.
 - Moreover, it is a general human tendency to **use things in excess (thus leading to wastage of resources) when it is provided for 'free'.**
- **Debilitating Effect on Future Manufacturing:** Freebies **lower the quality and competitiveness of the manufacturing sector** by detracting from efficient and competitive infrastructure that enable high-factor efficiencies in the manufacturing sector.
- **Destroys Credit Culture:** Giving away **loan waivers** in the form of freebies may have undesired consequences such as destroying the whole credit culture and it blurs the very basic question as to why is it that a large majority of the farming community is getting into a debt trap repeatedly.

What can be the Way Forward?

- **Realising Economic Impacts of Freebies:** It is not about how cheap the freebies are but **how expensive they are for the economy**, life quality and social cohesion in the long run.
 - We must strive instead for a **race to efficiency through laboratories of democracy** and **sanguine federalism** where states use their authority to harness innovative ideas and solutions to common problems which other states can emulate.
- **Judicious Demand-Based Freebies:** India is a large country and there is still a huge set of people who are below the poverty line. It is also **important to have all the people accommodated in the development plan** of the country.
 - The judicious and sensible offering of freebies or **subsidies that can be easily accommodated in the states' budget** do not do much harm and can be leveraged.
 - Ideally, a proportion of state expenditure should be earmarked to ensure better overall

utilisation of resources.

- **Differentiating Subsidies and Freebies:** There is a need to understand the impacts of freebies from the economic sense and connect it with the taxpayers money.
 - It is also essential to distinguish between subsidy and freebies as **subsidies are the justified and specifically targeted benefits** that arise out of demands.
 - Although every political party has a right to create subsidy ecosystems to give targeted needy people the benefits, **there should not be a long-term burden on the economic health** of the state or the central government.

Drishti Mains Question

“Over the years the freebies have become an integral part of the politics in India. While some initiatives such as the Public Distribution Schemes and MGNREGA have become a critical component of India’s growth strategy, freebies also undercut the basic framework of macroeconomic stability”. Discuss.

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Q. Along with the Budget, the Finance Minister also places other documents before the Parliament which include ‘The Macro Economic Framework Statement’. The aforesaid document is presented because this is mandated by (2020)

- (a) Long standing parliamentary convention
- (b) Article 112 and Article 110(1) of the Constitution of India
- (c) Article 113 of the Constitution of India
- (d) Provisions of the Fiscal Responsibility and Budget Management Act, 2003

Ans: (d)

Q. Which one of the following was not stipulated in the Fiscal Responsibility and Budget Management Act, 2003? (2010)

- (a) Elimination of revenue deficit by the end of the fiscal year 2007-08
- (b) Non-borrowing by the central government from Reserve Bank of India except under certain circumstances
- (c) Elimination of primary deficit by the end of the fiscal year 2008-09
- (d) Fixing government guarantees in any financial year as a percentage of GDP

Ans: (c)